

CHANEL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Registered number: 00203669



CONTENTS

Highlights	- 2 -
Strategic report	- 3 -
Corporate governance report	- 30 -
Directors' report	- 37 -
Directors' responsibilities statement	- 40 -
Independent auditor's report	- 41 -
Consolidated statement of income	- 45 -
Consolidated statement of comprehensive income	- 46 -
Consolidated statement of financial position	- 47 -
Consolidated statement of changes in shareholder's equity	- 48 -
Consolidated statement of cash flows	- 49 -
Notes to the consolidated financial statements	- 50 -
Company statement of financial position	- 103 -
Company statement of changes in shareholder's equity	- 104 -
Company statement of cash flows	- 105 -
Notes to the Company financial statements	- 106 -

HIGHLIGHTS

YEAR ENDED 31 DECEMBER 2021

HIGHLIGHTS *

	2021	2020 (restated) ¹	2019 (restated) ¹	% change vs. 2020 (restated)	% change vs. 2019 (restated)
In millions of U.S. dollars					
Revenue	15,639	10,108	12,273	54.7%	27.4%
Europe	4,042	2,885	4,534	40.1%	10.9%
Asia Pacific	8,068	5,257	5,426	53.5%	48.7%
Americas	3,529	1,966	2,313	79.5%	52.6%
Comparable revenue				49.6%	22.9%
Operating profit	5,461	2,018	3,467	170.6%	57.5%
EBITDA	5,950	2,544	3,871	133.9%	53.7%
Tax rate	25.7%	28.0%	26.5%	-2.3%	-0.8%
Profit after tax	4,026	1,366	2,389	194.7%	68.5%
Net cash	560	1,074	282	-47.9%	98.6%
Free cash flow	4,540	679	2,245	568.6%	102.2%
Capital Investment	758	1,077	725	-29.6%	4.6%
Employees (end of year)	28,467	27,018	27,713	5.4%	2.7%
Carbon Performance					
Scope 1 emissions (tCO ₂ e) ²	19,469	20,493		-5.0%	
Scope 2 emissions (tCO ₂ e)	8,388	19,842		-57.7%	
Scope 3 emissions (tCO ₂ e) ²	859,511	722,342		19.0%	
Renewable electricity	92.0%	70.0%		22.0%	

¹ See Note 2.2 for details on the prior period restatement.

² Amounts restated in 2021 as explained on pages 11 through 14 of the strategic report.

* All performance measures are defined on pages 18 to 21 in the strategic report.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

The directors, in preparing this strategic report, have complied with section 414C of the Companies Act 2006. It has been prepared to provide the sole member of Chanel Limited (the "Company") with information to assess how directors have performed their duty to promote the success of the Company and its subsidiaries (together the "Group" or "Chanel").

COVID-19

Following a challenging year in 2020, the Group's performance rebounded in 2021, despite the continued disruption brought on by the Covid-19 pandemic. Throughout 2021, lockdowns and travel restrictions were put in place in many markets, thereby limiting access to our boutiques and adversely impacting the travel retail business. However, with solid consumer spend coupled with a demand for our products in the local markets, the Group achieved strong results in 2021. This is reflective of the dedication and creativity of our teams and their agility in being able to bring an ultimate experience to our clients throughout this health crisis.

Chanel's long-term vision is an important element of our business model, which has proven to be resilient throughout the pandemic. We continue to escalate our ambitions and commitments to contribute to a future that creates value for both business and society in a mutually beneficial way.

BUSINESS MODEL

Chanel is a private company and a leader in creating, developing, manufacturing and distributing luxury products of the finest quality and highest level of craftsmanship through its three activities: Fashion, Fragrance & Beauty and Watches & Fine Jewellery. Chanel offers a broad range of high-end creations within these activities, including haute couture, ready-to-wear, leather goods, fashion accessories, eyewear, fragrances, makeup, skincare, jewellery and watches. These luxury products are sold worldwide under the CHANEL brand mainly through Group-owned boutiques and via wholesale through select channels of distribution. The Group operates across multiple geographies where the local market organisations carry out the brand's strategy in distributing its products.

Chanel is a brand whose core values remain historically grounded in exceptional creation. As such, Chanel promotes culture, art, creativity and 'savoir-faire' throughout the world and invests significantly in people, research and development and innovation, whilst aiming to generate a positive impact on the environment and society. Chanel is rooted in a rich heritage and is committed to making a positive impact on people, communities and the planet with a dedication to setting bold and new standards with a long-term perspective.

BUSINESS REVIEW

FINANCIAL

Chanel's revenues in 2021 were \$15.6 billion, up 54.7% from 2020 (\$10.1 billion) and up 49.6% on a constant currency basis and for a comparable legal entity structure.

Operating profit was \$5,461 million, up 170.6% from 2020 (\$2,018 million).

The Group had capital expenditures of \$758 million in 2021 (2020: \$1,077 million), representing 4.8% of revenues, and continues to have solid cash generation with free cash flow of \$4,540 million (2020: \$679 million).

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

Investment in brand advertising, promotion and demonstration activities was \$1,795 million in 2021 (2020: \$1,360 million).

The tax charge for the year was \$1,394 million (2020: \$530 million) giving an effective tax rate of 25.7% (2020: 28.0%). The decrease in the effective tax rate was mainly attributable to the change in geographical business mix and changes in tax rates in certain jurisdictions.

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

PRODUCTS AND OPERATIONS

Chanel sales reached record highs in 2021 across all product categories despite the Covid-19 pandemic impacting our retail and travel retail businesses, particularly in the first part of the year.

Fashion showed strong results with double-digit growth across all product lines. Leather goods and ready-to-wear were particularly strong, in response to the unabated success of Virginie Viard's creations and collections. The Cruise collection inspired by Jean Cocteau's movie was presented in a digital format from the Carrières de Lumières, in Les Baux-de-Provence, which was then displayed in Dubai for the first overseas physical show since the outbreak of the Covid-19 pandemic. The Métiers d'Art fashion show was held at the 19M, a luminous new building that brings together 11 Maisons d'art and several hundred craftsmen at the Porte d'Aubervilliers in France. The preservation of craftsmanship heritage goes hand in hand with the Group's focus on the future to support its development and allow for creative research so that these métiers can flourish and contribute to collections for generations to come.

Fragrance & Beauty demonstrated strong resilience based on market share gains in key countries and demand (both in boutiques and online) from local clientele as travel retail remained impacted by travel restrictions. 2021 was also a milestone year for Fragrance, with Chanel celebrating the 100th anniversary of its iconic No5. This was led by innovative pop-ups in key markets as well as the launch of the CHANEL Factory 5 collection - 16 limited-edition products inspired by everyday objects in an ultra-modern design bringing the history of the world's most famous fragrance into the future. The success of BLEU and COCO MADEMOISELLE also boosted Fragrance sales while Skincare contributed to the growth of the Beauty segment.

The double-digit growth of **Watches and Fine Jewellery** sales across all regions was driven by the success of our Watches, Precious Jewellery and High Jewellery ranges. Precious Jewellery, supported by the successful and iconic COCO CRUSH, showed outstanding results whilst the iconic J12 continued to drive the increase of watch sales. High-end business reached record levels, driven by High Jewellery pieces and the success of Haute-Horlogerie. To commemorate the 100th birthday of CHANEL N°5, Patrice Leguèreau, Director of the CHANEL Jewellery Creation Studio, created the N°5 High Jewellery Collection, which consisted of 123 pieces including a necklace set with an exceptional 55.55-carat diamond, celebrating true in-house craftsmanship.

Chanel invested **\$758 Million in capital expenditure** in 2021. As part of this, Chanel continued to make significant investments in its current and future retail distribution network, including the acquisition of a property in San Francisco and the opening of a boutique in Miami's Design District, which was designed to reflect the expression of art and culture in the area. Chanel has also continued to grow its Fragrance & Beauty standalone network, particularly in Asia, to further personalise the customer experience. Investments were also made to support Chanel's creation and production activities, including the completion of a new leather goods manufacturing facility in Verneuil-en-Halatte, France. Investments in digital initiatives continue to be a key focal area to support customer experience (such as virtual try on services, online appointment booking and global digital applications), whilst continuing to expand ecommerce capabilities worldwide in Fragrance & Beauty.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

RESPONSIBLE EMPLOYER

Across all industries, 2021 continued to be impacted by the Covid-19 pandemic. The shift to remote work and new ways of working coupled with fierce competition for talent compelled many organisations to re-evaluate their approach to their employees and the impact their operations can have on communities, the environment and society as a whole.

At a time of significant social and environmental change, Chanel seeks to enhance the potential of all of its employees and to have a significant impact on the world. As a responsible employer, Chanel is committed to creating a culture that nurtures personal growth and contributes to collective progress, demonstrating its commitments across several key areas.

Ensuring time to thrive and fostering development

Chanel strives to ensure that each individual is nourished to grow, be inspired and feel included for the long-term. Two employee immersion initiatives are at the heart of this commitment: 100 days of connections and IMAGINE CHANEL. Since its inception, more than 23,000 new joiners have participated in the immersive IMAGINE CHANEL programme which, together with the 100-day onboarding approach, uniquely supports people in understanding Chanel's culture and the brand. More than 1,000 internal speakers from across the business have contributed to this distinct and special experience in bringing to life the spirit and identity of the brand and building long-term relationships that span the Group. Chanel further cultivates a culture of discovery through learning communities and is empowering people to learn anywhere, anytime and on any device through the digital learning platform, CHANEL BLOOM, which is currently being deployed in phases across the world.

Advancing mutual and individual accomplishment

Chanel strives to nurture the whole person, not just the employee. Through the Me@MyBest approach, the Group gives its employees the space and tools to design their impact based on their individual strengths and intrinsic motivations, but they never do it alone. To create collective success, Chanel promotes and values the power of collaboration. By placing People Leadership at equal consideration with Financial Health, Brand Performance, Client Engagement and Sustainability in its business performance framework, each leader is accountable for growing talent and the business with mutual benefits.

Showing humanity and promoting diversity and inclusion

Chanel fosters respect, empathy and dignity for everyone. Chanel believes strongly that the diversity of its people across the full spectrum of human differences is essential to the organisation and the connections it has with its clients. Chanel is intentional in promoting inclusion and increasing the diversity of its leadership and teams, elevating its people practices to ensure equal opportunities (and at times evolving social norms) through deliberate programmes such as pay equity reviews; parental leave; inclusive sourcing and hiring guidelines; and talent and career progression reviews.

Embracing flexibility and new ways of working

Recognising the importance of flexible working, Chanel developed Flex@Chanel Flexibility Posture and Guidelines, which were introduced globally in early 2022 after launching at local levels throughout 2021. The Group's commitment, taking into account local factors where appropriate, is to embrace flexibility in all its dimensions as an enabler of business agility, personal performance and wellbeing, allowing people to be at their best. Leveraging options around time (when people work), place (where work is performed) and contract types, enables individuals to do their best work in a sustainable way. This posture reflects the culture of trust, empowerment and mutual responsibility in which Chanel believes.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

Reward philosophy

Despite the challenges of the pandemic, Chanel continued to reinforce its reward principles by ensuring that its people are rewarded fairly and competitively. The Group conducts comprehensive annual analyses, reviews and reporting to ensure proper actions are taken for continued pay equity, competitive pay and protecting employees from external pay pressures.

Elevating a culture of transparency, trust and empowerment

Chanel seeks to cultivate empowerment and collective pride by enhancing efforts around communications and increasing access to information across multiple channels, including the new global intranet platform, MyChanel. These efforts, which support leadership commitments, are aimed to ensure greater transparency and keep employees informed of the Group's strategic direction, key projects, brand events, business results and people-related matters. Each entity within the Group also engages in regular listening activities, including surveys and focus groups, to continually evolve peoples' experiences and engagement.

BUSINESS ETHICS

Chanel has always been committed to the highest standards of integrity and believes that this commitment to strong business ethics is part of its social responsibility which encompasses its obligations to its employees, customers, suppliers and other stakeholders. Our employees take pride in doing the right thing and working with our partners to impact society at large. The Group has continued to reinforce this commitment throughout the pandemic with its employees and partners globally, ensuring a common understanding on how to conduct business with uncompromising integrity including in times of great disruption and rapid change.

Chanel is strongly committed to conducting its business in compliance with all applicable laws, rules and regulations wherever it does business and continuously adapts its compliance programme to anticipate new risks and integrate evolving regulations into sustainable business practices. In particular, we put great emphasis on the health and safety of our clients, employees and business partners, as well as on supporting our supply chain throughout the Covid-19 crisis (such as through enabling flexible payment terms and maintaining minimum orders).

The Group has steadily increased its training and awareness programmes in different compliance areas, notably through taking advantage of online and digital tools as well as ambitious and engaging case study learning and continues to work on building an environment of trust and open reporting where any concerns can be raised, investigated and resolved without any fear of retaliation.

The Group will be relaunching its code of conduct, *Ethics@Chanel*, in 2022, with a plan to re-engage employees around meaningful business ethics, with new inspiring materials, awareness trainings and open discussions throughout Chanel.

SUSTAINABLE BUSINESS

Chanel continues to invest in and advance its sustainable business transformation. The Group strives to be a positive force in the transition to a sustainable future, prioritising the areas where it can have the most impact respecting nature, ensuring people across its operations and supply chain can thrive, and addressing climate change. Wherever possible, the Group's approach to sustainability aims to link environmental challenges to their human and social consequences to enable lasting impact.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

The Group's progress in these areas is being driven by initiatives and innovations that reduce the impact of its products and materials, as well as harnessing 'savoir-faire' and collaborations.

Collaborating to advance system change

Chanel continues to participate in collaborative initiatives that aim to advance broader system change. Chanel is one of the signatories to the UN Fashion Industry Charter for Climate Action, which announced a renewed and more stringent set of commitments during the COP26 climate conference. In addition, Chanel continues to be an active participant in the Fashion Pact.

In April 2021, Chanel entered into a three-year partnership with the University of Cambridge Institute for Sustainability Leadership (CISL). The CISL partnership includes operational innovation projects, partnership to build an education and sustainability leadership programme in Chanel, and a bursary for CISL's Master in Sustainability Leadership for students from under-represented backgrounds.

Sustainability governance

Senior leaders at Chanel are committed to the Group's sustainability agenda and to building a resilient and sustainable business. To ensure sustainability is truly embedded into its core business strategy, the Company has established two Sustainability Committees (that include all Presidents) as sub-committees of the Executive Committee. The Sustainability Committees meet regularly to discuss the on-going sustainability strategy and performance that are ultimately presented to the broader Executive Committee. The Corporate Social Responsibility ("CSR") Committee is a sub-committee of the Board and was placed on pause mid-2021 whilst the above governance was being embedded under the Executive Committee. To enhance engagement with the Board, going forward there will be regular connections on sustainability performance and the overall sustainability strategy, as part of the set meeting calendar with the Board.

RESPECTING NATURE AND BIODIVERSITY

Chanel is committed to the protection and restoration of nature and aims in the longer-term to have a net positive impact. Chanel continues to be among a group of corporate organisations that are contributing to the development of the Science Based Targets Network to understand and quantify the impact on nature. Chanel has also joined the Taskforce on Natural Financial Disclosures Forum (TNFD).

Examples of innovations

Chanel strives to use more sustainable materials throughout its business activities to reduce its impacts. In 2021, Chanel and Groupe Pochet announced the launch of the first high-end recycled glass for N°5 Eau de Parfum. To obtain a glass that retains the purity, brilliance and transparency of the N°5 bottle, Pochet du Courval developed an innovative industrial process with its partners to guarantee high quality recycled glass. The result of this collaboration encourages circular processes, reduces the use of natural resources and lowers the carbon impact while preserving the aesthetics of CHANEL's iconic perfume.

Since 2021, all of the 125 ml bottles in LES EAUX DE CHANEL collection are topped with a bio-based cap, which Chanel has developed in partnership with Sulapac. For two years, Chanel teams worked with the Finnish start-up to create an unprecedented cap composed of three layers, made out of 91% bio-based materials obtained from renewable resources and FSC™ certified wood chips (by-products of industrial side-streams).

The Fashion business continues to increase the use of sustainably sourced and certified materials, notably through support for the Global Organic Textile Standard (GOTS) and the Global Recycled Standard (GRS). In 2021, four eco-tweeds using GOTS certified materials were featured in the Cruise Collection 2021/2022 which were produced by Lesage while working with Chanel's other close partners.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

Furthermore, as part of its commitment to accelerate change beyond its operational footprint, Chanel continues to invest in nature-based solutions. The projects are part of certified compensation and adaptation programmes that protect natural carbon sinks, restore degraded landscapes and help local communities to thrive. Further information can be found in the CHANEL Mission 1.5° publications on the Company website.

EMBEDDING SOCIAL SUSTAINABILITY IN THE SUPPLY CHAIN

Chanel believes that everyone working across its business and value chain should be treated with dignity and respect, enabling them to thrive.

Alongside this longer-term ambition, and in line with its overall commitment to strong business ethics, Chanel is committed to conducting its business in compliance with all applicable labour and employment-related laws, rules and regulations of every location in which it does business and across the supply chain, including, but not limited to, laws, rules and regulations relating to wages and hours worked, equal employment opportunity, discrimination, immigration and work authorisation, privacy, collective bargaining, child labour and forced labour.

In alignment with Chanel's internal code of conduct, *Ethics@Chanel*, the Group's Responsible Procurement Policy sets out the standards it expects its suppliers to uphold regarding issues such as forced and slave labour, human rights, the environment and anti-corruption.

Supply chain auditors apply a systematic approach to supplier assessment, utilising inherent risk identification to map suppliers which are most at risk. The methodology used is adaptable to the goods and services supplied and allows for distinguishing between risks posed to people and risks posed to the business. Based on that risk analysis, Chanel conducts inspections and audits of suppliers to ensure compliance with its Responsible Procurement Policy.

The Group believes it has a responsibility to make sourcing and purchasing decisions that contribute to the protection and the promotion of human rights. This is with regard to direct supplier relationships as well as the local communities in which it operates. In line with the focus on long-term value creation, Chanel acknowledges that partnering with suppliers is critical to building a more sustainable future. Therefore, to not only ensure that suppliers comply with Chanel's human rights due diligence standards, but also to help them build their capacity to implement their own. Chanel maintains close and often long-standing supplier relationships that are an essential asset to drive effective social progress within its supply chains for the long-term.

Further information can be found in the latest CHANEL Modern Slavery Act Statement, which is available in the Legal section on Chanel.com.

Responsible Jewellery Council certification

For its watches and fine jewellery activities, Chanel is a member of the Responsible Jewellery Council (RJC) and has been certified since 2011. In 2021, Chanel achieved the renewal of its certification under the new Code of Practices 2019 for three years. The RJC is the leading standard setting organisation for the jewellery and watches industry that brings together over 1,400 players in the jewellery industry. The RJC's Code of Practices is the only industry standard covering the entire jewellery and watch supply chain.

RESPONDING TO CLIMATE CHANGE

The Group is committed to decarbonise the business and its value chain to reduce its impact on climate change.

Whilst striving to reduce its climate impacts, the Group aims to enhance the resilience of its business in response to climate-related risks. Chanel also aims to accelerate the transition to a low carbon future beyond its own

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

operations and value chain. 2021 saw the launch of two funds in which Chanel invested as part of its commitment to support climate adaptation and to strengthen the resilience of local communities: the Landscape Resilience Fund and the Livelihoods Carbon Fund (LCF3). Chanel has joined the Board of Trustees of both funds and is the anchor investor of the Landscape Resilience Fund.

CLIMATE RELATED RISKS AND OPPORTUNITIES ALIGNED WITH THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change is considered as a principal risk to the business. It recognises that extreme weather conditions could cause disruptions across Chanel's supply chain and impact the sourcing of raw materials that are used in its products. The identification and management of climate risks form part of the Group's overall risk framework and follow a robust annual assessment where risk appetites and mitigation actions are considered as detailed on page 23.

The Group has progressed on adopting the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations to better understand and report its climate-related risks and opportunities. Chanel conducted a number of scenario analyses based upon the assessment of the medium- and long-term climate risks and opportunities to which it is exposed.

For details on sustainability (including climate) governance refer to page 7 as well as the Corporate Governance report on pages 30 to 36.

Climate Strategy

The Group makes the distinction between physical (acute and chronic) and transition impacts of climate change. Transition risks are mainly caused by changes in policy and legal regulations, with the possibility of more stringent climate policies and carbon pricing that could increase sourcing and compliance costs.

Chanel products depend on natural resources, many of which are at risk of the effects of climate change, and therefore significant resources are committed to improving and reducing the Group's impacts on climate, nature and biodiversity. Chanel is committed to preparing for changes in climate through research to understand potential impacts on the business, as well as the effects of actions that the Group takes in terms of mitigation of any potential adverse outcomes on the climate.

During 2021, qualitative and quantitative scenario analyses were completed on a number of key risk areas. The analyses reviewed the physical and transition risks to test against various climate scenarios. These help to understand the impacts and identify adaptation strategies to protect the source of materials or key processes whilst mitigating climate impact. As recommended by the TCFD, modelling included vulnerability of materials in high physical impact situations (business as usual global warming) to rapid transition scenarios with high mitigation (maintaining under 2° global warming). These scenarios were applied to understand the future impact for years 2030 to 2050, reviewing climate hazards and vulnerability.

Climate-related risks and opportunities

Chanel's carbon footprint disclosure as detailed below in the Streamlined Energy and Carbon Reporting table reveals that purchased goods and services form the largest portion of greenhouse gases for the brand. Raw materials comprise nearly 30% of the total 2021 carbon footprint for Chanel. In addition, a biodiversity footprint analysis was conducted in 2020 and concluded that transport and raw materials also have the largest biodiversity impacts. Therefore in 2021, raw materials were the focus of climate-related risks and opportunities. To continue to improve the approach, future studies will be conducted on hot spot areas such as upstream and downstream freight transport, capital goods and media.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

To better assess the risks and opportunities, approximately 1,800 ingredients and 30 packaging materials were quantitatively screened against climate hazards for five physical risks and two transitional risks. A qualitative approach has been taken for reputational risks as recommended by TCFD guidance. Quantitative scores have been used to estimate the level of criticality and the probability of occurrence of the climate-related physical and transition vulnerabilities. Indicative scores were assessed as a first screening exercise, with the view to conduct more detailed analysis. The range of risks and opportunities relevant to the materials considered were extreme temperature, droughts, rainfall patterns and volume, sea level rise and frequency of storms.

Some resources have been identified as highly at risk due to climate sensitivity to the crops or difficulty extracting the minerals. Suppliers' sites were also identified as a risk due to extreme weather events which could adversely affect the supply chain and slow the material transformation processes. Other risks included changes in border regulations causing material shortages. Based on these results, the Group will consider undertaking a more detailed analysis. Chanel will work with suppliers to strengthen their resilience and resilience planning for the most impactful hazards on their assets and on their suppliers' assets, as well as discussing how suppliers may reduce their own carbon footprint.

Chanel conducted a site-based study on proprietary supply chain sites where key active ingredients are produced, as well as a main distribution centre. A physical risk scenario analysis was conducted using the <2°C pathway and >4°C pathway by 2100 against heat stress, frost, drought, extreme rainfall, storms and cyclones, sea level rise, humidity and cumulative radiation. In the >4°C pathway, all sites will be impacted by a drastic and abnormal temperature increase. As a result of this study, a distribution centre has been able to address a number of risks within its local continuity action plan with further actions to be addressed, such as energy-related costs due to extra cooling that may be required.

Chanel also performed a climate change scenario analysis specifically on cotton, one of its key raw materials. The aim of the analysis was to identify physical and transitional climate-related risks and opportunities and potential impacts for the cotton value chain from three strategic sourcing areas under two opposing climate scenarios, using a <2°C pathway and >4°C pathway.

A range of risks and opportunities relevant to the cotton value chain were explored: carbon pricing, climate policies, sustainable market opportunities, technology advances, heavy rainfall, landslides, bushfires, drought, thunderstorms, floods and extreme temperature. The results of the scenario analysis highlighted a mixture of risks and opportunities along the value chain and concluded that Chanel's organic and regenerative organic cotton goal will help build climate resilience through the health, fertility and biodiversity of the soil. The outputs will feed further scenario analyses to 2050 and identify further climate action in strategic value chains.

CHANEL Mission 1.5°

CHANEL Mission 1.5° is the Group's plan to help address climate change. Launched in 2020, CHANEL Mission 1.5° aims to transform the business in line with the ambitions of the Paris Agreement on Climate Change. Chanel's commitment to both reducing emissions and to accelerating climate adaptation are also in line with the outcomes of the Glasgow Climate Pact of 2021.

Chanel has set science-based targets to decrease its own carbon footprint (scopes 1 and 2) by 50% by 2030 and decrease greenhouse gas (GHG) emissions from its value chain (scope 3) by 40% per unit sold, in comparison to a 2018 baseline year.

Chanel also aims to shift to 100% renewable electricity in its own operations by 2025 and is part of the RE100 initiative.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

The Streamlined Energy and Carbon Reporting (SECR) table is below. The boundary for the Global SECR table includes all activities contributing to the Chanel brand.

Recalculation

In 2021, Chanel continued to improve the completeness of data and these improvements have been applied to recalculate the 2020 figures to facilitate a comparable assessment of our progress for Purchased Goods and Services (Category 1), Capital Goods (Category 2) and Franchises (Category 14).

The recalculation in Category 1 reflects efforts made in the past year to improve the completeness of raw material coverage, a change to activity data for media based on increased data provided by Chanel's media agency and a better understanding of the impact of Chanel's IT services as well as the website, Chanel.com. The recalculated Category 2 Capital Goods footprint is now better aligned with Chanel's capital expenditures in relation to the CHANEL Mission 1.5° global scope. The recalculated Category 14 footprint reflects the use of Chanel's own boutique emissions to estimate the impact of its wholesale points of sale within each Region. The result is an increase in Category 1 of 139,958 tCO₂e, an increase in Category 2 of 80,421 tCO₂e and an increase in Category 14 of 12,958 tCO₂e for 2020. In applying the same methodology to the 2018 baseline to enable a comparable assessment, the result indicates a decrease of 8% for Scope 3 in 2021.

Scope 1 & 2 GHG emissions (CHANEL Mission 1.5° global scope)

As in 2020, Covid-19 continued to impact the business and different markets experienced periods of lockdown throughout the year. Despite the challenging context, teams continued to advance decarbonisation initiatives. As a result, scope 1 and 2 emissions (from our owned and operated production sites, distribution centres, boutiques and offices) decreased by 31% compared with 2020, despite adding approximately 50 new boutiques into our footprint in 2021. This is mainly driven by the continued transition towards renewable electricity, which now covers 92% of Chanel's electricity consumption and has resulted in a reduction of scope 2 GHG emissions by 58% from 2020. Total scope 1 and 2 has decreased 33% versus the 2018 baseline.

All renewable electricity is from sources aligned with the RE100 technical criteria and supported by energy attribute certificates. Scope 1 has decreased by 5% from 2020 despite the return to a more normal year following 2020 Covid-19 lockdowns. However, as there has been a decrease in refrigerant gas usage that fluctuates year-on-year based on refill need, we could expect to see an increase from this source in 2022.

Scope 3 GHG emissions

Since launching CHANEL Mission 1.5°, Chanel has worked hard to gain a deeper understanding of its carbon impacts. Chanel takes its carbon footprint very seriously and firmly believes in a rigorous approach to scope 3, in line with the GHG Protocol, to build a realistic picture of its impacts. The accuracy of data is reliant on information received from vendors.

In 2021, the carbon emissions reflect an increase in the volume of raw materials purchased in line with the increase in production and sales (Category 1), a larger digital media footprint (Category 1) and, as expected, an increase in both Business Travel (Category 6) and Transportation (Category 4 & 9) as the business's operations started to recover from the Covid-19 pandemic. The recovery extends to expenditure on events (Category 1) and Capital Goods (Category 2), where currently these categories are estimated predominantly based on spend. Chanel aims to move away from spend-based estimations towards more activity-based data wherever possible in the coming year to strengthen the understanding of its impacts. As a result, scope 3 has increased by 4% versus the 2018 baseline. However as noted above, in applying the same recalculation methodology to the 2018 baseline results in a decrease of 8% in 2021.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

The data for 2021 serves to sharpen our focus on where and how carbon reductions can be made moving forward. It has allowed us to identify 10 priorities which are critical to addressing our carbon footprint (including freight, capital goods and media) and we are developing and implementing decarbonisation roadmaps for each. This comprehensive and detailed analysis of the carbon footprint means Chanel can now identify the biggest levers and opportunities for decarbonisation – this is a focus for next year. Further information can be found in the CHANEL Mission 1.5° publications on the Company website.

STREAMLINED ENERGY AND CARBON REPORTING

Energy and carbon performance for the United Kingdom is as follows:

Energy use (kWh)	2021	2020
	United Kingdom	United Kingdom
Fuel (including vehicles)	593,344	606,469
Natural gas	5,023,404	5,579,256
Electricity	2,838,073	2,670,630
Total	8,454,821	8,856,355
% electricity from renewable sources	98%	85%

Carbon Emissions (tCO ₂ e)	2021	2020
	United Kingdom	United Kingdom
Scope 1 – Emissions from fuel for vehicles and heating of facilities	1,008	1,154
Scope 2 – Emissions from purchase of electricity, heat, steam and cooling (location-based)	608	614
Scope 2 – Emissions from purchase of electricity, heat, steam and cooling (market-based)	19	149
Total Scope 1 and 2 (location-based)	1,616	1,768
Scope 1 and 2 (location-based) Intensity ratio (kg CO ₂ e per unit sold)	0.37	0.42

The total change in energy use is a result of a combination of factors. One site purchased more efficient electrical machinery and another site installed electric vehicle charging points. These are balanced with an increase in demand as working hours stabilised after Covid-19 closures in 2020. The decrease in the annual average gas consumption can be attributed to the installation of a new boiler in the third quarter of 2020. The increase of renewable energy is due to the use of solar panels, green energy tariffs and the purchase of renewable energy certificates.

Energy and carbon performance for the global scope as defined by CHANEL Mission 1.5° is as follows:

Energy use (kWh)	2021	2020
	Global	Global
Fuel (including vehicles)	15,610,047	11,424,115
Natural gas	82,070,196	60,865,664
Electricity	144,378,288	121,435,819
Total	242,058,531	193,725,598
% electricity from renewable sources	92%	70%

STRATEGIC REPORT
YEAR ENDED 31 DECEMBER 2021

Carbon Emissions (tCO ₂ e)	2021	2020 (restated)
	Global	Global
SCOPES 1 AND 2		
Scope 1 – Emissions from fuel for vehicles and heating of facilities *	19,469	20,493
Scope 2 – Emissions from purchase of electricity, heat, steam and cooling (location-based)	40,973	37,007
Scope 2 – Emissions from purchase of electricity, heat, steam and cooling (market-based)	8,388	19,842
Total Scope 1 and 2 (location-based)	60,442	57,500
Scope 1 and 2 Intensity ratio (market based kg Co₂e per unit sold)	0.33	0.60
SCOPE 3 *		
Scope 3 – Purchased goods and services (Category 1)	445,820	361,388
Scope 3 – Capital goods (Category 2)	141,110	123,167
Scope 3 – Fuel- and energy-related activities not included in Scope 1 and 2 (Category 3)	14,650	8,843
Scope 3 – Upstream and downstream transportation and distribution (Categories 4 and 9)	181,597	164,418
Scope 3 – Waste generated in operations (Category 5)	6,053	7,363
Scope 3 – Business travel (Category 6)	9,507	6,920
Scope 3 – Employee commuting (Category 7)	10,074	10,261
Scope 3 – Use of sold products (Category 11)	30,703	16,549
Scope 3 – End of life of sold products (Category 12)	5,037	3,760
Scope 3 – Franchises (Category 14)	14,960	19,673
Total Scope 3	859,511	722,342
Scope 3 Intensity ratio (kg Co₂e per unit sold)	10.29	10.74
Total Scope 1, 2 (market-based) and 3	887,368	762,677

*The scope 3 categories 8, 10, 13 and 15 are deemed not material to Chanel and, therefore, the Group does not report on them. Category 8 Upstream Leased Assets is not material as Chanel includes leased assets over which it has operational control in its scope 1 and 2 footprints. Category 10 Processing of Sold Products is not material to Chanel as its products do not require intermediate processing. Category 13 Downstream Leased Assets is not material to Chanel as there are very few assets that Chanel leases out to other entities. Category 15 Investments is not material to Chanel as it is not primarily an 'investor', nor does it provide financial services. Category 1 Purchased Goods and Services includes water purchased from the public network; product, packaging and sales and promotional raw materials; paper purchased for office use; media (including the website, Chanel.com); events, and IT software and services.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

Notes to the data within the SECR table:

Chanel's scope 1 GHG emissions arise from natural gas, fuel and refrigerant gases consumed in our sites. The calculations are based on specific energy data and are multiplied by the appropriate emission factors from ADEME and IEA. Scope 1 GHG emissions also includes on-site landfill using a conversion factor from Ecoinvent.

Scope 1 data for 2020 has been restated to reflect the on-site landfill that was previously reported in scope 3. In addition, an emission factor for refrigerants for 2020 has been corrected and is reflected in scope 1 for 2020. The result is an increase in scope 1 of 3,988 tCO₂e and a decrease in scope 3 of 3,734 tCO₂e for 2020.

Chanel's indirect (market-based) scope 2 GHG emissions arise from heat, steam and cooling, and electricity used in all sites. The calculations are based on specific data and are multiplied by the appropriate emission factor from AIB and the International Energy Agency (IEA). Where Chanel does not have visibility of the energy consumed at a site, consumption is estimated based on square metres of the site and the known consumption of other sites within that region.

Scope 3 emission factors have been sourced from: ADEME; Ecoinvent; EcoTransIT; EIO LCA; DEFRA; GLO; WALDB; WFLDB; SPICE; Trucost report on the Socioeconomic and Environmental Impact of Large-Scale Diamond Mining; US EPA; assessments conducted by IJO; and life cycle assessments conducted with consultants.

SUPPORT FOR COMMUNITIES

In addition to the positive impact that Chanel aims to create through its sustainable business transformation, the Group also seeks to play an active role on social issues beyond its operational footprint. In 2021, Chanel donated \$26 million to causes focused on environmental, social and educational issues – including emergency relief for vulnerable communities – as well as provided funding for local cultural institutions.

YOU, ME & US

Chanel's programme, 'You, Me & Us', is focused on supporting those within the communities where Chanel operates, with the aim of improving access to education or conditions for employment. This work involves a variety of programmes that include volunteering opportunities taking a localised approach so that the Company's contributions respond to specific needs for each location.

You, Me & Us offers employees an opportunity to play an active role in their communities, to share their skills and knowledge and to broaden their own experiences. In 2021, more than 20% of Chanel employees around the world volunteered their time, with hundreds of employees participating in initiatives for the first time. Volunteering initiatives spanned 15 countries and included mentoring students to go back to school, helping women to regain confidence after a long period of cancer treatment, supporting social entrepreneurs with their business plans, and participating in collective coaching sessions by sharing expertise and skills from the organisation. Through the programme, Chanel has supported more than 249 organisations and touched more than 2,000 beneficiaries around the world.

FONDATION CHANEL

Fondation CHANEL aims for women and girls to be free to shape their own destiny. Fondation CHANEL is inspired by Chanel's founder, Gabrielle Chanel, who began her life under difficult circumstances but ultimately played a major role in redefining the roles and statuses of women across society and around the world.

Fondation CHANEL continues this tradition through its partnerships with non-profit organisations, women's funds, social enterprises, international organisations, research institutions and civil society institutions in different parts of the world. Fondation CHANEL works with these partners to help overturn the systemic and social barriers women and adolescent girls face, with a mission to achieving gender equality for the long term. Since its inception in 2011,

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

more than one million women and girls around the world have received support through the initiatives funded by the Fondation. Over the last 11 years, Fondation CHANEL has provided \$69 million in increasingly flexible support for 190 grantee-partners to make these impacts in 56 countries.

For further information on Fondation CHANEL visit www.fondationchanel.org.

ARTS AND CULTURAL INITIATIVES

Despite the challenges generated by an ongoing global pandemic that played havoc with creative production, programming and live events, Arts and Culture teams at Chanel made it a priority to animate company values through a variety of cultural initiatives. With the aim of extending Chanel's cultural legacy into the future, the Group continued its conservation efforts with regard to historic locations, from the multi-year renovation of La Pausa to the restoration of Aubazine Abbey, two historic properties central to Gabrielle Chanel's life. In close consultation with the Patrimoine, Chanel purchased from Sotheby's Karl Lagerfeld auction, furniture, art works and notebooks from Karl Lagerfeld's personal collections. Other highlights in 2021 included the international debut of the *Gabrielle Chanel, Fashion Manifesto* exhibition at the National Gallery of Victoria in Melbourne, with further international touring plans in 2022 and 2023.

As a creation-driven company, Chanel places significant value on human potential; the mission of Arts and Culture at Chanel is to harness the transformative power of artists to imagine new ways forward. To that end, Chanel launched three key Arts and Culture programmes in 2021:

- **CHANEL Connects** – The first global Arts and Culture podcast launched by Chanel and hosted on all podcast platforms leaders, brought together 24 well known cultural thought leaders across the creative industries in eight conversations about the ideas driving their respective fields. A second edition is in preparation for a June 2022 launch date.
- **CHANEL Culture Fund** – A global programme of unique partnerships with leading institutions to support cultural innovators in advancing new ideas and greater representation in culture and society. The Fund was launched in early 2021 with five partners, each of whom co-created an ambitious initiative with Chanel. They included the Underground Museum in Los Angeles (three new curatorial fellowships awarded to three curators for their achievements in broadening cultural audiences); the Power Station of Art in Shanghai (a three-year exhibition programme for emerging cultural producers in craft and architecture); and the Centre Pompidou (cross-disciplinary exhibitions focused on ecology, urbanism and the Metaverse). Chanel's support also meant that a Curator of Collections was appointed at the National Portrait Gallery with the focus on a three-year project – "*Reframing Narratives: Women in Portraiture*" which aims to enhance the representation of women in the Collection and highlight the often-overlooked stories of women who have shaped British history and culture.
- **CHANEL Next Prize** – With a focus on individual promise and the next generation, Chanel launched the Next Prize which awards €100,000 to ten game-changing artists across film, dance, art, theatre, music and game design, who are radically redefining their fields. The selection process was overseen by an international jury. Beyond the prize money, the award includes platforms that give artists access, amplification, mentorship and shared experiences in the service of their creativity.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

Additionally, support of local market initiatives such as the Jimei X Arles partnership in Mainland China ensured that the expertise and resources of Arts and Culture at Chanel were globally deployed in the service of authentic and meaningful cultural engagement for the Brand and resultant brand enrichment.

TAXATION

Tax principles

The Group adopts a sustainable approach to taxes and recognises that taxes are a crucial source of funding for governments in every country in which it operates and that they finance important public programmes. As a result, the Group's overall objective on tax matters is to maintain a net positive tax contribution in all jurisdictions where it operates in line with the economic value created in each country, not just in terms of corporate taxes, but also employment and property taxes, customs duties and other types of levies.

The Group's tax principles ensure coherence between its business operations and the policy intent of international and local tax legislation. The Group does not invest in a country, for example, without a clear business purpose or put in place any schemes, arrangements or tax planning that could be perceived as contrived or artificial in nature. The Group follows reasonable and unambiguous interpretations of tax laws as well as the policy intent of tax legislation. It only uses efficiencies foreseen in tax legislation if they apply to all taxpayers without selectivity.

The Group strives, through its tax principles, to align its global profit allocation with economic value creation within the Group and to apply the arm's length principle, taking into account the location of its main intangible assets and functions related to their development. None of the Company's subsidiaries (direct or indirect) operate in low-tax jurisdictions unless there are commercial activities being carried out there, supported by people, assets and business in that country.

The Group ensures the highest level of compliance when applying its tax principles. It files all tax-related returns, declarations, reports and related documentation under local legislation/rules. Where there is significant complexity in relation to a tax matter, the Group seeks advice from external advisors to ensure that an appropriate filing position is adopted. The Group always maintains an open and constructive relationship with tax authorities and does not take positions on tax matters that may create reputational risk or jeopardise its good-standing with local tax authorities.

Below is an exhaustive list of countries where the Group has incorporated entities and the main nature of the activities deployed by all the entities in every jurisdiction.

STRATEGIC REPORT
YEAR ENDED 31 DECEMBER 2021

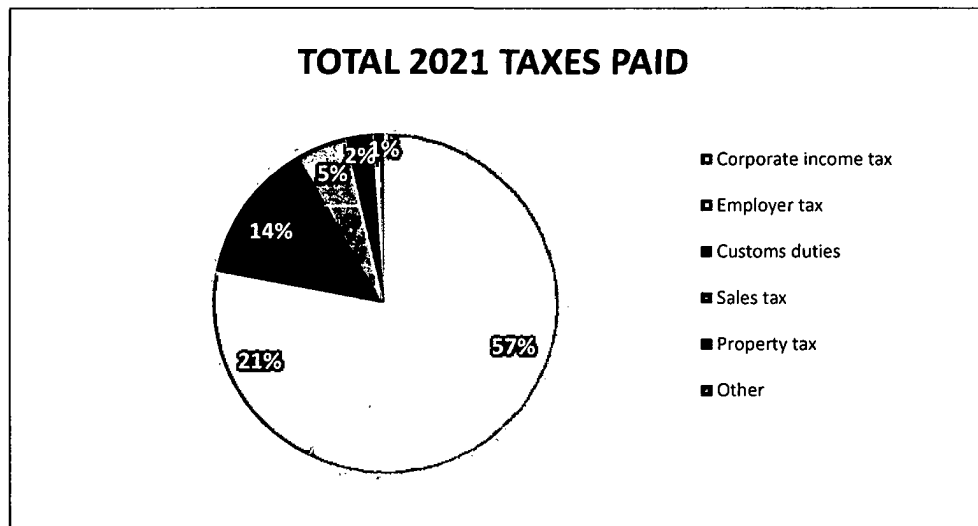
2021	Research and Development	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Internal Group Finance	Holding Shares of Companies	Non-Trading	Real Estate Activities	Holding or Managing Intellectual Property	Insurance
Argentina											
Australia											
Austria											
Belgium											
Bolivia											
Brazil											
Canada											
Colombia											
Costa Rica											
Czech Republic											
Denmark											
France											
Germany											
Hong Kong S.A.R.											
India											
Ireland											
Italy											
Japan											
Luxembourg											
Macao S.A.R.											
Mainland China											
Malaysia											
Mexico											
Monaco											
Mongolia											
Netherlands											
New Zealand											
Norway											
Panama											
Poland											
Portugal											
Russia											
Singapore											
South Africa											
South Korea											
Spain											
Sweden											
Switzerland											
Taiwan Region											
Thailand											
Turkey											
Ukraine											
United Arab Emirates											
United Kingdom											
United States											
Vietnam											

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

As noted, the Group does not operate in low-tax jurisdictions unless there are commercial activities being carried out there, supported by people, assets and business in that country. The Group has four entities in Panama, which is on the EU's list of non-cooperative jurisdictions¹, and which for decades, has been the location of the Group's regional headquarters and distribution centre for Latin America and the Caribbean. The Group also operates two retail boutiques in Panama, supported by certain real estate assets. The Group also operates a fashion boutique and a watch and fine jewellery boutique in Monaco which is on the OECD's list of un-cooperative tax havens². The Group currently employs 137 people in Panama and has 26 employees in Monaco.

In 2021, the Group's total taxes paid amounted \$1.9 billion, exclusive of taxes collected on the behalf of others (e.g., VAT and certain employee taxes). The make-up of the taxes paid is set out below, with corporation income taxes representing over half of the total amount of taxes paid.



KEY PERFORMANCE INDICATORS

The Group assesses its performance against various measures. The key performance indicators ("KPIs") have been selected to measure the success of our strategy and are monitored on a regular basis. The following KPIs are measured, and the results are included in the Highlights on page 2:

- **Comparable revenue growth** – measures growth across all sales channels excluding the impact of foreign exchange and for a comparable legal entity structure, which excludes revenues from current and prior year business acquisitions and disposals and, therefore, do not represent a full year's revenues. Comparable revenue is determined using exchange rates used in the reporting year for all periods presented.
- **Investment in advertising, promotion and demonstration** – measures the impact of marketing spend and is considered in connection with the growth in revenues and strengthening of brand equity.
- **Operating profit** – measures the overall performance of the Group.

¹ List adopted by EU Council on 24th of February 2022.

² List published on 18th of April 2002.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

- **EBITDA** – an alternate measure of the Group’s operational profitability, without the impact of changes in interest, taxes, depreciation and amortisation and adjusted for other exceptional items in the year. EBITDA is based on an adjusted operating profit that excludes exceptional items such as restructuring costs, impairment charges and reversals on property, plant, and equipment and intangibles, investment gains and losses on corporate-owned life insurance and other one-off expenses in the year as disclosed in Note 4. The addback of depreciation excludes depreciation on right-of-use assets. A reconciliation of the Group’s EBITDA calculation is as follows:

	Notes	2021 \$ millions	2020 (restated) ¹ \$ millions
Operating Profit		5,460.7	2,017.8
Exceptional Items	4	57.2	106.9
Depreciation and amortisation of PP&E, investment property and intangibles		431.8	418.8
EBITDA		<u>5,949.7</u>	<u>2,543.5</u>

¹ See Note 2.2 for details on the prior period restatement.

- **Net cash** – measures the Group’s remaining cash following the settlement of all borrowings and if the Group has sufficient liquidity to meet its debt obligations. A reconciliation of the Group’s net cash calculation is as follows:

	Notes	2021 \$ millions	2020 \$ millions
Borrowings (excluding lease liabilities)	18	(3,113.9)	(3,225.1)
Related party borrowings	26	-	(350.8)
		<u>(3,113.9)</u>	<u>(3,575.9)</u>
Cash and cash equivalents	16	3,674.2	4,649.8
Net cash		<u>560.3</u>	<u>1,073.9</u>

- **Free cash flow** – measures the Group’s ability to generate positive cash. A reconciliation of the Group’s free cash flow calculation is as follows:

	2021 \$ millions	2020 (restated) ¹ \$ millions
Net cash provided by operating activities	5,555.6	2,156.8
Capital investment	(758.2)	(1,077.2)
Refundable VAT on purchase of property, plant, and equipment	78.3	(78.3)
Proceeds from sale of property, plant and equipment	5.9	3.5
Repayment of lease liabilities	<u>(341.7)</u>	<u>(325.4)</u>
Free cash flow	<u>4,539.9</u>	<u>679.4</u>

¹ See Note 2.2 for details on the prior period restatement.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

- **Capital investment** – represents the acquisition of assets by the Group for use in its business goals and objectives. A reconciliation of the Group's capital investment is calculated as follows:

	2021	2020
	\$ millions	(restated) ¹
Purchases of property, plant, and equipment	663.1	993.3
Purchase of intangibles	77.8	83.9
Initial direct costs related to right-of-use-assets	17.3	-
Capital investment	<u>758.2</u>	<u>1077.2</u>

¹ See Note 2.2 for details on the prior period restatement.

- **Carbon footprint** - measures carbon emissions of the Chanel brand in line with the Greenhouse Gas Protocol.

Other KPIs listed below help management understand the impact on the financial results, which allows us to develop the Group's business strategy.

- **Brand equity** - measures all activities we engage in to ensure our products and image are modern, relevant, and luxurious without becoming too commonplace. Our strong brand equity sets our products apart from our competitors' and has a direct impact on our financial KPIs.
- **Leadership and people strength** - measures how employees grow in their roles in order to contribute in larger ways over time, including mentoring new team members and recruiting the best talent for the future. To measure our performance we focus on employee engagement, leadership preparedness and employee retention metrics.
- **Client engagement** - measures our dedication to building deep and meaningful client experiences, whether through direct contact in the boutique or through virtual experiences online and through our services. The Group continuously aims to exceed customer expectations making our clients loyal brand advocates. Factors considered in measuring our performance include our ability to retain existing clients as well as recruit new customers. We also rely on customer satisfaction surveys to measure the client experience.
- **Integrity and business ethics** - Chanel's ethical principles are summarised in our global code of conduct, *Ethics@Chanel*, which applies to all employees worldwide. Chanel is committed to the highest standards of integrity in all areas in which it conducts business. These principles include, in addition to a general commitment to compliance with all applicable laws, an open-reporting environment with a guarantee of non-retaliation, and policies on conflicts of interest, fair employment practices and the respect of human rights, health and safety, anti-corruption, anti-money laundering and the respect of trade sanctions throughout the Group. These principles are shared through our Responsible Procurement Policy or otherwise (such as through contractual provisions or trainings) with third parties with whom Chanel conducts business, including our suppliers, contractors, agents, representatives, distributors and consultants. Chanel measures to what extent its employees and partners adhere to the spirit of these values and comply with Chanel's standards.
- **Social responsibility** - Through the work of Fondation CHANEL, our key commitment of advancing the role of women in society and improving the social and economic conditions for women and adolescent girls is measured via specific indicators such as gained employment, access to and completed vocational training or improved access to health services.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

- **Supplier performance monitoring** - A thorough risk-assessment methodology is conducted to determine the governance and business ethics, health and safety, human rights and environmental risks across our supplier portfolio. Supplier audits are conducted by both an internal audit team and external audit partners to provide support on country-specific regulations and socio-cultural norms. The team measures the audit results of our suppliers across the four risk pillars, the overall progression year over year and shares knowledge and best practices to help guarantee consistency and coherence in the Group's approach to supplier risk assessment, monitoring and remediation.

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

RESEARCH AND DEVELOPMENT

The Group is committed to its long-term vision for the brand based on creativity, innovation and excellence. The Group incurred research and development costs of \$158.4 million (2020: \$138.4 million), net of research and development tax credits.

FUTURE DEVELOPMENTS

Coming off a strong year in 2021, the Group will continue to make significant investments by supporting new and existing products as well as elevating the client experience. Chanel's social commitments remain a priority as we focus on our sustainability initiatives across the organisation. At the end of 2021, the Group had over 28,000 employees worldwide. As a Group, we are committed to our many stakeholders, notably our employees and aim to continue to work towards fostering an environment that is diverse and inclusive and has a positive impact on all.

RISK MANAGEMENT

APPROACH TO RISK MANAGEMENT

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

The directors continue to give due consideration to the Group's response to the Covid-19 pandemic and geopolitical factors, its ability to make decisions quickly, identify ways to continue to do business, redirect inventory flows and protect its staff whilst continuing to safeguard the brand and comply with all laws and regulations in a complex, evolving environment.

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

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

The Group manages liquidity risk by maintaining appropriate levels of cash and the availability of funding through a revolving credit facility. In 2021, the Group continued to maintain a zero net debt policy which it monitors for

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

ongoing pertinence and applicability on a regular basis. Liquidity at the subsidiary level is ensured through access to a global cash pool arrangement and an intercompany lending programme. Details of the Group's financial risk management are included in Note 22.

As a priority for 2022 and beyond, a key focus will be placed on integrated risk management. As the external and internal risk landscape continues to evolve rapidly, it is essential that the Group defines, implements and embeds an even more robust, independent and better synchronised integrated risk management framework under the mandate of the Audit Committee and the Executive Team. This will further strengthen the Group's risk management activities for identifying, assessing, managing and monitoring key risks and developing, operating and monitoring the system of internal controls. Progress reports for managing the Group's principal risks will help lead the organisation to continue to make well-informed decisions and drive performance.

RISK APPETITE

One of the Audit Committee's key responsibilities is to monitor and evaluate the Group's risk appetite and how the risk management programme identifies, assesses, manages and monitors such risks. The Group's risk appetite, risk profile and risk tolerance are assessed each year by the Global Leadership Team and developed accordingly. The role of the Audit Committee is discussed further in the Corporate Governance Report on pages 30 through 36.

Management maintains a low risk tolerance for its principal risks, whilst acknowledging that the luxury sector is a competitive, dynamic sector where innovation and understanding of consumer habits is paramount. In determining its risk appetite, the Global Leadership Team meets with a number of departments responsible for all of the key risk areas relevant to the Group and considers a variety of information when reviewing the Group's business, including key strategic and operational matters. In exploring risks and opportunities, the priority is always to protect the long-term value and reputation of the brand and we consider that the implementation of mitigating action plans is a core element to this.

PRINCIPAL RISKS

Below is an overview of the principal risks that have been identified and grouped in six categories: Strategic, Operational, Legal and Compliance, People, Cyber Security and Financial. We believe these risks are most relevant to our business and those that could have the most material impact to our performance and potentially threaten our overall business model if they are not managed effectively.

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

RISK	BUSINESS IMPACT	MITIGATION	RISK LEVEL	RISK APPETITE	CHANGE IN RISK
MACRO-ECONOMIC AND GEOPOLITICAL					
Political and economic stability continued to be tested in 2021 as governments come under increasing pressure from the disruptive power of technology, tensions, climate change, war and related financial and economic sanctions and other risks, all layered upon persistent upheaval from the Covid-19 pandemic. Additionally, changes in government and political strategies which impact consumer attitudes and spending, significant reductions in tourism and increasing and accelerated regulatory changes could impact the business model. Country-specific trade agreements could impact spending behaviours of key consumer groups or impact intercompany sales and prices and potentially even limit the sale of certain products.	Potential negative impact to business operations, sales and profitability.	The Group works to maintain the strength of the CHANEL brand through the development of new and innovative products, strategic advertising, and by maintaining strong relationships with its local customers in each country. In addition, with the help of a strongly coordinated global Legal and Public Affairs team, the Group strives to prepare for and anticipate changes in government and political strategies as well as large regulatory and legislative shifts (such as sustainability, climate change, regulation of intellectual property and technology or privacy) as early as possible in order to advise on business impact and help adopt business strategy.			—
COMPETITIVENESS OF OUR PRODUCTS					—
The Group has many well-established competitors as well as new market entrants every year and its business is subject to normal competitive pressures.	Potential negative impact to sales and profitability and a decreased market share.	The Group's aim is to protect and enhance the long-term value of the brand in everything it does with a view to the long term, which is the core element of the business model. This strategy allows the Group to innovate and inspire our customers with beautiful products, in order to remain at the forefront of the retail luxury market.			—
CLIMATE ACTION					—
Impact of climate change and the threat to business.	The Group recognises that both direct and indirect impacts of climate change could cause disruptions across Chanel's operations and supply chains, particularly impacting the sourcing of raw materials used in its products.	The Group assesses climate risks and opportunities in accordance with the Task-force on Climate-related Financial Disclosures (TCFD) recommendations. Chanel's climate strategy, Mission 1.3, sets out carbon emissions reduction targets that have been validated by the Science-Based Targets initiative and outlines a clear commitment to mitigate climate-related risks in its operations and supply chains by 2030. These targets form the basis on which the Sustainability Linked Bonds were issued. In addition, Chanel aims to shift to 100% renewable electricity in its operations by 2025.			—

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

RISK	BUSINESS IMPACT	MITIGATION	RISK LEVEL	RISK APPETITE	CHANGE IN RISK	
OPERATIONAL	BUSINESS CONTINUITY, DISASTER RECOVERY AND CRISIS MANAGEMENT					
	Major incidents due to natural disasters, terrorist activities, war, cyber security incidents or global pandemics affecting one or more of the Group's key locations could cause business disruptions and impact its operations.	A major incident at one or several key locations could significantly impact business operations and/or client patronage, with the impact varying depending on the location and its nature. Disruptions or inefficiencies in the Group's supply chain could lead to delayed or suspended production, delayed deliveries and lower sales in the boutiques.	The Group's global operations, business continuity plans and crisis management activities help mitigate these risks, but cannot eliminate their potential impact on sales and profits. The Group maintains a strong balance sheet position and targets a net debt position of zero, which supports its ability to raise borrowings quickly. The Group works closely with its suppliers to ensure long-term relationships based on trust which secure good knowledge of and reliability of suppliers. It also monitors suppliers' production capacity in order to ensure that product lead times are minimised and sufficient quantities are produced efficiently. The Group works to ensure that the products are in the right place, at the right time, to maximise sales and reduce inventory losses. We maintain a high level of security and vigilance in all of our premises in order to address potential security risks. Additional external threats and vulnerability monitoring tools and systems have been deployed to prevent and detect information security threats and weaknesses across our IT landscape including cloud hosted infrastructure and 3rd party suppliers. A fully manned Global Security Operations Centre has been recently implemented to monitor, manage, respond to and correct cyber security risks, incidents and threats. Furthermore, the constant mitigation of the cyber risks we face by the overall improvement of our cyber maturity across the Group contributes year on year to the resilience of our internal IT ecosystem as well as some of our key technology partners.			
RESPONSIBLE CONSUMPTION AND PRODUCTION						
	Increasing use of natural resources and toxic materials as well as the emissions of waste and pollutants jeopardizes the needs of future generations.	The role of business in contributing to sustainable development is critical in terms of corporate social responsibility and aligns with the standards the Group has established in carrying out its related initiatives. Not adhering to these initiatives could cause reputational harm to the brand, which could ultimately adversely impact the Group's performance.	The Group is focused on initiatives to increase its sustainable consumption and production patterns to secure efficiency and productivity gains, ensuring that human activities remain within the carrying capacity of the planet, whilst respecting the rights of future generations.			NEW

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

	RISK	BUSINESS IMPACT	MITIGATION	RISK LEVEL	RISK APPETITE	CHANGE IN RISK
LEGAL AND COMPLIANCE	INTEGRITY AND ETHICAL COMPLIANCE					—
	Compliance issues, whether real or alleged, within the Group or with any of the Group's suppliers, agents or business partners.	In a large multinational Group with a myriad of partners, suppliers and other third-party agents, a compliance issue such as a case of significant fraud or corruption or a human rights violation could significantly harm the Chanel brand's reputation and impact our clients' trust in the brand.	The Group is strongly committed to conducting its business in compliance with applicable laws, rules and regulations wherever it operates and to training its employees to know and observe those rules and act with integrity at all times. Core ethical values and standards as described in the Group's code of conduct, Ethics@Chanel, apply to all employees of all Chanel entities worldwide. Third parties with whom we conduct business, including suppliers, contractors, agents, representatives, distributors and consultants are required to share our commitment to the highest values and standards of integrity and responsible business conduct by signing up to our Responsible Procurement Policy, which lays out the same principles, values and obligations as Ethics@Chanel. These third parties are subject to rational audits to ensure their practices are up to standard.			—
	DUE DILIGENCE					NEW
LEGAL AND COMPLIANCE	A lack of transparency, understanding or knowledge of the Group's partners could expose the Group with failure to comply with laws and regulations and overall reputational risk. This may include partners in the supply chain, representing the brand but also customer facing.	Impact on the Group's operations and supply chain in addition to exposure to risk of legal/regulatory proceedings in the event of misreporting or failure to comply with legal obligations could negatively impact the brand's reputation and clients' trust.	In partnership with the Finance, Procurement (Indirect Procurement and Sourcing) and Internal Audit teams, the Group is conducting screening and due diligence of its partners through various tools. In 2021, a combined finance and compliance screening tool was rolled out globally that assesses the financial health and sanction/criminal/reputational issues of our partners. The Group continues to develop its due diligence methodology, processes and tools in order to ensure global consistency.			NEW
	TAX COMPLIANCE					—
FINANCIAL	As a global business and in a constantly changing regulatory environment, the Group is subject to a number of significant tax compliance risks, the most significant of which are corporation taxes, sales taxes and customs duties.	Incorrect payment of tax and poor relations with tax authorities can result in damage to the Group's reputation, fines, interest and other legal sanctions.	The Group's tax department focuses on ensuring that the Group's risks are understood, managed, minimised and reported frequently to senior management. The Group's approach to taxation is set out in more detail in the tax section of the strategic report.			—
	FINANCIAL MARKET RISK					—
	The Group operates internationally and bears foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.	Inability to protect the Group from foreign exchange risk could reduce sales, gross profit, operating profit margins and cash flows as well as impact the US Dollar value of the Group's assets.	Future foreign currency-denominated cash flows are identified and assessed. The Group maintains forward and option currency contracts which mitigates the overall exposure to an acceptable level, taking into account the ability of the commercial operations to absorb certain levels of foreign exchange volatility.			—

STRATEGIC REPORT
YEAR ENDED 31 DECEMBER 2021

RISK	BUSINESS IMPACT	MITIGATION	RISK LEVEL	RISK APPETITE	CHANGE IN RISK
SAFEGUARDING DATA					
CYBER SECURITY	Failure to process and protect personal data of our staff and clients as well as confidential data of the organisation. A data breach and resulting loss of personal data representing the highest risk.	Safeguarding data of the company, employees and clients is a critical element in the Group's overall risk management and part of the value proposition to clients. A cyber attack on our systems or on the systems of our key suppliers could severely disrupt operations and possibly lead to a loss of sensitive data resulting in damage to the brand or financial loss. A failure to sufficiently protect sensitive data, a data breach or a cyber attack with a leak of sensitive data could have an adverse effect on the Group's results, strategy, and reputation, more specifically if confidential information were to enter the public domain. This could potentially subject the Group to damage claims and significant regulatory penalties (potentially up to 4% of global turnover under EU General Data Protection Regulations "GDPR", as well as under other data protection regulations) for data breaches as well as significant legal and other costs for dealing with the consequences of such data breaches.	The Group continues to maintain its investment along the people, process and technology domains of cyber security and data privacy related activities. This is enhancing our systems and employees' defences to mitigate potential threats in conjunction with adequate data privacy programmes, training and tools. Appropriate contractual arrangements and security enhancement programmes are in place both internally and with third parties who process personal data on our behalf to avoid and, where not possible, mitigate a security breach and safeguard confidential data. These contractual arrangements are continuously reviewed and adapted to changes in privacy laws globally. Data privacy and cyber security programmes, policies, periodic cyber security awareness training and audits are in place to educate staff and suppliers on preventing breaches and how to react in the event of a breach. Information security assessments are carried out on external third party suppliers who process confidential or personal data on behalf of the Group. Security risks are identified for remediation. Periodic penetration tests are carried out on internet facing web applications and key infrastructure systems to identify vulnerabilities and exploitable weaknesses.		
					
					
					

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

	RISK	BUSINESS IMPACT	MITIGATION	RISK LEVEL	RISK APPETITE	CHANGE IN RISK
PEOPLE	COMPETITIVE TALENT LANDSCAPE					
	The current global business context is marked by the disparate impact of the Covid-19 pandemic, the shift to remote, hybrid and new ways of working and to very competitive landscape for talent. In this context, the Group is exposed to a loss of key personnel with specific skills and experience and the ability to attract new talent.	Adverse impact to the Group's ability and timeliness to execute its core strategies. Additionally, perceptions of fairness and equity are tied to employees' trust in the Company and their engagement and retention (intent to stay) during a period of fierce competition for talent.	The Group has invested in programmes to support individuals in becoming strong leaders and enhance the culture at Chanel. The Group also has other programmes that engage people at all levels in a way that brings unity to the work environment and fosters collaboration. The Group believes in promoting diversity and in creating an inclusive culture that nurtures personal growth, contributing to collective progress. The diversity of our talent provides us with different perspectives and diversity of thought, which is needed for effective decision-making to help us remain relevant and current in a constantly changing world. The Group has a global coherent framework around Diversity & Inclusion ("D&I"), which is executed at local levels to ensure a culture in which all individuals are treated fairly and with respect, and that all employees have equal access to opportunities and resources for optimised performance and retention. We continue to apply a D&I lens in our processes, including: Inclusive Recruitment; Gender Pay Equity Reviews; Talent Development and our Career Pipeline; and we continue to actively listen, through a variety of means, to our employees and act on their feedback.			—
PEOPLE	SOCIAL SUSTAINABILITY					
	Social sustainability rests on the solid foundation of our historical commitment to be a human-driven company and aiming to guarantee working conditions that respect and enhance the potential and wellbeing of each of our employees. Increasingly, companies are also expected by society, media, regulators and consumers to also take further action to manage their social impacts and human rights risks across their value chain.	In a large multinational Group with a myriad of partners, suppliers and other third-party agents, an issue related to a human rights violations, safety or security or unintended disrespect of cultural identity or other social issues could significantly harm Chanel's brand reputation and impact our clients' trust in the brand.	Chanel believes that everyone working across its business and value chain should be treated with dignity and respect and to thrive as the Company thrives. In alignment with Chanel's internal code of conduct, Ethics@Chanel, the Company's Responsible Procurement Policy sets out the standards that we expect our suppliers to uphold regarding issues related to compliance with labour law, human rights, the respect of the environment as well as compliance-related issues such as anti-corruption. Responsible-sourcing auditors apply a systematic approach to supplier assessment, utilising inherent risk identification to map suppliers which are most at risk. The methodology used is adaptable to the goods and services supplied and allows for distinguishing between risks posed to people and risks posed to the business. Based on that risk analysis, Chanel conducts inspections and audits of suppliers to ensure compliance with its Responsible Procurement Policy. We acknowledge that some of the social impacts that we identify in our direct supply chain may be indirectly driven by purchasing decisions of buying brands, and consequently, we work together with our suppliers to constantly improve practices and constantly extend our due diligence of our own purchasing practices, ensuring that they do not hinder the capacity of our suppliers or not meet the standards of our Responsible Procurement Policy.			NEW

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2021

SECTION 172(1) COMPANIES ACT 2006

The directors are required to act in the way they consider will be most likely to promote the success of the Company and the Group in the long-term and in doing so, they have to consider the factors set out in Section 172(1) of the Companies Act 2006. The Board, working with the Global Leadership Team, is responsible for setting the high-level strategic agenda, long-term vision, company values and the culture of the Company and the Group. It also has the mission to ensure that the interests of key stakeholders are taken into consideration. The Board does not get involved in the day-to-day operations of Chanel, but it ensures that the right leadership is in place to run the business. It has delegated powers to manage the business to the Global Executive Chairman, the Global Chief Executive Officer and the Executive Committee, which meets at least six times a year.

The Group's corporate governance principles, set out in the Corporate Governance section on pages 30 through 36, provide a framework for the Board in managing long-term strategic business decisions that promote the success of the Group, having regard to the factors set out in Section 172(1) of the Companies Act 2006.

ENGAGEMENT WITH STAKEHOLDERS

Employees: The Board is committed to ensuring the engagement; learning and development; as well as safety and well-being of the Group's employees. At Chanel, we aim to cultivate potential and foster individual and mutual accomplishment. The Group's objective is to create an inclusive culture that nurtures personal growth, which ultimately contributes to collective progress. In doing this, we nourish growth through the long-term by giving our people the time to create meaningful relationships and understand our culture that will enable them to build capabilities through our learning programmes and on the job. At a global level, Chanel promotes common philosophies around these values and related initiatives and a holistic viewpoint; whilst regionally, local leaders and their teams orchestrate the initiatives around the Group's priorities, the sharing of information, enhancing learning and, importantly, listening to employee feedback to understand the experiences of our varied employee populations so that we may continually improve on the employee experience.

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

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

Chanel's approach to partnering with suppliers is governed by the Responsible Procurement Policy. Reflecting its internal code of conduct, this policy sets out the expectations and requirements on issues such as forced and slave labour, human rights, the environment and anti-corruption. The Company carefully selects its suppliers and business partners, maintaining business relationships with those that share its commitment to high ethical standards. Chanel expects its suppliers and business partners to comply with all applicable laws, rules and regulations as well as its Responsible Procurement Policy.

Chanel's Responsible Procurement Policy focuses on continuous improvement of its suppliers' processes in connection with the audits performed on sustainability topics. Among them, it specifically requires its partners to comply with all obligations and principles it applies internally relating to Human Rights, whilst also referencing the International Labour Organisation's core conventions governing forced and slave labour. Ongoing support is

STRATEGIC REPORT

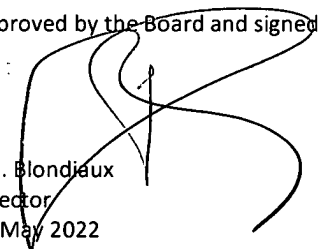
YEAR ENDED 31 DECEMBER 2021

provided to suppliers by trained professionals in the procurement teams. Chanel's Responsible Procurement Policy's principles are embedded in its supply chain on an ongoing basis. Chanel's commitment to ensuring the third parties it works with adhere to all applicable labour and employment-related laws has been further strengthened by the roll out of contractual compliance clauses as part of the procurement process, requiring third parties with whom it engages to comply with all relevant laws relating to forced and child labour, discrimination, health and safety, bribery and corruption and environmental regulations. This also requires that all relevant staff receive appropriate training.

Environment: Climate change is one of the greatest challenges of our time, and it is affecting both the natural world and societies. Our business activities have an impact on climate change, such as through the raw materials we source, transport and logistics, waste, packaging and business travel. CHANEL Mission 1.5° initiative represents the Group's commitment to mobilise and transform our business in line with the Paris Climate Agreement by decarbonising our business and value chain to help limit average global mean temperature increases to 1.5 degrees Celsius above pre-industrial levels. Our commitment to these environmental initiatives is detailed on pages 6 through 14 in the strategic report.

Regulatory: Compliance with regulatory requirements is of utmost importance to the Board. The Global Compliance committee is charged with overseeing the development and implementation of the Group's Compliance and Ethics programme with regard to policies, training and investigations to ensure compliance with laws, internal procedures, and industry standards that are significant to the business from a regulatory or reputational standpoint.

Approved by the Board and signed on its behalf by



P.B. Blondiaux
Director
19 May 2022

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Group applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council ("FRC") in December 2018.

The Group's corporate governance principles set out below provide a framework for the Board in managing long-term strategic business decisions that promote the success of the Group, having regard to the factors set out in Section 172(1) of the Companies Act 2006.

PRINCIPLE 1 – PURPOSE AND LEADERSHIP

Chanel is an independent company that believes in the freedom of creation, cultivates human potential and acts to have a positive impact in the world.

Chanel designs and manufactures products of the highest quality and finest craftsmanship in haute couture, fashion, fragrance & beauty and watches & fine jewellery. Chanel's purpose is to conserve the heritage of the brand whilst shaping it for the future with integrity and responsibility.

As a company, we believe in the power of creativity to generate beauty, emotion and change whilst cultivating potential and fostering individual and mutual accomplishment. We are committed to making a positive impact on people, society, arts and culture and the planet with a dedication to setting bold and new standards with a long-term perspective.

The leadership at Chanel leverages five pillars in making critical decisions for the brand. These key performance indicators that are detailed in the strategic report are a fundamental element of our development philosophy and are equally important in guiding our long-term strategy. The five pillars are:

- **Brand performance** – Spans all activities in which we engage to ensure that our products and image are modern, relevant, and luxurious. Each year, the Global Leadership Team uses our brand equity study, client experience data, and e-reputation to improve our brand vitality, relevance and modernity.
- **Financial health** – Emphasises sound long-term financial decision-making to ensure the continued growth, health, and independence of the brand, combining sales, operating profit and cash components with a long-term outlook.
- **Leadership & people strength** – Represents the commitment from our leaders and the Group to ensure that we are building the right skills and capabilities in the organisation, developing our people at all levels and promoting an inclusive environment.
- **Sustainability** – Ensures that in all our activities, we are striving to act to have a positive impact on the planet and society and conducting our business ethically and with uncompromising integrity.
- **Client engagement** – Reflects our dedication to building deep and meaningful client experiences and keeping the client at the core of our business strategy.

As a privately-owned group, we have the freedom to shape our own future. Without short-term financial constraints, we can implement long-term decisions that not only benefit our brand but are also designed to have a positive impact on people, the planet, society, and arts and culture. This empowers our people to act with agility and drive transformational change, looking beyond the present to consider new possibilities. Chanel aims to empower and enable its people to be visionary, strategic thinkers who are resilient to complexity and ambiguity, because transformation often means dealing with the unknown.

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

PRINCIPLE 2 - BOARD COMPOSITION

In 2021, the Board comprised ten members, including the Global Chief Financial Officer ("CFO"), Presidents of the entities within the Group that together own the Chanel brand and one major licensee, and four non-executive directors. In early 2022, the Board added two additional members: the Global Executive Chairman and the Global Chief Executive Officer ("CEO"). The Board meets at least four times a year and ensures that it is properly prepared through various updates received in between meetings as well as review of detailed pre-reading materials in advance of each Board meeting.

The Board considers that there is an appropriate balance between executive and non-executive directors and that there is sufficient independence in the overall composition. The Board strives to include appointments that promote an appropriate level of expertise, objectivity and diversity, which aligns with the Group's purpose. Overall, the directors work together to promote effective decision making and ensure the Group's business strategy is met.

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

PRINCIPLE 3 - DIRECTOR RESPONSIBILITIES

Accountability

The Board recognises the importance of having a strong corporate governance framework as part of the Group's overall success. The Board, upon recommendation from management, determines the strategic direction for the Group; establishes policies for corporate management; reviews financial performance and approves budgets; makes decisions on major initiatives and investments; ensures that leadership is in place to implement policies and decisions; and oversees the executive leadership. Key information is provided to board members in a timely manner prior to each meeting and all members have a clear understanding of their roles and responsibilities. In accordance with the Group's conflicts of interest policy, the four non-executive directors have no business or relationship with the Group that would compromise their influence or objectivity.

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

Areas of focus in 2021

Governance	- Appointment of new external auditors, Ernst & Young
	- Continued focus on establishing an Integrated Risk Management programme
	- Establishing a formal Remuneration Committee
Strategy	- Evolution of client journeys within the digital ecosystem
	- Preserving and developing exceptional know-how with an artisanal context in the luxury industry
Finance	- Focus on liquidity and net debt
	- Continued effort to control costs across the organisation given the uncertainty of the economic environment
	- Optimising inventory management globally
	- Continued adverse impact of Covid-19 on tourist locations and duty-free business
Risk and Opportunity	- Safeguarding data security systems to thwart cyber attacks and hacking
	- Opportunity to better integrate, synchronise and consolidate the different risks of the Group
Corporate Social Responsibility	- Work of Fondation Chanel
	- Focus on sustainability commitments across the organisation

The Board delegates certain responsibilities to specific committees that have the appropriate knowledge and experience to make recommendations to the Board. Each committee includes non-executive directors as shown in the table below. In 2021, the committees and their roles were as follows:

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

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

Remuneration Committee – determines the remuneration of senior management and validates the global salary and bonus budgets upon recommendation of Chanel's internal Compensation Committee.

Corporate Social Responsibility ("CSR") Committee – reviews, assesses and makes recommendations on the Group's environmental, sustainability and social activities.

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

Below is a summary of the committee structures, members and meeting attendance effective in 2021.

Name	Board Member	Meetings Attended	Audit Committee	Meetings Attended	Nominations Committee	Meetings Attended	Remuneration Committee	Meetings Attended	CSR Committee	Meetings Attended
P. Abecassis ^	x	100%	x	100%	x	100%	x	100%		
P.B. Blondiaux	x	100%								
R. Collasse	x	100%							x	100%
J. Galantic	x	100%							x	100%
B. Gros ^	x	100%			x	100%	x	100%		
Lady S. Heywood ^	note 1	x	100%	x	100%	x	100%			
Baroness M. Lane Fox ^	x	100%			x	100%			x	100%
A.R. Mahon ^	note 2	x	100%							
O. Nicolay	x	100%	x	100%						
B. Pavlovsky	x	100%							x	100%
V. Shaw	x	100%	x	100%						

^ Non-Executive

— Chair

note 1: resigned 26 May 2021

note 2: appointed 26 May 2021

Other Committees

The day-to-day operations of the Group are managed by the Executive Committee, under the responsibility of the CEO, as well as a number of other operational committees which prepare recommendations to the Executive Committee and/or the Board.

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

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

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

Global Compliance Committee: oversees the development and implementation of the Group's Compliance and Ethics programme with regard to policies, training and investigations to ensure compliance with laws, internal

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

procedures, and industry standards that are significant to the business from a regulatory or reputational standpoint. This committee is comprised of the Global General Counsel, the Global Chief Compliance Officer, the CFO, the Global Chief People & Organisation Officer, the Global Head of Internal Audit and Supplier Sustainability Assessments and other corporate representatives, as needed. This committee meets six times a year or more if needed.

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

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

Integrity of information

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

PRINCIPLE 4 – OPPORTUNITY AND RISK

Opportunity

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

Risk and responsibilities

Risk management is tied to the overall strategy of the Group. The strategic report on pages 3 through 29 includes an assessment of the Group's principal risks and how those risks are mitigated.

The Audit Committee is responsible for reviewing the Group's internal controls and risk management systems and receives reports from management on the effectiveness of the established systems and conclusions of any testing carried out by internal and external auditors. The Audit Committee has a good understanding of how the Group (i) identifies, assesses, manages and monitors risk and sets risk appetite; and (ii) develops, operates and monitors the system of internal controls. This includes the governance of risk assessments and risk mapping to understand material financial risks, fraud risks, strategic risks, legal and compliance risks as well as the impacts of upcoming regulations, cyber security risks and people risks and how such risks are managed and mitigated through operational and compliance controls. With regard to cyber security risks in particular, the Audit Committee recognises that its remit in supervising risk management activities and monitoring management's policies and procedures plays a significant strategic role in assessing the efficacy of cyber risk and data privacy risk initiatives and policies. The Audit Committee receives regular briefings regarding the Group's technology strategy and plans in order to gain an understanding of key systems, data privacy activities, risk and controls, including those associated with cyber security and data management and uses these briefings to assess the effectiveness of risk management and internal controls in this area. In addition, with regard to legal and compliance risks, the Audit

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

Committee receives regular reports on the compliance programme and whistleblowing and internal compliance investigations and is satisfied that compliance matters are handled appropriately. The Audit Committee also receives sufficient robust management information and metrics to be confident that the information the Group publishes relating to transparency in its supply chains and the risk of modern slavery or other human rights, environment, health and safety or governance and business ethics concerns are subject to an appropriate level of due diligence.

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

As part of Chanel's continued commitment for further strengthening and delivering on its risk management objectives, the Responsible Sourcing Expert Team (ReSET) moved under the direction of the internal audit function in December 2021. The Audit Committee is responsible for reviewing and approving the Group's supplier excellence programme (SEP) mandate and ensuring the SEP is aligned to the compliance and environment, social and governance risks of the business and must be sufficiently flexible and dynamic to meet the emerging needs of the Group and the Audit Committee promptly. The Audit Committee receives summaries of the results of the SEP, recommendations and any mitigating actions taken by the Group to ensure they properly support the effective operation of the programme.

As a priority for 2022 and beyond, a key focus will be placed on integrated risk management. As the external and internal risk landscape continues to evolve very quickly, it is essential that the Company defines, implements and embeds an even more robust, independent and better synchronised integrated risk management framework under the mandate of the Audit Committee and Global Leadership Team. This will allow the Company to identify risks at the strategic level which could have a major effect on the Group, minimise the impact of these risks, create opportunities for competitive advantage, improve operational efficiencies and build a risk-aware culture across the business to manage future risks smartly. The results of these activities for identifying, assessing, managing and monitoring key risks will be communicated and aligned with the Global Leadership Team to ensure a deep understanding of the Company's risk appetite, risk profile and risk tolerance, with the Audit Committee continuing responsibility for ensuring the appropriate mechanisms are implemented for executing a prioritisation of key risks in developing, operating and monitoring the system of internal controls.

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

PRINCIPLE 5 - REMUNERATION

In 2021, the Board formally constituted a Remuneration Committee, comprising non-executive directors as voting members, with the CEO and the Company's Global Chief People & Organisation Officer as attendees. The Remuneration Committee has the overall responsibility for the Group's global salary and bonus budget, designing remuneration policies and practices to support the Group's strategy and promoting long-term sustainable success and overseeing reviews of market position and gender pay equity analysis.

CORPORATE GOVERNANCE REPORT

YEAR ENDED 31 DECEMBER 2021

The Group's Compensation Committee, a management-level committee, has an established annual compensation planning and review process in which it reviews market conditions globally, company performance and competitive benchmark data (best practices and market compensation data) comparing to well-defined peer groups, in order to set fair and equitable performance-based compensation parameters. Based on this process, the Compensation Committee makes recommendations to the Remuneration Committee with respect to the global salary and bonus pool and remuneration and incentives of the Global Leadership Team, their direct reports and any executive directors and the Remuneration Committee, in turn, decides such matters.

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

PRINCIPLE 6 - STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

Effective governance is a critical role of the Board and is essential in achieving the Group's business strategy and aligning with its purpose. As part of promoting the success of the Group, the Board is committed to engaging its stakeholders in a way that is aligned with Chanel's standards and principles. This engagement allows us to learn from our stakeholders so the Group can achieve its objectives in a positive and forward-looking way.

As a Group, we set ambitious goals and aim to honour our commitments by being a reliable business partner and conducting business in compliance with applicable laws, regulations and ethics in all the markets where we operate.

Details of the Group's engagement with key stakeholders are set out in the Section 172(1) statement on pages 28 and 29 in the strategic report.

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2021

The directors present their annual report, together with the financial statements and independent auditor's report for the year ended 31 December 2021.

DIVIDENDS AND RESULTS

The results of the Group are set out in the consolidated income statement. The dividends paid by the Company are disclosed in Note 23.

GOING CONCERN

The directors have considered whether the Group has adequate resources to continue operationally for at least twelve months from the date of signing these accounts, up to 30 June 2023. In their assessment, the directors have considered the business activities and the principal risks and uncertainties of the Group. They have also considered the financial position of the Group, its cash flows, liquidity position, borrowing facilities and related financial covenants.

Management have prepared a detailed analysis of various scenarios and stress tested those scenarios, accordingly. Based on the analyses done to assess the impact of the different possible scenarios, the Board concluded that there are no material uncertainties and the Group will continue to adopt the going concern basis in preparing the 2021 financial statements. Further details on the analyses performed are disclosed in Note 2.4.

EMPLOYEE CONSULTATION

The core values of the Group are grounded in creating the conditions for employees to perform at their best and feel fulfilled and confident in their work, irrespective of any individual or protected characteristics. The Group strives to empower its people to realise their full potential and achieve their ambitions through a culture of development focused on increasing their capacity to learn, grow and innovate. The Group maintains a close relationship with its employees by regularly informing them of relevant events and the state of the business through discussions, meetings, town halls, notices and consultations.

DISABLED EMPLOYEES

We are committed as a Group to maintaining and regularly reviewing policies and practices which promote fair treatment and support for employees and applicants who have disabilities, or develop a disability during employment, with regard to areas including recruitment, working environment, training, career development and promotion.

POLITICAL CONTRIBUTIONS

The Group did not make any political donations during the year (2020: \$nil).

RESEARCH AND DEVELOPMENT

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

STREAMLINED ENERGY AND CARBON REPORT

The Group's streamlined energy and carbon reporting requirements are disclosed in the strategic report on pages 12 through 14.

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2021

SUBSEQUENT EVENTS

The Group's subsequent events are disclosed in Note 30.

DIRECTORS

On 14 December 2021, Chanel announced that Mr. Alain Wertheimer would move to the role of Global Executive Chairman and Ms. Leena Nair would assume the role of Global Chief Executive Officer based in London, UK. Both Mr. Alain Wertheimer and Ms. Leena Nair were appointed to the Board as Directors in January 2022, where they will further ensure long-term success as a private company, believing in the freedom of creation, cultivating human potential and acting to have a positive impact in the world.

Ms. Leena Nair is a highly respected visionary leader whose ability to champion a long-term, purpose-driven agenda is matched with a consistently strong record of business outcomes.

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

Directors

P. Abecassis

P.B. Blondiaux

R. Collasse

J. Galantic

B. Gros

Lady S. Heywood (resigned 26 May 2021)

Baroness M. Lane Fox

A.R. Mahon (appointed 26 May 2021)

L. Nair (appointed 27 January 2022)

O. Nicolay

B. Pavlovsky

V. Shaw

A. Wertheimer - Executive Chairman (appointed 26 January 2022)

Company secretary: M. Nitsch

DIRECTORS' INSURANCE AND INDEMNITIES

The Group maintains directors' and officers' liability insurance which gives cover for legal actions brought against its directors and officers. In accordance with section 236 of the Companies Act 2006, qualifying third party indemnity provisions are in place for the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. Both the insurance and indemnities applied throughout the financial year ended 31 December 2021 and through to the date of this report.

AUDITOR

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

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

DIRECTORS' REPORT
YEAR ENDED 31 DECEMBER 2021

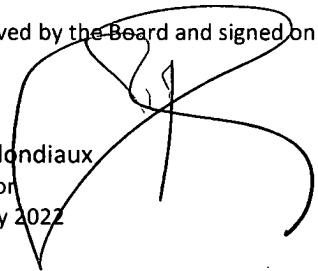
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

External audit tender

As set out in the 2020 Annual Report, following a competitive tender, Ernst & Young was appointed as the Group's auditor and commenced their first year audit for the year ending 31 December 2021.

Approved by the Board and signed on its behalf by

P.B. Blondiaux
Director
19 May 2022



DIRECTORS' RESPONSIBILITIES STATEMENT

YEAR ENDED 31 DECEMBER 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with UK adopted International Accounting Standards ("IFRSs").

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

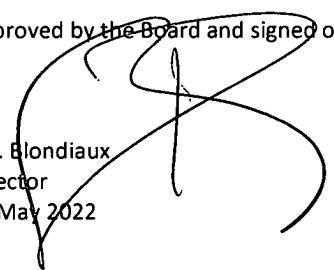
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies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

We confirm to the best of our knowledge:

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

Approved by the Board and signed on its behalf by

P.B. Blondiaux
Director
19 May 2022



INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHANEL LIMITED

Opinion

We have audited the financial statements of Chanel Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated statement of income, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in shareholder's equity and the Consolidated and Company statement of cash flows and the related notes 1 to 30 and A to U, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's going concern assessment process.
- We considered the appropriateness of the methods used to calculate the cash forecasts and tested the integrity and clerical accuracy of the model used to prepare the Group's going concern assessment which covers the period to 30 June 2023;
- We confirmed the net cash position as at 31 December 2021 and obtained evidence of the revolving credit facility which is available through to May 2026. The facility is undrawn as at 19 May 2022;
- We verified the debt maturities by examination of executed documentation and concluded that all debt repayments due in the period of going concern assessment were included in the forecasts;

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHANEL LIMITED (CONTINUED)

- We assessed the reasonableness of management's cashflow forecast by analysing the historical accuracy of forecasts;
- We considered the plausibility of the downside scenarios modelled by management by challenging the key underlying assumptions and assessed the amount of resulting headroom in terms of liquidity and covenants by performing sensitivity analysis on management's forecasts and mitigation actions available.
- We reviewed the going concern disclosures included in the Directors' report and Note 2.4 to the financial statements to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 30 June 2023.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHANEL LIMITED (CONTINUED)

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting frameworks (UK adopted International Accounting Standards and the Companies Act 2006) and the relevant tax laws and regulations in the jurisdictions in which the Group operates.
- We understood how the Group is complying with those frameworks by making enquiries of the management, Internal Audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our inspection of the board minutes, attendance at the Audit Committee meetings, as well as consideration of the results of our audit procedures across the Group.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHANEL LIMITED (CONTINUED)

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance incentives and their influence on effort made by management to manage earnings. We considered the programmes and controls that the Group has established to prevent, deter and detect fraud, and how senior management monitors those areas, which have been considered to be at higher risk and we performed audit procedures to address this fraud risk. These procedures included testing manual journal entries, in particular on revenues, and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of Group management, those charged with governance, legal counsel and Internal Audit, review of the Audit Committee and Board minutes as well as journal entries testing, with a focus on manual consolidation journal entries and journal entries indicating significant or unusual transactions based on the understanding of the business. Through our testing we challenged the assumptions and judgements made by management in respect of significant accounting estimates. At a component level, our full and specific scope audit teams' procedures included enquiries of component management and journal entries testing with a focus on manual revenue journal entries.
- In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and financial statements with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

Ernst & Young LLP

Sarah Kokot (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
19 May 2022

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 (In millions of U.S. dollars)

	Notes	<u>2021</u>	<u>2020 (restated)¹</u>
Revenue	3	15,639.0	10,108.4
Cost of sales		<u>(2,965.5)</u>	<u>(2,359.5)</u>
Gross profit		<u>12,673.5</u>	<u>7,748.9</u>
Distribution		(205.5)	(175.2)
Advertising, promotion and demonstration		(1,795.0)	(1,359.6)
Selling, general and administrative		<u>(5,212.3)</u>	<u>(4,196.3)</u>
Operating profit	4	5,460.7	2,017.8
Finance costs, net	5	(37.5)	(153.2)
Equity (loss) income on investments, net	12	<u>(3.3)</u>	<u>31.3</u>
Profit before income tax		5,419.9	1,895.9
Income tax expense	13	<u>(1,394.3)</u>	<u>(530.3)</u>
Profit before non-controlling interest		4,025.6	1,365.6
Non-controlling interests		(3.2)	(0.9)
Profit for the year		<u><u>4,022.4</u></u>	<u><u>1,364.7</u></u>

¹ See Note 2.2 for details on the prior period restatement.

CONSOLIDATED FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(In millions of U.S. dollars)**

	2021	2020 (restated) ¹
Profit before non-controlling interest	4,025.6	1,365.6
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to statement of income:		
Actuarial gain (loss) on defined benefit pension plans, net of tax (expense) benefit of \$(52.6) million (2020: \$8.6 million)	158.6	(32.6)
Net gain (loss) on equity instruments designated at fair value through other comprehensive income, net of tax (expense) benefit of \$nil (2020: \$(5.8) million)	1.8	17.7
Items that may be reclassified subsequently to statement of income:		
Exchange differences on translating foreign operations, net of taxes of \$nil	(351.8)	411.3
Other comprehensive (loss) income for the year, net of tax	(191.4)	396.4
Total comprehensive income for the year	3,834.2	1,762.0
Attributable to:		
Shareholder of the Group	3,834.2	1,758.8
Non-controlling interest	-	3.2
	3,834.2	1,762.0

¹ See Note 2.2 for details on the prior period restatement.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2021

(In millions of U.S. dollars)

	Notes	2021	2020 (restated) ¹	2019 (restated) ¹
ASSETS				
Non-current assets:				
Intangible assets	8	500.0	537.0	474.0
Property, plant and equipment	9	4,811.4	4,643.0	3,788.1
Investment property	10	136.7	144.9	132.0
Right-of-use assets	11	1,691.1	1,572.1	1,689.8
Investments in associates and joint ventures	12	314.5	275.3	213.8
Deferred income tax assets	13	618.0	671.9	561.8
Other assets	14	476.6	437.3	428.1
Total non-current assets		8,548.3	8,281.5	7,287.6
Current assets:				
Inventories	15	1,541.1	1,605.0	1,456.8
Trade receivables and other assets	14	1,676.0	1,502.3	1,755.3
Income taxes receivable	13	49.4	25.6	60.1
Cash and cash equivalents	16	3,674.2	4,649.8	2,850.8
Assets classified as held for sale	17	60.8	66.4	57.4
Total current assets		7,001.5	7,849.1	6,180.4
TOTAL ASSETS		15,549.8	16,130.6	13,468.0
SHAREHOLDER'S EQUITY AND LIABILITIES				
SHAREHOLDER'S EQUITY				
Share capital	24	-	-	-
Reserves		(47.0)	319.2	(75.4)
Retained earnings		6,112.9	6,918.5	5,560.3
Non-controlling interest		31.3	23.0	17.7
TOTAL SHAREHOLDER'S EQUITY		6,097.2	7,260.7	5,502.6
LIABILITIES				
Non-current liabilities:				
Borrowings	18	2,956.7	3,144.7	2,114.6
Lease liabilities	11	1,536.8	1,425.4	1,510.1
Retirement benefit obligations	19	310.1	430.0	340.7
Provisions	20	136.8	128.1	119.4
Deferred income tax liabilities	13	138.1	127.6	92.4
Other liabilities	21	347.6	275.6	294.4
Total non-current liabilities		5,426.1	5,531.4	4,471.6
Current liabilities:				
Trade payables and other liabilities	21	2,743.5	2,487.2	2,646.8
Income tax liabilities	13	589.4	262.4	302.6
Borrowings	18	157.2	80.4	89.8
Lease liabilities	11	317.2	312.1	306.9
Provisions	20	219.2	196.4	147.7
Total current liabilities		4,026.5	3,338.5	3,493.8
TOTAL LIABILITIES		9,452.6	8,869.9	7,965.4
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		15,549.8	16,130.6	13,468.0

The consolidated financial statements of Chanel Limited (registered number 00203669) on pages 45 through 102 were approved by the board of directors and authorised for issue on 19 May 2022. They were signed on its behalf by:

P.B. Blondiaux
Director

¹ See Note 2.2 for details on the prior period restatement.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021 (In millions of U.S. dollars)

	Notes	Attributable to the Shareholder of the Group						Total shareholder's equity
		Share capital	Foreign currency translation reserve	Equity investment revaluation reserve	Other reserves	Retained earnings	Non-controlling interest	
Balances as of 1 January 2020 (as reported)		-	77.9	8.0	(161.3)	5,582.0	17.7	5,524.3
Prior period adjustment		-	-	-	-	(21.7)	-	(21.7)
Balances as of 1 January 2020 (restated) ¹		-	77.9	8.0	(161.3)	5,560.3	17.7	5,502.6
Profit for the period		-	-	-	-	1,364.7	0.9	1,365.6
Other comprehensive income for the period		-	409.0	17.7	-	(32.6)	2.3	396.4
Total comprehensive income for the period		-	409.0	17.7	-	1,332.1	3.2	1,762.0
Acquisitions	27	-	-	-	(6.0)	-	2.8	(3.2)
Gain on disposal of financial asset		-	-	(26.1)	-	26.1	-	-
Payment of dividends	23	-	-	-	-	-	(0.7)	(0.7)
Balances as of 31 December 2020 (restated) ¹		-	486.9	(0.4)	(167.3)	6,918.5	23.0	7,260.7
Profit (loss) for the period		-	-	-	-	4,022.4	3.2	4,025.6
Other comprehensive income for the period		-	(348.6)	1.8	-	158.6	(3.2)	(191.4)
Total comprehensive income for the period		-	(348.6)	1.8	-	4,181.0	-	3,834.2
Acquisitions / Divestitures		-	-	-	(19.4)	-	9.0	(10.4)
Payment of dividends	23	-	-	-	-	(4,986.6)	(0.7)	(4,987.3)
Balances as of 31 December 2021		-	138.3	1.4	(186.7)	6,112.9	31.3	6,097.2

¹ See Note 2.2 for details on the prior period restatement.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 (In millions of U.S. dollars)

	Notes	2021	2020 (restated) ¹
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit	4	5,460.7	2,017.8
Adjustments to reconcile operating profit to net cash provided by operating activities:			
Depreciation and amortisation of PP&E, investment property and intangibles		431.8	418.8
Depreciation of right-of-use assets		361.2	350.0
Net impairment of property, plant, and equipment, intangibles, and right-of-use assets		45.2	63.1
Loss on disposal of property, plant, and equipment and intangibles		2.1	5.0
Non-cash tax credits		(2.6)	(1.8)
Settlement of derivatives		(1.1)	(17.4)
Defined benefit pension plan contribution net of costs		55.8	40.6
Other		1.4	(43.5)
Cash flows from operations before changes in working capital		6,354.5	2,832.6
Changes in working capital	25	424.9	49.8
Cash flows from operations		6,779.4	2,882.4
Interest received		23.3	36.2
Interest paid on financial borrowings		(90.0)	(98.3)
Interest paid on lease liabilities		(57.4)	(62.3)
Income taxes paid		(1,099.7)	(601.2)
NET CASH PROVIDED BY OPERATING ACTIVITIES		5,555.6	2,156.8
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment		(663.1)	(993.3)
Initial direct costs related to right-of-use-assets		(17.3)	-
Proceeds on sale of property, plant, and equipment		5.9	3.5
Refundable VAT on purchase of property, plant, and equipment		78.3	(78.3)
Proceeds on partial sale of investment in subsidiary		33.0	-
Purchase of intangibles		(77.8)	(83.9)
Acquisitions, net of cash acquired	27	(65.0)	(25.8)
Purchase of associates		(61.0)	(16.1)
Purchase of financial assets		(28.6)	(7.3)
Purchase of non-controlling interests		-	(8.6)
Proceeds from sale of financial assets		1.4	111.2
Other		4.2	6.1
NET CASH USED IN INVESTING ACTIVITIES		(790.0)	(1,092.5)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bank borrowings		51.8	1,443.8
Issuance of sustainability-linked guaranteed notes		-	684.9
Repayment of borrowings		(417.7)	(1,276.7)
Repayment of lease liabilities		(341.7)	(325.4)
Dividends paid to non-controlling interests	23	(0.7)	(0.7)
Dividends paid to parent	23	(4,986.6)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(5,694.9)	525.9
EFFECT OF EXCHANGE ON CASH AND CASH EQUIVALENTS AND TRANSLATION ADJUSTMENTS		(46.3)	208.8
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(975.6)	1,799.0
CASH AND CASH EQUIVALENTS, Beginning of year		4,649.8	2,850.8
CASH AND CASH EQUIVALENTS, End of year	16	3,674.2	4,649.8

¹ See Note 2.2 for details on the prior period restatement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Chanel Limited is a private company limited by shares, incorporated and registered in England and Wales under the Companies Act 2006. The address of the registered office is 5 Barlow Place, London, W1J 6DG. The nature of the operations and principal activities of Chanel Limited and its subsidiaries are set out in the strategic report on pages 3 through 29.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted international accounting standards. IFRS also includes International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC"). These consolidated financial statements have been prepared on a going concern basis (as set out in the directors' report) and on a historical cost basis, except for the financial assets and liabilities (including derivative instruments) measured at fair value.

The results of foreign subsidiaries are translated into millions of U.S. dollars, which is the Group's presentation currency, in accordance with the policy set out in Note 2.7. The Group has elected to present their consolidated financial statements in U.S. dollars, since it is the common currency used in the organisation to evaluate the business worldwide. The Company only financial statements are presented in Sterling, which is the Company's functional currency.

2.2 Accounting framework

Change in accounting policy – Software as a Service ("SaaS") arrangements

The Group has changed its accounting policy related to the capitalisation of certain software costs. This change follows the IFRIC Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under Software as a Service ("SaaS") arrangements, with a focus on control of the software in order to determine the appropriate accounting treatment.

The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of SaaS arrangements as intangible assets in the statement of financial position, irrespective of whether the services were performed by the SaaS supplier or a third party. Following the adoption of the above IFRIC agenda guidance, current SaaS arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where we do not have control of the developed software, to the extent that the services were performed by third parties, the Group derecognised the intangible asset previously capitalised. Amounts paid to the supplier in advance of the commencement of the service period, including costs related to the configuration or customisation of the software, are treated as a prepayment.

This change in accounting policy resulted in a decrease in intangible assets of \$64.8 million and \$32.5 million in the consolidated statement of financial position as of 31 December 2020 and 31 December 2019, respectively, in addition to a decrease in property, plant and equipment of \$2.7 million as of 31 December 2020. The change in policy resulted in an increase of \$31.8 million and \$29.0 million in selling, general and administrative expenses in the consolidated statement of income, in those respective years.

The prior period consolidated statement of financial position as of 31 December 2020 and 31 December 2019 has been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates* ("IAS 8") and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

presented in accordance with IAS 1 *Presentation of Financial Statements*. The tables below show the impact of the change in accounting policy on previously reported financial results.

Impact on the Group's Consolidated Statement of Financial Position

	2020 (as previously reported) \$ millions	Impact of restatement \$ millions	2020 (restated) \$ millions
Property, plant and equipment	4,645.7	(2.7)	4,643.0
Intangible assets	601.8	(64.8)	537.0
Other non-current assets	431.2	6.1	437.3
Other current assets	1,501.3	1.0	1,502.3
Deferred income tax assets	655.4	16.5	671.9
Total assets	<u>7,835.4</u>	<u>(43.9)</u>	<u>7,791.5</u>
Retained earnings	<u>6,962.4</u>	<u>(43.9)</u>	<u>6,918.5</u>
Total shareholder's equity	<u>6,962.4</u>	<u>(43.9)</u>	<u>6,918.5</u>

Impact on the Group's Consolidated Statement of Income and Statement of Comprehensive Income

	2020 (as previously reported) \$ millions	Impact of restatement \$ millions	2020 (restated) \$ millions
Operating profit	<u>2,049.1</u>	<u>(31.3)</u>	<u>2,017.8</u>
Profit before tax	<u>1,927.2</u>	<u>(31.3)</u>	<u>1,895.9</u>
Profit for the year	<u>1,386.9</u>	<u>(22.2)</u>	<u>1,364.7</u>
Shareholders of the Group	1,781.0	(22.2)	1,758.8
Non-controlling interest	3.2	-	3.2
Total comprehensive income for the year	<u>1,784.2</u>	<u>(22.2)</u>	<u>1,762.0</u>

Impact on the Group's Consolidated Statement of Cash Flows

	2020 (as previously reported) \$ millions	Impact of restatement \$ millions	2020 (restated) \$ millions
Net cash provided by operating activities	<u>2,199.4</u>	<u>(42.6)</u>	<u>2,156.8</u>
Net cash used in investing activities	<u>(1,135.1)</u>	<u>42.6</u>	<u>(1,092.5)</u>
Net cash provided by financing activities	<u>525.9</u>	<u>-</u>	<u>525.9</u>
Net increase in cash and cash equivalents	<u>1,799.0</u>	<u>-</u>	<u>1,799.0</u>

There is no impact on the overall increase to cash and cash equivalents as a result of the restatement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

New Standards, Amendments and Interpretations affecting amounts, presentation or disclosure reported in the current year

The following applicable amendment has been adopted in the current year. The application of other standards, amendments and interpretations that took effect on 1 January 2021 did not have any significant impact on the Group's financial statements.

Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)

In March 2021, the IASB amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

New Standards, Amendments and Interpretations in issue but not yet effective

At 31 December 2021, the following Standards, Amendments and Interpretations were in issue but not yet effective:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 37: Onerous Contracts – Costs of Fulfilling a Contract
- Amendments to IAS 16: Proceeds Before Intended Use
- Amendments to IFRS 3: Reference to the Conceptual Framework
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements: 2018-2020 cycle
- IFRS 17: Insurance Contracts

The application of these standards, amendments and interpretations are not expected to have a significant impact on the reported profit or net assets of the Group in future periods.

Impact of climate change

Chanel continues on its journey to invest in and advance its sustainable business transformation across the organisation. The Group's climate strategy, supported by the publication of CHANEL Mission 1.5 in 2020, demonstrates the Group's commitment to decarbonise the business and its value chain.

At this juncture, the Group deems the impact of climate change to not be material to the financial statements. However, as we progress with these initiatives, there is exposure to changes in manufacturing and distribution costs as well as the carrying amount of certain assets that will be routinely assessed.

2.3 Basis of consolidation

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

Subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Investments in associates and joint ventures

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

Associates and joint ventures are recognised using the equity method and initially measured at cost. Subsequently, the share in profits or losses of the associate or joint venture attributable to equity holders of the parent is recognised in profit or loss and the change in equity attributable to equity holders of the parent is recognised in equity. For certain investments related to the Group's sustainability initiatives, the Group also recognised gains or losses utilising the Hypothetical Liquidation at Book Value method ("HLBV"). The HLBV model estimates the amount the Group would be entitled to receive if the investment's assets were hypothetically sold at their book values. If the Group's share in the losses of an associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group no longer recognises its share of losses, unless it has legal or constructive obligations to make payments on behalf of the associate or joint venture.

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

2.4 Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for a period of at least 12 months from the date of approval of these financial statements, up to 30 June 2023. Accordingly, the financial statements continue to be prepared on a going concern basis.

In their assessment, the directors have considered: the financial and cash position of the Group; the forecast cash requirements and cash generation of the Group; and forecast compliance with loan covenants.

The Group's approach to minimising liquidity risk is described further in Note 22 and involves structuring its borrowings with long-term maturities, as well as maintaining sufficient levels of standby liquidity through revolving credit facilities. Further details of the Group's borrowings can be found in Note 18. The Group continues to maintain its policy of zero net debt at each reporting period, with net cash of \$560.3 million reported as at 31 December 2021. The Group has access to \$1 billion of undrawn revolving credit facilities that are forecast to remain undrawn for the foreseeable future, as a result of the liquidity available to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Various downside scenarios, assuming a reduction in revenue between 25% and 50% compared to the forecast, have been tested to assess the level of headroom, both in terms of available liquidity and compliance with financial covenants. The mitigating actions available to the Group have also been considered, including the reduction of non-essential operating and capital expenditures and the reduction of planned dividends to the Group's parent company. The likelihood of these scenarios occurring is remote and the sensitivity analysis performed has shown sufficient headroom in terms of available liquidity to the Group and potential breach of covenants.

Following their analyses, the Directors considered it appropriate to continue to adopt the going concern basis in preparing the financial statements with no material uncertainties to disclose.

2.5 Business combinations

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

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

2.6 Use of estimates

Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

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

Key source of estimation uncertainty

The Group deems the key sources of estimation uncertainty that could cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year as follows:

- **Inventory provisions** – The Group manufactures and sells luxury goods and is subject to changing consumer demands and industry trends. As a result, it is necessary to consider the recoverability of the cost of inventories and the associated provisioning required. When calculating inventory provisions, management considers each category of inventory, if the products concerned are damaged or obsolete due to seasonality or end of life of the collection. An impairment is booked to reduce inventories to net realisable value if this is lower than the carrying value. Refer to Note 15 for further details of the carrying value of inventory.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- **Uncertain tax positions** – The calculation of the Group's tax liabilities involves uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax position is judgmental but considers whether it is probable that the tax treatment would be accepted by the relevant tax authority that has full knowledge of all the pertinent information that supports the tax position. Settlement of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations, financial position and cash flows. The Group recognises a liability for uncertain tax positions when it is probable that an outflow of economic resources will occur. Measurement of the liability for uncertain tax positions is based on management's best estimate of the amount of tax expense that will be realised upon settlement, in accordance with the criteria of IFRIC 23. We have not performed a sensitivity analysis on uncertain tax positions as it is not practical to do so. Refer to Note 13 for further details.
- **Defined benefit plans** - The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Refer to Note 19 for further details on pension obligations.
- **Impairment of goodwill** – Goodwill arising from the acquisition of a business is the only intangible asset with an indefinite useful life and is tested for impairment annually. For the purposes of impairment testing, the recoverable amount of goodwill is primarily determined based on the value-in-use of the cash generating unit ("CGU") to which the goodwill is allocated. In certain instances, the recoverable amount is determined through a third-party valuation using appropriate valuation techniques relevant to that CGU. Where value-in-use is used, it is based on projected estimated future cash flows, prepared based on budgets and medium-term plans. Key assumptions used to determine value-in-use represent management's assessment of future trends and were based on a discounted cash flow approach. The recoverable amount is sensitive to the discount rate used for the discounted cash flow ("DCF") model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount, including a sensitivity analysis, are disclosed and further explained in Note 8.
- **Impairment of property** – Properties are assessed for impairment by determining the recoverable amount of an asset or a CGU based on the value-in-use calculations using projected estimate future cash flows applying key assumptions. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. For certain properties, third-party valuations are used to support the fair value of the asset in determining the recoverable amount. Refer to Note 9 for further details.

2.7 Foreign currency translation and transactions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.8 Revenue recognition

Sale of goods

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

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

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

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to such customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). The contract liability for customer deposits is reported in trade payables and other liabilities (Note 21). Revenue from customer deposits is recognised when the Group performs under the contract.

Product returns and other variable consideration

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

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

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

The Group also enters into certain cooperative arrangements with customers and makes payments related to advertising, demonstration and promotion, for which the Group does not receive a distinct good or service or for which the fair value of the good or service cannot be reasonably estimated. For these types of arrangements, the reduction of revenue is recorded at the later of when (i) the Group recognises revenue for the transfer of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

related goods or services to the customer, or (ii) the Group pays or promises to pay the consideration. To the extent the Group receives a distinct good or service in exchange for consideration and the fair value of the benefit can be reasonably estimated, the Group's consideration payable to the customer is reported in advertising, promotion and demonstration expense.

Licensing income

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

2.9 Income tax

The Group computes taxes in accordance with prevailing tax legislation in the locations where income is taxable. Taxes on income are provided in the same period as the revenue and expenses to which they relate. The income tax charge for the period comprises both the current and deferred tax charge (Note 13).

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

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

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

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

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

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

2.10 Property, plant and equipment

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

Vineyards include the vines associated with the Group's wine businesses. Vines are considered bearer plants and are included within the scope of IAS 16, *Property, Plant & Equipment* ("IAS 16"). The Group accounts for vines at

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

their historical cost, which is consistent with all other items of property, plant and equipment. The harvested grapes from the vines are included in inventory, as described in Note 2.15.

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

• Land improvements	up to 50 years
• Buildings	up to 50 years
• Machinery, furniture, and equipment	up to 10 years
• Leasehold improvements	up to 10 years
• Vineyards	up to 35 years

Effective 1 January 2021, the expected useful lives of Land improvements and Buildings was revised to be up to 50 years from up to 45 years. The effect of this change on depreciation expense is not significant.

Land and assets under construction are not depreciated.

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

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

2.11 Investment property

Investment properties are properties held to earn rentals or for capital appreciation.

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

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

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

2.12 Leases

The Group as lessee

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

Lease liability

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

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

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

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

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

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

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

Right-of-use assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group as lessor

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

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

2.13 Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and demand deposits as well as other short-term highly liquid investments with original maturities of three months or less that are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position (Note 18).

2.14 Provisions

Provisions for asset retirement obligations, litigation, restructuring costs, product return and other product-related obligations, and other contingencies and losses are recognised when the Group has a present legal or constructive obligation resulting from past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated (Note 20).

Restructuring provision and costs

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

2.15 Inventories

Inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated sales price in the normal course of business, net of costs to be incurred to complete the sale (Note 15). Inventories are valued using the weighted average cost or first-in-first-out (FIFO) basis, depending on the type of business.

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

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

2.16 Advertising and promotion expenses

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

2.17 Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised (Note 8). Goodwill is not amortised but it is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

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

2.18 Other intangible assets

Intangible assets acquired as part of a business combination, which are controlled by the Group and can be measured reliably, and which are separate or arise from contractual or other legal rights, are recognised separately from goodwill. Intangible assets with finite lives are amortised over their estimated useful lives. If it is determined that their recoverable amounts are less than their net carrying amount, they are written down to their recoverable amounts (Note 8).

Capitalised software and related licenses

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

Leasehold rights

Leasehold rights represent payments made to a landlord or existing tenant to obtain the rights of tenancy to occupy a space.

2.19 Impairment of assets

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

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

2.20 Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. All government grants are claimed only if their objective is in line with the Group business purpose and in accordance with its global tax principles. These grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

In 2021, the Group received refundable tax credits of \$4.6 million (2020: \$4.2 million) related to eligible R&D expenditures. These tax credits are reported as a reduction of research and development expense. Other government incentives are aimed at providing long-term support for companies setting up business activities in specific markets. The Group recognised \$27.8 million (2020: \$13.4 million) related to these grants in operating profit as a reduction to selling, general and administrative expenses.

2.21 Financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

The Group's financial assets at amortised cost include trade receivables and other financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The Group has elected to classify irrevocably its listed and non-listed equity investments as financial assets at fair value through OCI. These are strategic investments and the group considers this classification to be more relevant.

Financial assets at fair value through profit or loss

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

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

Derecognition

A financial asset is primarily derecognised when:

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

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

Impairment of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The bad debt risk on the Group's trade receivables is low and, therefore, there is no impact on applying this approach to the consolidated financial statements. Details of the loss allowance are included in Note 14.

2.22 Assets classified as held for sale

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

The Group measures non-current assets and disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs to sell (Note 17).

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

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

2.23 Financial liabilities

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

2.24 Derivative instruments

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

2.25 Employee benefits

Retirement benefits

The Group has both defined benefit and defined contribution plans (Note 19). With respect to defined contribution plans, the Group is not obliged to make additional payments beyond contributions already made. Contributions to these plans are expensed as incurred as part of operating profit in the consolidated statement of income.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive post-employment, dependent on one or more factors such as age, years of service, and compensation. These plans and the termination benefits are valued by independent actuaries. The valuation takes into account the level of future compensation, service period, life expectancy, and staff turnover. Actuarial gains and losses are primarily due to changes in demographic and financial assumptions and the difference between estimated results

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

based on actuarial assumptions and actual results. All actuarial differences with respect to defined benefit plans are recognised immediately in the consolidated statement of comprehensive income. Past service costs, which typically increase a retirement benefit obligation following the introduction of a new plan or change to an existing plan, are recognised immediately in the consolidated statement of income. Retirement expenses are recognised in operating profit in the consolidated statement of income. The interest cost, which represents the interest accumulated on the unpaid balance of the projected benefit obligation and the interest earned on the performance of the plan assets are recognised in finance costs, net.

Executive deferred compensation plans

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

Corporate-owned life insurance

The Group has several corporate-owned life insurance ("COLI") policies that indirectly finance the executive deferred compensation plans and other defined benefit plans. COLI cash values are managed on an aggregate basis and unlike defined benefit pension plan assets, COLI assets are not specifically identified or accounted for as being related to any particular benefit liability. The dual construct of COLI results in the payment of premiums that cover insurance costs on the life of participating employees, but the majority of the funds are directed to the actual investments embedded in the COLI asset structure. The cash surrender value ("CSV") is a combination of the market value of the underlying investments, in addition to the traditional cash surrender value of a life insurance policy. The asset recognised by the Group is equal to the CSV of the policies and the market value of the money market funds at the balance sheet date. The CSV of the policies and market value of the money market funds are comprised of deposits (premiums), investment earnings/losses, trust expenses, benefit payments/withdrawals and death benefit proceeds.

2.26 Finance costs, net

Finance costs, net is comprised of borrowings costs, interest income from cash and cash equivalents, foreign exchange gains and losses, cost of foreign exchange and interest rate derivatives and fair value adjustments on financial assets. These activities support the Group's operations, but they are not part of the Group's core operating business activities. (Note 5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE

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

	2021	2020
	\$ millions	\$ millions
Type of sales		
Sales of goods	15,628.2	10,101.9
License income	10.8	6.5
	<u>15,639.0</u>	<u>10,108.4</u>
Geographical markets		
Asia Pacific	8,067.8	5,256.6
Europe	4,041.7	2,885.5
The Americas	3,529.5	1,966.3
	<u>15,639.0</u>	<u>10,108.4</u>

4. OPERATING PROFIT

	2021	2020
	\$ millions	\$ millions
Profit before tax is stated after charging (crediting):		
Research and development expenditure	158.4	138.4
Net impairment on PP&E, intangibles and other assets	45.2	61.2
Restructuring costs expenditure	32.0	55.1
Loss on disposal of assets	2.1	5.0
Investment gains on corporate-owned life insurance	(18.1)	(7.0)
Bargain purchase option	-	(3.8)
Other	(4.0)	(3.6)
Exceptional items	<u>57.2</u>	<u>106.9</u>

Research and development ("R&D") costs are expensed as incurred, unless the criteria for capitalisation has been met. The Group did not meet the capitalisation criteria and accordingly did not capitalise any of these costs in 2021 or 2020. The Group did not have any amounts related to prior years capitalised in its consolidated statement of financial position as of 31 December 2021 (2020: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. FINANCE COSTS, NET

Finance costs, net consisted of the following components:

	2021	2020
	\$ millions	\$ millions
Finance income (costs):		
Foreign exchange gains (losses), net	90.8	(72.4)
Derivatives gains, net	2.3	9.3
Gains (losses) on other financial assets	1.0	(4.0)
Gain on asset linked note	-	46.1
	<u>94.1</u>	<u>(21.0)</u>
Interest income (costs):		
Interest costs on financial borrowings	(94.2)	(99.0)
Interest costs on lease liabilities	(59.4)	(64.0)
Interest income	20.8	31.5
Interest income on finance lease receivables	1.2	1.3
	<u>(131.6)</u>	<u>(130.2)</u>
Other finance costs, net	-	(2.0)
	<u>(37.5)</u>	<u>(153.2)</u>

6. AUDITOR'S REMUNERATION

	2021	2020
	\$ millions	\$ millions
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	1.2	1.0
Fees payable to the Group's auditor and its associates for the audit of the Group's subsidiaries pursuant to legislation	5.6	4.9
	<u>6.8</u>	<u>5.9</u>
Fees payable to the Group's auditor and its associates for other services:		
Consulting and other services	0.1	7.0
Taxation compliance services	-	0.9
Taxation advisory services	-	0.3
	<u>0.1</u>	<u>8.2</u>

7. INFORMATION REGARDING EMPLOYEES

	2021	2020
	No.	No.
Average monthly number of persons employed		
Sales and distribution	16,094	16,107
Administration	7,009	6,879
Production	4,639	4,379
	<u>27,742</u>	<u>27,365</u>
Staff costs during the year		
Wages and salaries	1,874.6	1,643.9
Social security costs	386.7	339.8
Pensions costs	121.0	134.2
Other personnel costs	280.0	195.8
	<u>2,662.3</u>	<u>2,313.7</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INTANGIBLE ASSETS

	Capitalised software and related licenses \$ millions	Goodwill \$ millions	Leasehold rights and other \$ millions	Total \$ millions
Cost:				
Balance at 1 January 2020 (restated) ¹	344.7	214.2	140.0	698.9
Additions	71.6	11.3	18.9	101.8
Disposals	(7.2)	-	(0.3)	(7.5)
Exchange differences	28.6	15.0	10.3	53.9
Balances at 31 December 2020 (restated) ¹	437.7	240.5	168.9	847.1
 Additions	74.1	75.0	3.0	152.1
Disposals	(31.8)	-	(0.4)	(32.2)
Transfer to ROU Assets and PPE	-	-	(14.1)	(14.1)
Exchange differences	(27.0)	(16.9)	(8.3)	(52.2)
Balances at 31 December 2021	453.0	298.6	149.1	900.7
 Accumulated amortisation and impairment:				
Balance at 1 January 2020 (restated) ¹	182.5	31.3	11.1	224.9
Amortisation expense	64.8	-	4.0	68.8
Disposals	(7.2)	-	-	(7.2)
Impairment losses	3.4	-	2.0	5.4
Exchange differences	14.7	2.8	0.7	18.2
Balances at 31 December 2020 (restated) ¹	258.2	34.1	17.8	310.1
 Amortisation expense	65.7	-	5.2	70.9
Disposals	(31.8)	-	(0.1)	(31.9)
Impairment losses	-	45.4	26.9	72.3
Exchange differences	(15.2)	(3.6)	(1.9)	(20.7)
Balances at 31 December 2021	276.9	75.9	47.9	400.7
 Carrying amount at 31 December 2020 (restated) ¹	179.5	206.4	151.1	537.0
 Carrying amount at 31 December 2021	176.1	222.7	101.2	500.0

¹ See Note 2.2 for details on the prior period restatement.

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

Goodwill impairment analysis

The Group tests for impairment annually in accordance with IAS 36 "Impairment of Assets." The Group's most significant goodwill balances are related to its manufacturing companies that support the fashion business activities. To assess for impairment, the Group primarily applies a value-in-use calculation approach. However, certain assets are assessed for impairment using a fair value approach. The carrying amount of those assets is \$26.9 million at 31 December 2021 (2020: \$47.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The key assumptions made in the value-in-use calculations include the future revenues, the margins achieved, the discount rate applied and the assumed life of the business. The discount rate is a post-tax rate applied to post-tax cash flows, and does not result in impairment conclusions differing from those obtained by applying pre-tax rates to pre-tax cash flows. The analyses performed were based on our CGUs' medium-term business plans, with time frames of generally five years that have been reviewed and approved by management. Cash flows beyond five years are calculated to perpetuity using the long-term growth rate.

Goodwill arising on acquisitions in 2021 of \$75.0 million (2020: \$11.3 million) is not assessed for impairment in the year of acquisition. The Group considers the acquisition price to be equivalent to the fair value in the year of purchase. See Note 27 for details on business combinations.

The discount and long-term growth rates applied in the value-in-use model are as follows:

	Goodwill							
	2021				2020			
	\$ millions				\$ millions			
	Value of goodwill tested via DCF	Discount rate	Annual growth rate for revenue during the plan period	Growth rate for the period after the plan	Value of goodwill tested via DCF	Discount rate	Annual growth rate for revenue during the plan period	Growth rate for the period after the plan
Manufacturing CGUs	148.3	8.1% - 9.6%	1.0% - 18.0%	0.0% - 2.0%	147.4	7.5%	1.0% - 21.0%	0.0% - 2.5%
Non-Chanel Brand CGUs	19.4	9.2%	5.0% - 8.0%	1.0%				

Based on these assessments, the Group recognised goodwill impairment losses of \$45.4 million in 2021 (2020: \$nil). Impairment costs are reported in selling, general and administrative in the consolidated statement of income.

Sensitivity analyses

A sensitivity analysis has been performed on the value-in-use calculations by assuming more conservative growth rates beyond the year ending 31 December 2021. The Group performed sensitivity analysis on the growth rates of specific CGUs with significant goodwill balances as follows:

	2021		
	\$ millions		
	Impairment loss due to:		
	Value of goodwill tested	100 basis-point reduction in the growth rates	200 basis-point reduction in the growth rates
Manufacturing CGUs	134.6	3.7	12.3

The Group performed additional sensitivity analysis on the discount rate of specific CGUs with significant goodwill balances as follows:

	2021		
	\$ millions		
	Impairment loss due to:		
	Value of goodwill tested	50 basis-point increase in the discount rate	100 basis-point increase in the discount rate
Manufacturing CGUs	134.6	8.1	15.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Leasehold rights impairment analysis

In 2021, the Group engaged an independent specialist to assess the fair value of several properties that had associated leasehold rights. This assessment resulted in the recognition of an impairment charge of \$26.9 million in 2021 (2020: nil).

9. PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings	Machinery, furniture, and equipment	Leasehold improvements	Construction in progress	Vineyards	Total ¹
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Cost:							
Balances at 1 January 2020 (restated) ¹	1,234.3	1,853.7	1,442.3	1,430.2	307.1	26.1	6,293.7
Additions ²	443.5	89.7	81.9	56.8	348.4	1.9	1,022.2
Disposals	(4.8)	(8.5)	(30.0)	(57.0)	(1.2)	-	(101.5)
Transfers to investment property	(1.5)	(8.3)	-	4.7	(20.5)	-	(25.6)
Transfers within PPE	24.5	26.7	32.0	72.8	(156.2)	0.2	-
Exchange differences	76.2	152.9	94.0	57.7	30.3	0.6	411.7
Balances at 31 December 2020 (restated) ¹	1,772.2	2,106.2	1,620.2	1,565.2	507.9	28.8	7,600.5
Additions ²	44.4	154.5	114.4	164.4	263.8	0.6	742.1
Disposals	(0.2)	(4.6)	(96.3)	(62.8)	(0.3)	-	(164.2)
Transfers within PPE	7.5	339.7	64.9	119.1	(531.5)	0.3	-
Exchange differences	(81.0)	(130.8)	(86.9)	(58.7)	(19.0)	(0.6)	(377.0)
Balances at 31 December 2021	1,742.9	2,465.0	1,616.3	1,727.2	220.9	29.1	7,801.4
Accumulated depreciation and impairment:							
Balances at 1 January 2020 (restated) ¹	4.8	735.6	897.0	858.6	0.4	9.2	2,505.6
Disposals	(0.3)	(7.4)	(26.6)	(54.1)	(0.3)	-	(88.7)
Depreciation expense	0.3	64.9	129.3	150.5	-	1.6	346.6
Impairment losses	-	49.5	2.1	4.4	0.2	-	56.2
Transfers to investment property	(0.9)	(14.9)	(0.6)	(0.6)	-	-	(17.0)
Exchange differences	0.3	56.0	64.0	34.2	-	0.3	154.8
Balances at 31 December 2020 (restated) ¹	4.2	883.7	1,065.2	993.0	0.3	11.1	2,957.5
Disposals	-	(5.0)	(92.2)	(58.6)	(0.1)	-	(155.9)
Depreciation expense	0.4	86.0	133.8	136.0	-	1.6	357.8
Impairment losses	-	-	2.8	2.6	-	-	5.4
Reversals of impairment	-	(32.6)	-	-	-	-	(32.6)
Transfers within PPE	-	-	9.2	(9.2)	-	-	-
Exchange differences	(0.2)	(47.0)	(59.2)	(35.5)	-	(0.3)	(142.2)
Balances at 31 December 2021	4.4	885.1	1,059.6	1,028.3	0.2	12.4	2,990.0
Carrying amount at 31 December 2020 (restated) ¹	1,768.0	1,222.5	555.0	572.2	507.6	17.7	4,643.0
Carrying amount at 31 December 2021	1,738.5	1,579.9	556.7	698.9	220.7	16.7	4,811.4

¹ See Note 2.2 for details on the prior period restatement.

² Includes additions acquired through business combinations as disclosed in Note 27.

	2021	2020
	\$ millions	\$ millions
Contractual commitments related to property, plant and equipment	130.8	202.3
Borrowings secured by property, plant and equipment	445.8	499.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There were no capitalised borrowing costs recognised in 2021 and 2020 related to property, plant and equipment.

Impairment

In 2021, the Group recognised \$5.5 million (2020: \$56.2 million) of impairment losses and a reversal of an impairment of \$32.6 million (2020: nil). The reversal relates to a property in France that was acquired in 2014 at a premium resulting in the initial impairment charge. Following the assessment of the fair market value of the property as of 31 December 2021, the Group deems it appropriate to reverse the impairment in full for \$32.6 million in 2021.

In 2020, the impairment primarily relates to a property located in the US that suffered a significant decline in market prices, exacerbated by the pandemic. Based on a valuation of this property performed by a third-party surveyor, the Group recognised an impairment charge of \$48.9 million in 2020.

10. INVESTMENT PROPERTY

	2021	2020
	\$ millions	\$ millions
Cost:		
Balance at 1 January	181.0	146.6
Additions	-	0.1
Transfers from property, plant and equipment	-	25.6
Exchange differences	(6.1)	8.7
Balance at 31 December	<u>174.9</u>	<u>181.0</u>
Accumulated depreciation and impairment:		
Balance at 1 January	36.1	14.6
Depreciation expense	3.1	3.4
Transfers from property, plant and equipment	-	17.0
Exchange differences	(1.0)	1.1
Balance at 31 December	<u>38.2</u>	<u>36.1</u>
Carrying amount at 31 December	<u>136.7</u>	<u>144.9</u>
Fair value at 31 December	<u>464.1</u>	<u>413.0</u>

As of 31 December 2021 and 2020, investment property consisted of land and buildings in Europe and the United States. Portions of these properties are leased to third parties as operating leases (Note 11) and rental income received is fixed under the contracts.

There were no capitalised borrowing costs recognised in 2021 and 2020 related to investment property.

As of 31 December 2021, no borrowings were secured by investment properties (2020: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts recognised in the consolidated statement of income:

	<u>2021</u>	<u>2020</u>
	<u>\$ millions</u>	<u>\$ millions</u>
Rental income	<u>10.4</u>	<u>10.0</u>
Direct operating expenses	<u>5.0</u>	<u>5.2</u>

There were no impairment losses recognised related to investment properties in 2021 or 2020.

Fair value

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. LEASES

The Group as lessee

Right-of-use assets

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

	Real Estate	Machinery and Equipment	Total
	\$ millions	\$ millions	\$ millions
Gross:			
Balance at 1 January 2020	1,999.2	15.3	2,014.5
New leases	205.4	6.4	211.8
Remeasurements	80.7	0.4	81.1
Leased properties acquired	(122.9)	-	(122.9)
Leases terminated	(29.0)	(3.1)	(32.1)
Exchange differences	74.6	1.1	75.7
Balance at 31 December 2020	2,208.0	20.1	2,228.1
 New leases	400.7	6.4	407.1
Remeasurements	130.1	(0.3)	129.8
Leased properties acquired	(7.3)	-	(7.3)
Leases terminated	(88.6)	(4.9)	(93.5)
Acquisitions	4.0	-	4.0
Exchange differences	(72.3)	(1.0)	(73.3)
Balance at 31 December 2021	2,574.6	20.3	2,594.9
Accumulated depreciation and impairment:			
Balance at 1 January 2020	319.7	5.0	324.7
Depreciation expense	343.8	6.2	350.0
Impairment	1.5	-	1.5
Leased properties acquired	(12.4)	-	(12.4)
Leases terminated	(27.3)	(2.9)	(30.2)
Exchange differences	22.0	0.4	22.4
Balance at 31 December 2020	647.3	8.7	656.0
 Depreciation expense	354.9	6.3	361.2
Impairment	0.1	-	0.1
Leased properties acquired	(1.5)	-	(1.5)
Leases terminated	(85.7)	(4.6)	(90.3)
Exchange differences	(21.2)	(0.5)	(21.7)
Balance at 31 December 2021	893.9	9.9	903.8
 Carrying amount at 31 December 2020	1,560.7	11.4	1,572.1
 Carrying amount at 31 December 2021	1,680.7	10.4	1,691.1

Right-of-use assets impairment

As a part of the Group's impairment review, \$0.1 million of impairment losses were recognised in 2021 (2020: \$1.5 million), which are reported in selling, general and administrative expenses in the consolidated statement of income. In estimating the value for calculating impairment charges, potential alternative uses for property, such as subletting a leasehold or surrendering the property to the landlord at a cost were considered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lease liabilities

Changes in lease liabilities during the period:

	Current \$ millions	Non-current \$ millions	Total \$ millions
Gross:			
Balance at 1 January 2020	306.9	1,510.1	1,817.0
New leases	21.2	191.4	212.6
Landlord contributions	3.0	-	3.0
Repayments	(387.7)	-	(387.7)
Accrued interest	64.0	-	64.0
Leases terminated	(2.0)	(2.9)	(4.9)
Leased properties acquired	(5.5)	(107.0)	(112.5)
Remeasurements	10.4	70.7	81.1
Transfers	289.5	(289.5)	-
Exchange differences	12.3	52.6	64.9
Balance at 31 December 2020	312.1	1,425.4	1,737.5
 New leases	 36.1	 346.0	 382.1
Landlord contributions	2.9	-	2.9
Repayments	(399.1)	-	(399.1)
Accrued interest	59.2	-	59.2
Leases terminated	(1.5)	(1.5)	(3.0)
Leased properties acquired	(0.6)	(5.2)	(5.8)
Acquisitions	0.3	2.6	2.9
Remeasurements	29.2	99.4	128.6
Transfers	287.2	(287.2)	-
Exchange differences	(8.6)	(42.7)	(51.3)
Balance at 31 December 2021	317.2	1,536.8	1,854.0

In 2021, the Group purchased the site of one of its leased boutiques resulting in a lease liability reduction of \$5.8 million.

In 2020, the Company purchased the site of its flagship store at 158-159 New Bond Street in London for \$442.3 million. The acquisition of the building resulted in a lease liability reduction of \$112.5 million.

Maturity analysis of lease liabilities, showing the undiscounted lease payments to be paid after the reporting date:

	2021 \$ millions	2020 \$ millions
Less than one year	372.2	366.2
One to five years	1,022.6	950.4
More than five years	759.0	704.6
	<u>2,153.8</u>	<u>2,021.2</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Lease payments not recognised as a liability

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

	2021	2020
	\$ millions	\$ millions
Expenses relating to short-term leases	2.2	3.4
Expenses relating to low value assets	7.2	7.1
Expenses relating to variable lease payments	592.9	321.2
	<u>602.3</u>	<u>331.7</u>

Variable lease payments based on sales

Some leases contain variable lease payments that are based on sales made within a particular store. Total fixed and variable lease payments were \$398.9 million (2020: \$387.7 million) and \$592.9 million (2020: \$321.2 million), respectively, as of 31 December 2021. Overall, the variable payments constitute 59.2% (2020: 44.6%) of the Group's entire lease payments. The variable payments are dependent on sales and are expected to represent a similar proportion of total lease payments in future years. In 2021, the Group recognised \$12.5 million (2020: \$18.6 million) of Covid-19 related rent concessions that have been accounted for as negative variable lease payments in the statement of income (Note 2.2).

Extension options

Some real estate leases contain extension options. The Group assesses whether it is reasonably certain to exercise the options at lease commencement and subsequently, if there is a change in circumstances within its control. Such assessment involves management judgement and estimate based on information at the time the assessments are made. Extension options are included in the lease term when the group has an economic incentive to exercise the option. The Group considers available evidence at the time of the assessment, including potential favourable terms upon extension, potential termination penalties, the relative costs associated with potential relocation or termination of the lease and the extent of leasehold improvements undertaken. The total amount of undiscounted potential future lease payments not included in the lease liability is \$661.3 million (2020: \$696.0 million). The proportion of the Group's leases which contain extension options that are included in the lease liability is 29.1% (2020: 24.8%).

Leases not yet commenced to which the Group is committed

Future cash flows of leases not yet commenced at the balance sheet date and, therefore, not included in the lease liability at the reporting date are \$32.5 million (2020: \$21.3 million).

The Group as lessor

Leases receivables

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

	2021	2020
	\$ millions	\$ millions
Finance lease		
Finance income on the net investment in the lease	1.3	1.3
Operating lease		
Lease income	21.0	21.7
	<u>22.3</u>	<u>23.0</u>

The income recognised during the year from subletting right-of-use assets was \$4.7 million (2020: \$4.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Operating leases

The Group leases its investment property and some leased properties to third parties that are considered operating leases since they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Refer to Note 10 for additional information regarding investment property operating leases.

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

	2021	2020
	\$ millions	\$ millions
Less than one year	27.2	14.3
One to two years	26.5	14.3
Two to three years	21.8	14.0
Three to four years	10.7	11.8
Four to five years	5.9	9.4
More than five years	28.2	33.4
Total undiscounted lease payments	120.3	97.2

Finance leases

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

	2021	2020
	\$ millions	\$ millions
Non-current finance lease receivables	24.6	28.5
Current finance lease receivables	3.9	3.6
	28.5	32.1

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

	2021	2020
	\$ millions	\$ millions
Less than one year	5.0	4.8
One to two years	5.1	5.0
Two to three years	5.3	5.1
Three to four years	5.3	5.3
Four to five years	5.5	5.3
More than five years	6.2	11.7
Total undiscounted lease payments receivable	32.4	37.2
Unearned finance income	(3.9)	(5.1)
Net investment in lease	28.5	32.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As of 31 December 2021, the Group had \$314.5 million of investments in associates and joint ventures (2020: \$275.3 million). In general, the Group holds ordinary shares in its investments in associates and joint ventures. The details of which were as follows:

Name of associate	Principal activity	Place of incorporation and operation	Ownership percentage as of December 31	
			2021	2020
C&D KK	Restaurant operations	Japan	50%	50%
Montres Romain Gauthier SA	Manufacture and sale of watches	Switzerland	50%	50%
ERPRO 3D Factory	Manufacture and sale of 3D printing manufactured products	France	35%	50%
ETS Denis et Fils	Silk weaving	France	40%	40%
AC&B	Manufacture and sale of skincare products	France	26%	26%
Innolis	Manufacture and sale of interior perfumes and dispensing tools	France	32%	32%
Bell and Ross B.V. ¹	Manufacture and sale of watches	Netherlands	49%	0%
Montres Journe S.A. ¹	Manufacture and sale of watches	Switzerland	20%	0%
Kenissi Holding	Watch movements	Switzerland	20%	20%
Tulcan	Investment in leather goods manufacturer	Luxembourg / Italy	40%	40%
Bolduc 2.0	Luxury apparel manufacturer	France	34%	34%
Mabi International S.p.A.	Leather goods manufacturer	Italy	40%	40%
Sunrun	Solar energy panels	United States	32%	32%
FAB Co-Creation Ventures LLC	Implementation of venture capital strategies	US	46%	46%
FCL SRL joint venture	Manufacture and surface treatment of stainless steel components	Italy	50%	50%

¹ Investments acquired from an entity under common control in 2021.

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

	2021	2020
	\$ millions	\$ millions
Total assets	622.6	588.6
Total liabilities	290.5	239.5
Net assets	332.1	349.1
Total revenue	334.2	421.4
Total profit for the period, net	(3.6)	69.2
Group's share of (loss) profit from associates and joint ventures, net	(3.3)	31.3

The Group received a dividend of \$0.1 million from its associates and joint ventures in 2021 (2020: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 2021, the Group did not recognise an impairment loss in relation to its associates and joint ventures (2020: \$2.9 million).

13. INCOME TAXES

The major components of income tax expense were as follows:

	2021 \$ millions	2020 (restated) ¹ \$ millions
Consolidated statement of income:		
Current income tax expense	1,401.6	579.6
Deferred income tax benefit	(7.3)	(49.3)
Income tax expense recognised in the consolidated statement of income	<u>1,394.3</u>	<u>530.3</u>
Consolidated statement of comprehensive income:		
Effect of actuarial losses (gains) on defined benefit pension plans	52.6	(8.6)
Effect of FVOCI financial asset losses	-	5.8
Tax expense (benefit) recognised directly in equity	<u>52.6</u>	<u>(2.8)</u>

¹ See Note 2.2 for details on the prior period restatement.

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

	2021 as a % of pre-tax income	2020 (restated) ¹ as a % of pre-tax income
Blended statutory rate amongst tax jurisdictions	23.3%	23.3%
Effect of permanent differences	0.2%	0.9%
Change in tax rates	0.1%	0.5%
Taxes on distributions and unremitted earnings	2.0%	3.7%
Other	0.1%	-0.4%
Effective tax rate	<u>25.7%</u>	<u>28.0%</u>

¹ See Note 2.2 for details on prior period restatement.

The blended statutory rate represents the aggregation of the tax imposed on the taxable income contributed to the Group at the applicable corporate tax rate in each jurisdiction.

The components of current income tax receivables were as follows:

	2021 \$ millions	2020 \$ millions
Tax refund receivable	45.7	24.3
Other	3.7	1.3
Income taxes receivable	<u>49.4</u>	<u>25.6</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The components of current income tax liabilities were as follows:

	2021 \$ millions	2020 \$ millions
Income taxes payable	556.8	245.6
Income tax contingencies	32.6	16.8
Income tax liabilities	<u>589.4</u>	<u>262.4</u>

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

2021 \$ millions	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions	Exchange differences	Closing balance
Provisions	367.3	17.1	-	-	(4.7)	379.7
Retirement benefit obligations	119.3	13.8	(52.6)	-	(1.9)	78.6
Undistributed earnings	(74.9)	(11.4)	-	-	-	(86.3)
Other	132.6	(12.2)	-	(4.7)	(7.8)	107.9
	<u>544.3</u>	<u>7.3</u>	<u>(52.6)</u>	<u>(4.7)</u>	<u>(14.4)</u>	<u>479.9</u>

Deferred income tax assets	618.0
Deferred income tax liabilities	<u>(138.1)</u>
	<u>479.9</u>

2020 (restated) ¹ \$ millions	Opening balance	Recognised in profit or loss	Recognised in OCI	Acquisitions	Exchange differences	Closing balance
Provisions	295.5	65.1	-	0.1	6.6	367.3
Retirement benefit obligations	92.3	14.9	8.6	-	3.5	119.3
Undistributed earnings	(33.4)	(41.5)	-	-	-	(74.9)
Other	115.0	10.8	0.4	(0.5)	6.9	132.6
	<u>469.4</u>	<u>49.3</u>	<u>9.0</u>	<u>(0.4)</u>	<u>17.0</u>	<u>544.3</u>

¹ See Note 2.2 for details on the prior period restatement.

Deferred income tax assets	671.9
Deferred income tax liabilities	<u>(127.6)</u>
	<u>544.3</u>

As of 31 December 2021, the deferred tax assets not recognised relating to unused tax losses and deductible temporary differences were \$74.0 million (2020: \$62.7 million). The majority of these tax losses and deductible temporary differences may be carried forward for an indefinite period of time. The Group did not utilise any unrecognised tax loss carry-forwards during 2021 or 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE RECEIVABLES AND OTHER ASSETS

	2021		2020 (restated) ¹	
	Current \$ millions	Non-current \$ millions	Current \$ millions	Non-current \$ millions
Financial ²				
Trade receivables	1,107.6	-	956.4	-
Derivatives	0.8	-	0.3	-
Other assets	122.8	203.9	60.1	222.8
Loans to related parties	44.2	6.8	-	51.1
Prepayments and accrued credit notes	20.7	6.9	20.0	4.4
Finance lease receivables	3.9	24.6	3.5	28.5
Deposits	3.3	76.4	1.3	73.8
Equity investments	1.1	78.7	1.2	54.3
Other	49.6	10.5	34.1	10.7
	<u>1,231.2</u>	<u>203.9</u>	<u>1,016.8</u>	<u>222.8</u>
Non-financial				
Other taxes receivable	192.0	-	230.1	-
Retirement benefit assets	-	49.8	-	6.5
Cash surrender value of corporate-owned life insurance	-	198.8	-	182.0
Prepaid expenses	157.7	-	139.8	-
Advances to suppliers	86.8	-	99.4	-
Software as a service prepaid assets	1.7	6.1	1.0	6.1
Other	6.6	18.0	15.2	19.9
	<u>444.8</u>	<u>272.7</u>	<u>485.5</u>	<u>214.5</u>
	<u>1,676.0</u>	<u>476.6</u>	<u>1,502.3</u>	<u>437.3</u>

¹ See Note 2.2 for details on the prior period restatement

² See Note 22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trade receivables consisted of the following:

	<u>2021</u>	<u>2020</u>
	\$ millions	\$ millions
Gross trade receivables	1,120.5	971.4
Provision for expected credit losses	(12.9)	(15.0)
Net carrying amount	<u>1,107.6</u>	<u>956.4</u>
Ageing of trade receivables:		
Not past due	992.0	799.8
Less than one month past due	101.5	100.0
Greater than one month past due	26.6	71.1
Due from related parties	0.4	0.5
	<u>1,120.5</u>	<u>971.4</u>

Movement in the provision for expected credit losses is as follows:

	<u>2021</u>	<u>2020</u>
	\$ millions	\$ millions
Balance at 1 January	(15.0)	(12.8)
Impairment losses	(4.9)	(5.4)
Amounts recovered during the year	3.9	0.5
Amounts written off as uncollectible	1.9	2.8
Reversals of impairment losses charged to profit or loss	0.4	0.7
Exchange differences	0.8	(0.8)
Balance at 31 December	<u>(12.9)</u>	<u>(15.0)</u>

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

As of 31 December 2021, an allowance of \$1.3 million (2020: \$2.1 million) was related to accounts that were not past due.

15. INVENTORIES

	<u>2021</u>	<u>2020</u>
	\$ millions	\$ millions
Finished goods	1,452.7	1,703.7
Raw materials	345.3	353.7
Work in process	147.1	139.7
Component inventory	160.2	158.2
Reserves	(564.2)	(750.3)
	<u>1,541.1</u>	<u>1,605.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The cost of inventories recognised in the Group's consolidated statement of income was \$2,666.2 million (2020: \$1,823.0 million). In addition, the Group recognised \$158.1 million (2020: \$419.4 million), which represents the write-down, net of reversals of approximately \$148 million, of inventory to net realisable value. Reversals occur in the event that stock previously provided for has been sold in the current year. Management considers that a 1% variation on an estimate of sell-through of previous collections would have an impact on the inventory provision of \$31 million.

16. CASH AND CASH EQUIVALENTS

	2021	2020
	\$ millions	\$ millions
Cash in bank	2,955.4	4,100.6
Short-term deposits	718.8	549.2
	3,674.2	4,649.8

The Group operates a global cash pooling arrangement. As of 31 December 2021, the positive bank account balances of the Group were \$540.3 million (2020: \$2,267.1 million) and the overdraft positions of other subsidiaries were \$67.4 million (2020: \$35.9 million), as reported in Note 18 (Borrowings).

17. ASSETS CLASSIFIED AS HELD FOR SALE

	2021	2020
	\$ millions	\$ millions
Assets classified as held for sale	60.8	66.4

The Group's assets classified as held for sale at 31 December 2020, have not been disposed of during 2021. These assets primarily consist of a boutique space with a carrying amount of \$55.4 million (2020: \$61.0 million) and office space with carrying amounts of \$3.4 million (2020: \$3.1 million). Due to challenges brought on by the pandemic, these properties have not been disposed of during 2021 but continue to be classified as held for sale since they are actively being marketed and are expected to be disposed of in the next twelve months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. BORROWINGS

Borrowings consisted of the following:

2021							
	Current	2023	2024	2025	2026	Beyond	Unamortised debt issuance cost
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	Balance at 31 Dec \$ millions
Senior notes	-	-	200.0	-	408.4	1,274.6	(3.2)
Sustainability-linked guaranteed notes	-	-	-	-	341.5	341.5	(5.5)
Bank debt	85.0	20.3	342.7	1.9	1.8	34.0	(1.3)
Bank overdrafts	72.2	-	-	-	-	-	-
	157.2	20.3	542.7	1.9	751.7	1,650.1	(10.0)
							3,113.9

2020							
	Current	2022	2023	2024	2025	Beyond	Unamortised debt issuance cost
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	Balance at 31 Dec \$ millions
Senior notes	-	-	-	199.5	-	1,733.2	(3.6)
Sustainability-linked guaranteed notes	-	-	-	-	-	732.7	(6.8)
Bank debt	42.7	61.1	22.8	368.1	2.1	37.4	(1.8)
Bank overdrafts	37.7	-	-	-	-	-	-
	80.4	61.1	22.8	567.6	2.1	2,503.3	(12.2)
							3,225.1

Of the total borrowings, \$2,608.6 million is unsecured (2020: \$2,687.6 million) and \$505.3 million is secured against assets of the Group (2020: \$537.5 million).

Senior Notes

On 13 October 2020, Chanel Limited issued \$600.0 million of Senior Notes in four Series in a private placement transaction pursuant to a Note Purchase Agreement as follows: (i) \$75 million 2.45% Senior Notes due 13 October 2030, (ii) \$175 million 2.55% Senior Notes due 13 October 2032, (iii) \$175 million 2.70% Senior Notes due 13 October 2035 and (iv) \$175 million 3.2% Senior Notes due 13 October 2040. The Group already had two existing Private Placement arrangements totalling \$1,332.6 million that were established in 2014 and 2016 as noted in the table below.

Nominal amount (in local currency)	Date of issuance	Maturity	Interest rate (%)	2021	2020
				\$ millions	\$ millions
USD 200 million	2014	2024	3.77%	200.0	200.0
USD 175 million	2014	2026	3.92%	175.0	175.0
USD 100 million	2014	2029	4.07%	100.0	100.0
USD 125 million	2014	2034	4.59%	125.0	125.0
EUR 205 million	2016	2026	1.84%	233.4	250.3
EUR 190 million	2016	2028	2.04%	216.3	232.0
EUR 115 million	2016	2031	2.28%	130.9	140.5
EUR 90 million	2016	2036	2.75%	102.4	109.9
USD 75 million	2020	2030	2.45%	75.0	75.0
USD 175 million	2020	2032	2.55%	175.0	175.0
USD 175 million	2020	2035	2.70%	175.0	175.0
USD 175 million	2020	2040	3.20%	175.0	175.0
				1,883.0	1,932.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group is required to comply with certain covenants contained within the three individual Note Purchase Agreements (the "Agreements"). These covenants are aligned across all three Agreements and contain customary representations and warranties as well as customary affirmative and negative covenants, including but not limited to, restrictions on incurrence of additional debt, liens, asset sales, investments, mergers, acquisitions, and affiliate transactions. Events of default permitting acceleration under the agreements include, among others, non-payment of principal or interest, covenant defaults, material breaches of representations and warranties, bankruptcy and insolvency events, and certain other defaults. Financial covenants defined in the Agreements and listed below are required to be tested semi-annually at 30 June and annually at the reporting date of 31 December.

- **Indebtedness Ratio** - consolidated total net debt to adjusted consolidated Earnings Before Interest, Taxes, Depreciation, and Amortisation ("EBITDA") to be less than 3.25 to 1.0 for the applicable 12-month period.
- **Fixed Charges Coverage Ratio** - consolidated Earnings Before Interest, Taxes, Depreciation, Amortisation, and Rent ("EBITDAR") to consolidated fixed charges to be greater than 2.0 to 1.0 for the applicable 12-month period.
- **Consolidated Priority Indebtedness** - not to exceed 15% of consolidated total assets.

The Group was in compliance with all of these covenants throughout the year and as of 31 December 2021.

Sustainability-Linked Guaranteed Notes

On 1 October 2020, the Group issued two Sustainability-Linked Guaranteed Notes on the Luxembourg Stock Exchange. The terms and carrying amounts are as follows:

Issue type	Currency	Principal amount	Maturity year	Interest rate	Issue price	Carrying amount at 31 December 2021 \$ millions	Carrying amount at 31 December 2020 \$ millions
Bond, Fixed rate	Euro	300.0m	2026	0.50%	99.726%	339.4	363.6
Bond, Fixed rate	Euro	300.0m	2031	1.00%	99.400%	338.1	362.3
						<u>677.5</u>	<u>725.9</u>

The Notes bear interest beginning with the issuance date of 1 October 2020 that is payable annually in arrears on 31 July in each year. A premium would be payable on maturity of the Notes if specific sustainability targets are not met.

Bank Overdrafts

Bank overdrafts of \$72.2 million (2020: \$37.7 million) are predominantly balances held in the Group's notional cash pooling arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of borrowings arising from financing activities:

	Non-cash changes				
	1 January 2021	Cash flows	Reclassifications from		31 December 2021
			long-term to short-		
			term and other	Foreign exchange	
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Long-term borrowings	3,144.7	(3.7)	(53.2)	(131.1)	2,956.7
Short-term borrowings	80.4	26.8	55.7	(5.7)	157.2
Total third-party borrowings	3,225.1	23.1	2.5	(136.8)	3,113.9
Related-parties (Note 26)	347.1	(389.0)	-	(9.1)	(51.0)
	3,572.2	(365.9)	2.5	(145.9)	3,062.9

	Non-cash changes				
	1 January 2020	Cash flows	Reclassifications from long-term to short- term and other	Foreign exchange movements	31 December 2020
\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	
Long-term borrowings	2,114.6	1,093.9	(211.4)	147.6	3,144.7
Short-term borrowings	89.8	(237.7)	223.5	4.8	80.4
Total third-party borrowings	2,204.4	856.2	12.1	152.4	3,225.1
Related parties (Note 26)	368.1	(4.2)	-	(16.8)	347.1
	2,572.5	852.0	12.1	135.6	3,572.2

Cash flows related to lease liabilities are disclosed in note 11.

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

	2021 \$ millions	2020 \$ millions
Euro	1,746.9	1,862.3
US dollar	1,196.9	1,196.9
Japanese yen	66.0	74.7
Swiss franc	68.2	71.1
Sterling	15.0	7.6
Other	20.9	12.5
	<u>3,113.9</u>	<u>3,225.1</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2021	2020
	\$ millions	\$ millions
Fixed rate borrowings	2,701.3	2,823.6
Floating rate borrowings	412.6	401.5
	3,113.9	3,225.1

The Group has fixed rate borrowings ranging from 0.10% to 4.59% and maturing through to 2056. The Group entered into an interest rate swap agreement to fix the rate on its most significant floating rate loan.

Lines of Credit

As of 31 December 2021, the Group had confirmed lines of credit totalling \$1,153.5 million (2020: \$1,472.2 million), which is predominantly a syndicated revolving credit facility totalling \$950.5 million that was arranged during the year. This facility replaces the Group's syndicated revolving credit facilities that were put in place in May 2020. The terms of the facility include: an arrangement and participation fee; a commitment fee; a utilisation fee; an extension fee; an agency fee; and a margin and will result in an all-in financing cost between 0.66% and 1.21% plus the appropriate reference rate. The Group is subject to the same covenants as described above for its Private Placement arrangements. The facility has not been utilised to date. The facility expires on the fifth anniversary of the signing of the agreement, with two one-year extension options available at the Group's request. As of 31 December 2021, total outstanding borrowings against lines of credit were \$28.1 million (2020: \$17.6 million).

Letters of Credit

As of 31 December 2021, the Group had letters of credit of \$5.9 million (2020: \$5.5 million).

The Group was in compliance with all other financial covenants in relation to its debt agreements throughout the year and as of 31 December 2021.

19. RETIREMENT BENEFIT OBLIGATIONS

Defined Contribution Plans

The Group operates a number of defined contribution retirement benefit plans for all qualifying employees. The assets of the plan are held separately from those of the Group in funds under administration by trustees. The Group recognised an expense of \$41.1 million (2020: \$55.4 million) related to its defined contribution plans in 2021. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

Defined Benefit Plans

The Group operates defined benefit retirement plans in various locations, with its most significant plans in the U.S., France, the U.K. and Japan. The Group also has executive retiree medical plans in the U.S. and Canada. The Group recognised net benefits expense of \$0.6 million in 2021 (2020: \$0.6 million) related to its executive retiree medical plans. The Group recognised net liabilities related to its executive retiree medical plans of \$10.9 million in 2021 (2020: \$10.6 million) in its consolidated statement of financial position. Disclosures presented below for defined benefit plans include the executive retiree medical plans.

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

- Interest rate risk – A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plans' debt investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- **Mortality risk** – The present value of the defined benefit plan liability is calculated using the best estimate of the mortality of plan participants during and after their employment. An increase in the life expectancy of the plan participants will increase the plans' liability.
- **Salary risk** – The present value of the defined benefit plan liability is calculated using the future salaries of plan participants. An increase in the salary of the plan participants will increase the plans' liability.

The most recent valuation was performed by the Group's actuaries as of 31 December 2021. The present value of the defined benefit obligation and all of its related components were measured using the projected unit credit method.

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

	2021	2020
Discount rate	2.0%	1.5%
Expected rate of salary increase	3.5%	3.4%
The average life expectancy in years of pensioner retiring at age 65:		
Male	22.0	21.9
Female	23.5	23.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Defined Benefit Plans	
	2021 \$ millions	2020 \$ millions
Service cost:		
Current service cost, including administrative expenses	85.8	71.8
Curtailments	(1.6)	-
Settlements	(9.4)	-
Other	(0.5)	-
Total service cost, including administrative expenses	74.3	71.8
Past service cost	0.1	1.0
Net interest	5.5	6.0
Components of defined benefit costs recognised in consolidated statement of income	79.9	78.8
Remeasurements on the net defined benefit liability:		
Return on plan assets, excluding amounts included in net interest	(84.4)	(53.9)
Actuarial (gains) losses due to changes in demographic assumptions	(14.0)	1.1
Actuarial (gains) losses due to changes in financial assumptions	(55.0)	92.1
Actuarial (gains) losses due to experience adjustments	(57.8)	0.7
Other adjustments	-	1.2
Components of defined benefits costs recognised in other comprehensive income	(211.2)	41.2
Components of defined benefit costs recognised in consolidated statement of comprehensive income	(131.3)	120.0

Accumulated actuarial losses recognised in shareholder's equity were \$284.6 million as of 31 December 2021 (2020: \$495.8 million).

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

	Defined Benefit Plans	
	2021 \$ millions	2020 \$ millions
Present value of funded defined benefit obligation	(1,129.2)	(1,216.5)
Fair value of plan assets	1,133.9	1,058.5
Funded surplus (shortfall)	4.7	(158.0)
Present value of unfunded defined benefit obligation	(265.0)	(265.5)
Net liability on consolidated statement of financial position	(260.3)	(423.5)
Gross retirement benefit asset	49.8	6.5
Gross retirement benefit obligation	(310.1)	(430.0)
	(260.3)	(423.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Defined Benefit Plans	
	2021	2020
	\$ millions	\$ millions
Defined benefit obligation, at 1 January	1,482.0	1,278.7
Current service cost	84.0	70.3
Interest cost	22.2	24.1
Contributions from plan participants	2.5	2.5
Past service cost	0.1	1.0
Reclassifications	7.9	0.7
Actuarial (gains) losses due to changes in demographic assumptions	(14.0)	1.1
Actuarial (gains) losses due to changes in financial assumptions	(55.0)	92.1
Actuarial (gains) losses due to experience adjustments	(57.8)	0.7
Benefits paid	(61.9)	(51.2)
Curtailments	(1.6)	-
Settlements	(9.4)	-
Acquisition of plan *	39.6	-
Exchange differences	(44.4)	62.0
Defined benefit obligation, at 31 December	1,394.2	1,482.0

* See note N for details of plan acquired.

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

	Defined Benefit Plans	
	2021	2020
	\$ millions	\$ millions
Fair value of plan assets, at 1 January	1,058.5	952.5
Interest income	16.7	18.1
Return on plan assets, excluding amounts in interest income	84.4	53.9
Contributions from the employer	28.2	43.1
Contributions from plan participants	2.5	2.5
Benefits paid	(61.9)	(51.2)
Administrative expenses paid	(1.8)	(1.5)
Reclassifications	2.9	-
Acquisition of plan *	40.1	-
Exchange differences	(35.7)	41.1
Fair value of plan assets, at 31 December	1,133.9	1,058.5

* See note N for details of plan acquired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the plan assets at 31 December 2021 and 31 December 2020 for each category are as follows:

	2021	2020
	Fair value of plan assets	Fair value of plan assets
	\$ millions	\$ millions
Equity securities	396.1	372.3
Insurance contracts	261.3	262.3
Corporate bonds	243.2	209.9
Government bonds	73.0	89.7
Property	45.2	39.4
Other	115.1	84.9
	1,133.9	1,058.5

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

The Group expects the portfolio to remain fully invested and frequently reviews the need to have cash available to pay retirement benefits without disrupting the portfolio strategy. In 2022, the Group is committed to make a contribution of \$24.1 million with additional contributions of \$1.4 million expected.

The average duration of the defined benefit obligation is 13.6 years (2020: 14.3 years).

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

An increase in the discount rate of half a percentage point would decrease the defined benefit obligation by \$86.1 million.

An increase in the expected rate of salary increase of half a percentage point would increase the defined benefit obligation by \$20.2 million.

A decrease in the mortality rate of 10% for both men and women would increase the defined benefit obligation by \$15.2 million.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. PROVISIONS

	Product-related	Asset retirement obligations	Litigation	Restructuring costs	Other	Total
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Balances at 1 January 2021	186.9	73.2	15.0	10.2	39.2	324.5
Additional provisions recognised	172.8	11.8	20.7	5.0	15.2	225.5
Used during the year	(145.5)	(0.4)	(6.2)	(7.1)	(5.9)	(165.1)
Unused amounts reversed	(8.9)	(2.1)	(3.3)	(0.5)	(0.1)	(14.9)
Unwinding of the discount	-	0.3	-	-	0.4	0.7
Exchange difference	(7.3)	(2.0)	(1.1)	(0.6)	(3.7)	(14.7)
Balances at 31 December 2021	198.0	80.8	25.1	7.0	45.1	356.0
Of which, at 31 December 2021:						
Non-current	3.9	77.0	16.8	6.3	32.8	136.8
Current	194.1	3.8	8.3	0.7	12.3	219.2
	198.0	80.8	25.1	7.0	45.1	356.0

Product related provisions represent the expected refund to customers for sales returns, when the customer has a right to return the product within a given period. The expected refund is as an adjustment to revenue.

Additionally, the Group recognises a provision for Asset retirement obligations, which represents the cost to restore an item of property, plant and equipment back to its original condition at the end of its useful life or lease term, whichever is shorter. As such, the provision is primarily long-term in nature.

Select companies in the Group are exposed to lawsuits that arise in the ordinary course of business. The Group provides for these claims accordingly but does not expect the outcome to have a material impact on the consolidated financial statements.

Restructuring costs primarily relate to organisational restructurings programmes in select markets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE PAYABLES AND OTHER LIABILITIES

	2021		2020	
	Current	Non-current	Current	Non-current
	\$ millions	\$ millions	\$ millions	\$ millions
Financial ^(a)				
Trade payables	864.9	-	677.0	-
Derivatives	1.0	2.2	2.3	4.1
Other liabilities	1,547.0	269.6	1,581.7	197.3
Salaries, commissions and related	627.8	-	485.0	-
Advertising, promotion and demonstration	218.4	-	153.3	-
Professional fees and other accrued expenses	243.4	-	190.2	-
Inventory accruals	217.2	-	169.4	-
Due to customers	119.8	-	109.7	-
Employee profit sharing	31.7	173.4	24.0	167.6
Interest payable	16.2	-	16.9	-
Loan from related party	-	-	398.2	-
Share purchase commitments on non-controlling interests	-	55.2	-	9.4
Other	72.5	41.0	35.0	20.3
	<u>2,412.9</u>	<u>271.8</u>	<u>2,261.0</u>	<u>201.4</u>
Non-financial				
Other taxes payable	265.2	-	153.7	-
Customer deposits	62.5	-	71.0	-
Deferred compensation payable	-	66.2	-	70.7
Other	2.9	9.6	1.5	3.5
	<u>330.6</u>	<u>75.8</u>	<u>226.2</u>	<u>74.2</u>
Total trade payables and other liabilities	<u>2,743.5</u>	<u>347.6</u>	<u>2,487.2</u>	<u>275.6</u>

^(a) See Note 22

Customer deposits relate to advance payments received for sales which have not yet been delivered to the customer. The majority of these deposits received at the end of the reporting period are settled within one year. The overall change in the liability represents increases in deposits not yet recognised in revenue in the financial year offset by the settlement of the prior year obligation, which is recognised in revenue in the current financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Classification

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

Financial Assets

	2021		2020	
	Current \$ millions	Non-Current \$ millions	Current \$ millions	Non-Current \$ millions
Financial assets at amortised cost:				
Trade receivables	1,107.6	-	956.4	-
Cash and cash equivalents	3,674.2	-	4,649.8	-
Other ^(a)	121.7	125.2	58.9	168.5
Financial assets at FVOCI:				
Listed equity investments ^(a)	-	1.1	-	1.2
Non-listed equity investments ^(a)	0.1	69.4	0.2	49.5
Financial assets at FVTPL:				
Convertible bonds ^(a)	1.0	8.2	1.0	3.6
Derivatives:				
Forward contracts and options ^(a)	0.8	-	0.3	-
	<u>4,905.4</u>	<u>203.9</u>	<u>5,666.6</u>	<u>222.8</u>

^(a) See Note 14

Financial Liabilities

	2021		2020	
	Current \$ millions	Non-Current \$ millions	Current \$ millions	Non-Current \$ millions
Financial liabilities at amortised cost:				
Borrowings	157.2	2,956.7	80.4	3,144.7
Trade payables	864.9	-	677.0	-
Lease liabilities	317.2	1,536.8	312.1	1,425.4
Other ^(a)	1,547.0	269.6	1,581.7	197.3
Financial liabilities at FVTPL:				
Derivatives:				
Forward contracts and options ^(a)	0.1	-	1.4	-
Interest rate swaps ^(a)	0.9	2.2	0.9	4.1
	<u>2,887.3</u>	<u>4,765.3</u>	<u>2,653.5</u>	<u>4,771.5</u>

^(a) See Note 21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurement and Hierarchy Levels

Where the fair value of any financial asset or liability held at amortised cost is materially different to the book value, the fair value is disclosed.

The fair value of the Group's listed equity investments is based on quoted market prices (current bid price) on the last day of the period for all years presented.

The fair values of non-listed equity investments that were purchased in 2021 are assumed to approximate the purchase price. The fair values of the remaining non-listed equity investments have either been determined via an external valuation or estimated internally using a discounted cash flow model. The latter valuation requires management to make certain assumptions about the model inputs, including forecasted cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in equity investments.

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

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

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

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

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

2021	Level 1	Level 2	Level 3	Total
	\$ millions	\$ millions	\$ millions	\$ millions
Financial assets:				
Listed equity investments	1.1	-	-	1.1
Non-listed equity investments	-	-	69.5	69.5
Convertible bonds	-	-	9.2	9.2
Derivatives:				
Forward contracts and options	-	0.8	-	0.8
	<u>1.1</u>	<u>0.8</u>	<u>78.7</u>	<u>80.6</u>
Financial liabilities:				
Derivatives:				
Forward contracts and options	-	0.1	-	0.1
Interest rate swaps	-	3.1	-	3.1
	<u>-</u>	<u>3.2</u>	<u>-</u>	<u>3.2</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2020	Level 1	Level 2	Level 3	Total
	\$ millions	\$ millions	\$ millions	\$ millions
Financial assets:				
Listed equity investments	1.2	-	-	1.2
Non-listed equity investments	-	-	49.7	49.7
Convertible bonds	-	-	4.6	4.6
Derivatives:				
Forward contracts and options	-	0.3	-	0.3
	<u>1.2</u>	<u>0.3</u>	<u>54.3</u>	<u>55.8</u>
Financial liabilities:				
Derivatives:				
Forward contracts and options	-	1.4	-	1.4
Interest rate swaps	-	5.0	-	5.0
	<u>-</u>	<u>6.4</u>	<u>-</u>	<u>6.4</u>

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

	Total \$ millions
As of 1 January 2020	45.9
Remeasurement recognised in OCI	(2.1)
Purchases	7.3
Sales	(1.3)
Exchange difference	4.5
As of 31 December 2020	<u>54.3</u>
Remeasurement recognised in OCI	2.1
Purchases	28.6
Sales	(1.4)
Exchange difference	(4.9)
As of 31 December 2021	<u>78.7</u>

Risks associated with financial instruments

Capital risk management

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

Liquidity risk management

Liquidity risk is the risk that the Group may encounter difficulties in meeting its financial liabilities that are settled in cash. In managing this risk, the Group monitors closely the liquidity risk of the Group and its individual subsidiaries. A global cash pool is maintained alongside local bank credit facilities and an intercompany lending programme to ensure that local companies can operate with a high level of liquidity. The Group has substantial undrawn confirmed credit lines and applies a policy of maintaining zero net debt at each reporting period. The Group's issued Sustainability-Linked Bonds and Senior Notes through a private placement further guarantee its liquidity (Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial risk management

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

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations. The Group takes a long-term view of its foreign exchange risk and does not normally seek to mitigate this risk, unless there is a specific circumstance that causes elevated volatility in a particular currency. In 2020, the Group paused its hedging programme in response to the pandemic, however, in 2021 the Group reinstated this programme and maintains forward currency contracts with third parties that are offset by contracts with a related party. As of 31 December 2021, the total notional amount of the Group's outstanding forward currency contracts with third parties was \$313.5 million (2020: \$42.7million), with offsetting contracts with a related party for the same value (2020: 45.5million).

Sensitivity analysis

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

	USD		EUR	
	2021 \$ millions	2020 \$ millions	2021 € millions	2020 € millions
Profit (loss) before income tax	106	63	(365)	(266)
Shareholder's equity	-	-	-	-

Interest rate risk

The Group holds interest rate swaps to manage the exposure to interest rate risk arising from its variable rate borrowings. Interest rate swaps are not designated in hedge accounting relationships. With respect to the Group's outstanding interest rate swap agreements, the Group receives a floating rate of interest and pays interest based on a fixed rate. As of 31 December 2021, the total notional amount of the Group's outstanding interest rate swap agreements were \$239.0 million (2020: \$256.4 million).

The Group performed an analysis and determined that a 1% increase or decrease in market interest rates would not materially impact profit for the years ended 31 December 2021 nor 2020.

Price risk

The Group is also exposed to commodity price risk relating to the purchase of precious metals and stones for use in its fine jewellery and watch manufacturing processes. In 2021 and 2020 the Group deemed this risk to be insignificant.

The following table details the Group's outstanding contractual maturities for its financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows, except for derivative financial liabilities, which are included at their fair value. For detail on lease liabilities, see Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2021	Less than 1 year \$ millions	1-5 years \$ millions	5+ years \$ millions	Total \$ millions
Financial liabilities at amortised cost:				
Borrowings	220.1	1,535.1	1,911.9	3,667.1
Trade payables	864.9	-	-	864.9
Other	1,547.0	155.5	114.1	1,816.6
Derivatives (at FVTPL):				
Forward contracts and options	0.1	-	-	0.1
Interest rate swaps	0.9	2.2	-	3.1
	<u>2,633.0</u>	<u>1,692.8</u>	<u>2,026.0</u>	<u>6,351.8</u>

Credit risk management

The Group did not have any significant exposure to credit risk, which is primarily attributable to its trade receivables. The Group has a large number of unrelated customers in a wide range of business segments and, therefore, is not exposed to any concentration of credit risk on its receivables. The Group's operating units have policies in place to ensure that the sales of products are made to customers with an appropriate credit history. Credit risk is further mitigated by taking out credit insurance on receivables with select wholesalers. The Group's credit risk on derivatives instruments and cash and cash equivalents is limited because these items are held with counterparties with strong credit ratings assigned by international credit rating agencies. Specifically, the Group's cash and cash equivalents are primarily invested in investment grade banks and money market funds, with the primary objective of minimising the potential risk of principal loss, with limits on the amount of credit exposure to any one counterparty.

23. EQUITY DIVIDENDS AND SHARE PREMIUM

	2021 \$ millions	2020 \$ millions
Interim dividends paid		
Chanel Limited interim dividends paid (2020: \$nil per ordinary share)	4,986.6	-
Dividends paid to non-controlling interests	0.7	0.7
Total dividends paid	<u>4,987.3</u>	<u>0.7</u>

Chanel Limited paid interim dividends to its parent of \$2,500.0 million and \$2,486.6 million in June and December 2021, respectively. The Company did not pay any interim dividends in 2020. A final dividend with respect to the year ended 31 December 2021 has not been proposed (2020: \$nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. CALLED UP SHARE CAPITAL

Authorised:

	<u>2021</u>	<u>2020</u>
	£	£
1,000 (2020: 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Called up, allotted and fully paid:

	<u>2021</u>	<u>2020</u>
	£	£
155 (2020: 155) ordinary shares of £1 each	<u>155</u>	<u>155</u>

25. CHANGES IN WORKING CAPITAL

Changes in working capital consisted of the following components:

	<u>2021</u>	<u>2020</u>
	\$ millions	(restated) ¹ \$ millions
Inventories	(30.2)	(1.5)
Trade receivables	(179.6)	144.7
Trade payables	218.8	(45.9)
Other receivables and payables	<u>415.9</u>	<u>(47.5)</u>
	<u>424.9</u>	<u>49.8</u>

¹ See Note 2.2 for details on the prior period restatement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. RELATED-PARTY TRANSACTIONS

	Transactions and balances between the Group and entities under common control		Transactions and balances between the Group and its associates under common control	
	2021 \$ millions	2020 \$ millions	2021 \$ millions	2020 \$ millions
Trade receivables and other current assets	44.7	0.6	17.7	17.1
Other non-current assets	6.8	51.1	-	-
Trade payables and other current liabilities	7.3	405.1	82.0	66.1
Revenue	-	-	43.2	25.1
Cost of sales	-	-	456.9	346.4
Finance income (costs)	0.2	(45.1)	-	0.3

At 31 December 2020, the Group had a loan from its parent of \$398.2 million, which carried an interest rate based on the twelve-month Euribor rate plus 82 basis points. The Group settled this loan on 1 January 2021.

Compensation of key management personnel

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

	2021 \$ millions	2020 \$ millions
Short-term benefits	90.4	74.6
Post-employment benefits	11.9	19.7
Other long-term benefits	6.2	23.7
	<u>108.5</u>	<u>118.0</u>

Information regarding directors

Directors' emoluments totalled \$30.6 million (2020: \$15.7 million) and pension costs totalled \$4.9 million (2020: \$2.5 million). All remuneration are considered short-term benefits with the exception of long-term incentive arrangements of \$3.9 million (2020: \$11.9 million).

Four (2020: three) directors accrued benefits under defined benefit pension plans. Three directors (2020: four) accrued benefits under defined contribution plans. The highest paid director received remuneration of \$15.2 million (2020: \$10.4 million) and participated in defined benefit pension plans with an accrued annual entitlement of \$nil (2020: \$0.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. BUSINESS COMBINATIONS

2021 Transactions

In 2021, the Group made several acquisitions totalling \$96.6 million. The majority of these acquisitions support the manufacturing functions of the business. In addition, the Group recognised non-controlling interests of \$5.4 million. As a result of the acquisitions, the Group recognised goodwill in the consolidated financial statements of \$75.0 million.

2020 Transactions

In 2020, the Group made several acquisitions that support manufacturing functions of the business for \$34.0 million. In addition, the Group recognised non-controlling interests of \$1.6 million, liabilities for its obligation to purchase the remaining shares of \$2.0 million, and a gain on purchase of the acquisition of \$3.8 million. As a result of the acquisitions, the Group recognised goodwill in the consolidated financial statements of \$11.3 million.

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

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

	<u>2021</u> \$ millions	<u>2020</u> \$ millions
Cash consideration	96.6	34.0
Less: Cash acquired	<u>(31.6)</u>	<u>(8.2)</u>
	<u>65.0</u>	<u>25.8</u>

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

The goodwill of \$75.0 million (2020: \$11.3 million) arising from these acquisitions is attributable to the specific know-how and multiple synergies that will benefit the Group in both manufacturing and in a digital capacity. None of the goodwill is deductible for income tax purposes.

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

	<u>2021</u> \$ millions	<u>2020</u> \$ millions
Cash consideration	96.6	34.0
Fair value of assets acquired in excess of liabilities assumed	(27.9)	(30.1)
Non-controlling interests	5.4	1.6
Transfer from financial instruments fair valued through OCI	0.9	-
Obligation to purchase non-controlling interests	-	2.0
Bargain purchase option	-	3.8
Goodwill arising on acquisitions	<u>75.0</u>	<u>11.3</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2021	2020
	\$ millions	\$ millions
Non-current assets:		
Property, plant and equipment	14.9	28.0
Intangible assets	0.2	2.5
Right-of-use assets	4.0	-
Deferred income tax assets	-	2.7
Other assets	0.1	0.6
Current assets:		
Inventories	10.8	12.9
Trade receivables and other assets	22.6	5.6
Cash and cash equivalents	31.6	8.2
Assets classified as held for sale	-	2.3
Non-current liabilities:		
Borrowings	(1.1)	(11.3)
Lease liability	(2.8)	-
Deferred income tax liabilities	(4.8)	(2.9)
Other liabilities	(0.5)	(1.3)
Current liabilities:		
Trade payables and other liabilities	(34.5)	(14.2)
Borrowings	(1.3)	(2.2)
Lease liability	(0.2)	-
Income tax liabilities	(11.1)	(0.8)
	27.9	30.1
	2021	2020
	\$ millions	\$ millions
Acquisition costs	2.6	3.4
Net revenue of business combinations:		
As of acquisition date	48.1	18.0
Full year	96.2	29.6
Net income of business combinations:		
As of acquisition date	6.0	(1.1)
Full year	18.1	1.1

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

28. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Group has reported various liabilities due to contractual commitments pursuant to its property (Note 9) and retirement benefit plans (Note 19). The Group also has other commitments of \$24.4 million related to global climate initiatives (2020: \$31.7 million).

As part of its day-to-day management, the Group is party to various legal proceedings concerning brand rights, the protection of intellectual property rights, the setup of selective retailing networks, licensing arrangements, employee relations, tax audits, and other areas relating to its business. Based on consultations with legal counsel,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the Group believes that the amounts reported in the consolidated statement of financial position in respect of these risks, litigation, or disputes, known or outstanding at year-end, are sufficient to avoid its consolidated financial statements from being materially impacted in the event of an unfavourable outcome.

29. ULTIMATE PARENT COMPANY

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

30. SUBSEQUENT EVENTS

The Group considered the existence of any subsequent events and the requirements to record and/or disclose the impact thereof.

Following Russia's invasion of Ukraine on 24 February 2022, management took the decision to pause all operations in our own boutiques and ecommerce platform within Russia. Several nations have imposed sanctions targeting Russia's ability to access capital and financial markets by sanctioning specific financial institutions, which has made it operationally challenging to conduct business in Russia. Whilst the geopolitical situation remains complex, the Group's exposure in the Russian market is not significant and, therefore, will not adversely impact the Group's results and financial position prospectively. Overall, Chanel's priority is the protection and safety of its affected employees and providing them with the necessary support.

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

COMPANY FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2021
(In millions of Sterling)

	Notes	2021	2020 (restated) ¹	2019 (restated) ¹
ASSETS				
Non-current assets:				
Intangible assets	E	1.1	0.2	0.2
Property, plant and equipment	F	385.7	388.9	67.9
Investment property	G	49.6	49.8	50.1
Right-of-use assets	H	174.1	98.1	185.3
Investment in subsidiaries	I	1,255.4	1,248.0	1,041.3
Retirement benefit asset	N	27.3	2.7	6.9
Deferred income tax assets	J	1.6	4.6	7.7
Investments in associates		-	-	1.7
Loans to affiliates	K	1,304.1	1,797.6	-
Other assets	K	25.2	24.4	22.9
Total non-current assets		3,224.1	3,614.3	1,384.0
Current assets:				
Inventories	L	16.6	29.6	30.5
Trade receivables and other assets	K	526.4	141.9	163.6
Prepayments		15.1	5.4	9.4
Other taxes receivable		-	50.1	-
Cash		1,321.7	2,173.9	1,754.6
Total current assets		1,879.8	2,400.9	1,958.1
TOTAL ASSETS		5,103.9	6,015.2	3,342.1
SHAREHOLDER'S EQUITY AND LIABILITIES				
SHAREHOLDER'S EQUITY				
Share capital	24	-	-	-
Reserves		-	-	5.4
Retained earnings		2,812.5	3,845.7	2,906.5
TOTAL SHAREHOLDER'S EQUITY		2,812.5	3,845.7	2,911.9
LIABILITIES				
Non-current liabilities:				
Borrowings	M	1,390.6	1,413.2	64.9
Loan from related party	Q	499.9	531.0	-
Lease liabilities	H	169.1	96.8	178.6
Other liabilities	Q	9.4	-	5.6
Total non-current liabilities		2,069.0	2,041.0	249.1
Current liabilities:				
Trade payables and other liabilities	O	166.4	102.8	131.7
Income tax liabilities		19.0	8.2	11.2
Borrowings	M	-	-	1.9
Lease liabilities	H	10.2	6.5	10.4
Provisions	P	11.0	11.0	9.9
Other taxes payable		15.8	-	16.0
Total current liabilities		222.4	128.5	181.1
TOTAL LIABILITIES		2,291.4	2,169.5	430.2
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		5,103.9	6,015.2	3,342.1

Profit for the year was £2,635.6million (2020 restated: £922.4 million).

The financial statements of Chanel Limited (registered number 00203669) on pages 103 through 127 were approved by the board of directors and authorised for issue on 19 May 2022. They were signed on its behalf by:

P.B. Blondiaux
Director

¹ See Note B for details on the prior period restatement.

COMPANY FINANCIAL STATEMENTS

COMPANY STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021 (In millions of Sterling)

	Share capital	Equity investment revaluation reserve	Retained earnings	Total shareholder's equity
Balances as of 1 January 2020 (as reported)	-	5.4	2,907.2	2,912.6
Prior year adjustment	-	-	(0.7)	(0.7)
Balances as of 1 January 2020 (restated) ¹	-	5.4	2,906.5	2,911.9
Profit for the period	-	-	922.4	922.4
Other comprehensive income for the period	-	15.0	(3.6)	11.4
Total comprehensive income for the period	-	15.0	918.8	933.8
Gain on disposal of financial asset	-	(20.4)	20.4	-
Balances as of 31 December 2020 (restated) ¹	-	-	3,845.7	3,845.7
Profit for the period	-	-	2,635.6	2,635.6
Other comprehensive income for the period	-	-	17.6	17.6
Total comprehensive income for the period	-	-	2,653.2	2,653.2
Dividends paid	-	-	(3,686.4)	(3,686.4)
Balances as of 31 December 2021	-	-	2,812.5	2,812.5

¹ See Note B for details on the prior period restatement.

COMPANY FINANCIAL STATEMENTS

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
(In millions of Sterling)

	Notes	2021	2020 (restated) ¹
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating profit		187.6	79.6
Adjustments to reconcile operating profit to net cash provided by operating activities:			
Depreciation and amortisation of PP&E, investment property and intangibles		12.0	12.9
Depreciation on right-of-use assets		9.4	12.2
Net impairment of property, plant, and equipment	F	-	2.4
Loss on disposal of property, plant and equipment		0.8	0.2
Settlement of derivatives		-	(0.9)
Net retirement benefit pension plan contribution		(0.8)	0.1
Other		5.4	(7.5)
Cash flows from operations before changes in working capital		214.4	99.0
Changes in working capital	S	33.4	(3.1)
Cash flows from operations		247.8	95.9
Interest received		40.0	14.0
Interest paid on financial borrowings		(47.3)	(29.1)
Interest paid on lease liabilities	H	(3.2)	(5.7)
Income taxes paid		(74.9)	(39.8)
NET CASH PROVIDED BY OPERATING ACTIVITIES		162.4	35.3
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	F	(7.7)	(335.2)
Initial direct costs related to right-of-use-assets		(2.5)	-
Refundable VAT on purchase of property, plant, and equipment		61.0	(61.0)
Purchase of intangibles		(1.2)	(0.2)
Increase in subsidiaries due to capitalisation of loans	I	-	(206.5)
Purchases of subsidiaries from entities under common control		(7.4)	(0.2)
Dividends received		2,457.6	903.3
Loans to related parties		(765.1)	(2,142.6)
Payments received from related parties loans		853.2	1,254.4
Proceeds on sale of financial assets		-	86.2
Other		(0.2)	2.2
NET CASH PROVIDED BY INVESTING ACTIVITIES		2,587.7	(499.6)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	M	-	1,060.4
Repayment of borrowings	M	-	(667.0)
Repayment of lease liabilities	H	(7.4)	(9.5)
Proceeds from Chanel Ceres PLC		-	539.5
Dividends paid		(3,686.4)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		(3,693.8)	923.4
EFFECT OF EXCHANGE ON NON-STERLING CASH AND CASH EQUIVALENTS		91.5	(39.8)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(852.2)	419.3
CASH AND CASH EQUIVALENTS, Beginning of year		2,173.9	1,754.6
CASH AND CASH EQUIVALENTS, End of year		1,321.7	2,173.9
Reconciliation from net income to operating profit:			
Net income		2,635.6	922.4
Finance income (costs), net		38.1	(54.5)
Investment income, net		2,495.5	933.0
Income tax expense		(85.6)	(35.7)
Operating profit		187.6	79.6

¹ See Note B for details on the prior period restatement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A. GENERAL INFORMATION

The Company is a private company limited by shares incorporated and registered in England and Wales under the Companies Act of 2006. The address of the registered office is given on page 50. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 3 through 29.

The Company financial statements have been prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006 not to present the parent company profit and loss account. All amounts are in millions of Sterling, except where otherwise stated.

The information regarding the ultimate parent company is consistent with that provided in Note 29 of the consolidated financial statements.

B. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those given on pages 50 through 65 but additional policies specific to the Company financial statements are included below.

Key sources of estimation uncertainty

Impairment of investments in subsidiaries - Investments in subsidiaries are tested annually for impairment. If an indicator of impairment is present, the recoverable amount is determined using the value-in-use calculations that are based on management's best estimate of future cash flows of the investment. Refer to Note I for details of investments in subsidiaries.

Impairment of loans to affiliates - The Group assesses the recoverability of its loans to affiliates on an annual basis. When assessing the expected loss on these loans, management considers similar factors used in its impairment of the investment itself, if the loan is to a subsidiary, and other risks related to the other affiliates. Refer to Note K for details on the net carrying value of loans to affiliates.

Change in accounting policy – Software as a Service ("SaaS") arrangements

In reference to Note 2.2 *Change in accounting policy – SaaS*, the prior period Company statement of financial position as of 31 December 2020 and 31 December 2019 has been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates* and presented in accordance with IAS 1 *Presentation of Financial Statements*.

Change in presentation of loans from and to related parties within the Company Statement of Cash Flows

Certain loans to related parties amounting to £888.2 million were reported net in the statement of cash flows within financing activities, with a corresponding note to disclose the gross amounts. In the 2021 statement of cash flows, the Company has corrected the presentation of these loans to present the gross amounts directly in the statement of cash flows within investing activities, in accordance with IAS 7 *Statement of Cash Flows* ("IAS 7") paragraphs 21 and 16, respectively. The prior period comparatives have been restated in accordance with IAS 8.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The tables below show the impact of the change in accounting policy and cash flow presentation on previously reported financial results.

Impact on the Company's Statement of Financial Position

	2020 (as previously reported) £ millions	Impact of change in accounting policy £ millions	2020 (restated) £ millions
Property, plant and equipment	389.3	(0.4)	388.9
Intangible assets	3.2	(3.0)	0.2
Trade receivables and other assets	141.2	0.7	141.9
Other non-current assets	23.6	0.8	24.4
Deferred income tax assets	4.2	0.4	4.6
Total assets	561.5	(1.5)	560.0
Retained earnings	3,847.2	(1.5)	3,845.7
Total shareholder's equity	3,847.2	(1.5)	3,845.7

Impact on the Company's Statement of Cash Flows

	2020 (as previously reported) £ millions	Impact of change in accounting policy £ millions	Impact of correction of cash flow presentation £ millions	2020 (restated) £ millions
Net cash provided by operating activities	36.2	(0.9)		35.3
Net cash provided by investing activities	387.7	0.9	(888.2)	(499.6)
Net cash provided by financing activities	35.2		888.2	923.4
Net increase in cash and cash equivalents	419.3	-	-	419.3

There is no impact on the overall increase to cash and cash equivalents as a result of the restatement.

C. PROFIT FOR THE YEAR

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

D. INFORMATION REGARDING EMPLOYEES

	<u>2021</u>	<u>2020</u>
	No.	No.
Average monthly number of persons employed (including directors)		
Sales and distribution	969	1,086
Administration	323	306
	<u>1,292</u>	<u>1,392</u>
	<u>2021</u>	<u>2020</u>
	£ millions	£ millions
Staff costs during the year (including directors)		
Wages and salaries	109.9	89.2
Social security costs	10.5	10.6
Pensions costs	4.9	5.7
Other personnel costs	7.0	8.6
	<u>132.3</u>	<u>114.1</u>

E. INTANGIBLE ASSETS

	<u>Capitalised software and related licenses</u>
	£ millions
Cost:	
Balance at 1 January 2020 (restated) ¹	2.9
Additions	<u>0.2</u>
Balance at 31 December 2020 (restated) ¹	<u>3.1</u>
 Additions	<u>1.2</u>
Balances at 31 December 2021	<u>4.3</u>
 Accumulated amortisation and impairment:	
Balance at 1 January 2020 (restated) ¹	2.7
Amortisation expense	<u>0.2</u>
Balance at 31 December 2020 (restated) ¹	<u>2.9</u>
 Amortisation expense	<u>0.3</u>
Balance at 31 December 2021	<u>3.2</u>
 Carrying amount at 31 December 2020 (restated) ¹	<u>0.2</u>
 Carrying amount at 31 December 2021	<u>1.1</u>

¹ See Note B for details on the prior period restatement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

F. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Leasehold improvements	Machinery, furniture and equipment	Construction in progress	Total
	£ millions	£ millions	£ millions	£ millions	£ millions	£ millions
Cost:						
Balances at 1 January 2020 (restated) ¹	-	5.1	98.8	35.3	5.5	144.7
Additions	298.6	29.3	-	-	7.9	335.8
Disposals	-	-	(2.1)	(0.1)	(0.2)	(2.4)
Transfers	-	-	7.7	2.0	(9.7)	-
Balances at 31 December 2020 (restated) ¹	298.6	34.4	104.4	37.2	3.5	478.1
Additions	-	0.2	4.8	-	3.9	8.9
Disposals	-	-	-	(5.6)	(0.1)	(5.7)
Transfers	1.4	(1.4)	3.1	1.4	(4.5)	-
Balances at 31 December 2021	300.0	33.2	112.3	33.0	2.8	481.3
Accumulated depreciation and impairment:						
Balances at 1 January 2020 (restated) ¹	-	0.6	64.9	11.1	0.2	76.8
Disposals	-	-	(2.1)	(0.1)	(0.2)	(2.4)
Depreciation expense	-	0.1	9.6	2.7	-	12.4
Impairment losses	-	-	1.3	0.9	0.2	2.4
Balances at 31 December 2020 (restated) ¹	-	0.7	73.7	14.6	0.2	89.2
Disposals	-	-	-	(4.8)	(0.1)	(4.9)
Depreciation expense	-	0.7	8.1	2.5	-	11.3
Balances at 31 December 2021	-	1.4	81.8	12.3	0.1	95.6
Carrying amount at 31 December 2020 (restated) ¹	298.6	33.7	30.7	22.6	3.3	388.9
Carrying amount at 31 December 2021	300.0	31.8	30.5	20.7	2.7	385.7

¹ See Note B for details on the prior period restatement.

In 2020, the Company purchased the site of its flagship store at 158-159 New Bond Street in London for £323.6 million. The acquisition of the building resulted in a lease liability reduction of £87.7 million (Note H).

The Company had no contractual commitments related to leasehold improvements planned for 2022 (2020: £3.4 million).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

G. INVESTMENT PROPERTY

	<u>2021</u>	<u>2020</u>
	<u>£ millions</u>	<u>£ millions</u>
Cost:		
Balance at 1 January and 31 December	<u>51.9</u>	<u>51.9</u>
Accumulated depreciation and impairment:		
Balance at 1 January	2.1	1.8
Depreciation expense	<u>0.2</u>	<u>0.3</u>
Balance at 31 December	<u>2.3</u>	<u>2.1</u>
Carrying amount at 31 December	<u>49.6</u>	<u>49.8</u>
Fair value at 31 December	<u>145.0</u>	<u>140.0</u>

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

The Company had no contractual commitments related to its investment property as of 31 December 2021 (2020: £nil).

The property rental income earned by the Company from its investment property, which is leased out under operating leases, amounted to £3.0 million (2020: £2.9 million). Direct operating expenses including depreciation arising on the investment property, all of which generated rental income in the period, amounted to £0.2 million (2020: £0.2 million).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

H. LEASES

The Company as a lessee

Right-of-use assets

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

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

	Real estate	Machinery and equipment	Total
	£ millions	£ millions	£ millions
Gross:			
Balance at 1 January 2020	197.6	0.6	198.2
New leases	10.6	0.6	11.2
Remeasurements	(0.1)	-	(0.1)
Leased properties acquired	(95.8)	-	(95.8)
Leases terminated	-	(0.2)	(0.2)
Balance at 31 December 2020	112.3	1.0	113.3
 New leases	79.5	0.2	79.7
Remeasurements	5.7	-	5.7
Leases terminated	-	(0.1)	(0.1)
Balance at 31 December 2021	197.5	1.1	198.6
Accumulated depreciation and impairment:			
Balance at 1 January 2020	12.7	0.2	12.9
Depreciation expense	11.9	0.3	12.2
Leased properties acquired	(9.7)	-	(9.7)
Leases terminated	-	(0.2)	(0.2)
Balance at 31 December 2020	14.9	0.3	15.2
 Depreciation expense	9.0	0.4	9.4
Leases terminated	-	(0.1)	(0.1)
Balance at 31 December 2021	23.9	0.6	24.5
Carrying amount at 31 December 2020	97.4	0.7	98.1
 Carrying amount at 31 December 2021	173.6	0.5	174.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Lease liabilities

Changes in lease liabilities during the period:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
	£ millions	£ millions	£ millions
Gross:			
Balance at 1 January 2020	10.4	178.6	189.0
New leases	-	11.4	11.4
Repayments	(15.2)	-	(15.2)
Accrued interest	5.9	-	5.9
Leased properties acquired	(4.3)	(83.4)	(87.7)
Remeasurements	-	(0.1)	(0.1)
Transfers	9.7	(9.7)	-
Balance at 31 December 2020	<u>6.5</u>	<u>96.8</u>	<u>103.3</u>
New leases	2.9	74.4	77.3
Repayments	(10.6)	-	(10.6)
Accrued interest	3.6	-	3.6
Remeasurements	0.4	5.3	5.7
Transfers	7.4	(7.4)	-
Balance at 31 December 2021	<u>10.2</u>	<u>169.1</u>	<u>179.3</u>

In 2020, the Company purchased the site of its flagship store at 158-159 New Bond Street in London for £323.6 million. The acquisition of the building resulted in a lease liability reduction of £87.7 million.

Maturity analysis of lease liabilities:

	<u>2021</u>	<u>2020</u>
	£ millions	£ millions
Less than one year	15.5	9.8
One to five years	60.0	41.1
More than five years	158.9	81.1
	<u>234.4</u>	<u>132.0</u>

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

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short-term leases or for leases of low-value assets.

Payments made under such leases are expensed on a straight-line basis. There were no expenses relating to short-term leases or low value assets in 2021 or 2020. There were no expenses relating to variable lease payments which were not dependent on an index or a rate (2020: £nil).

Variable lease payments based on sales

All lease payments were fixed in 2021 (£10.6 million) compared to 2020, with £15.2 million related to fixed payments and £0.1 million related to variable payments. The variable payments are dependent on sales and are expected to represent a similar proportion of total lease payments in future years. The Company did not recognise any Covid-19-related rent concessions during the year (2020: £nil) (Note 2.2).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Extension options

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

Leases not yet commenced to which the Company is committed

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

The Company as a lessor

Lease receivables

Income recognised during the year from operating leases is £5.3 million (2020: £5.0 million). Of that amount, £2.4 million (2020: £2.1 million) is attributable to subletting right-of-use assets.

Operating leases

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

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

	2021	2020
	£ millions	£ millions
Less than one year	9.4	5.0
One to two years	9.0	5.0
Two to three years	7.0	5.0
Three to four years	4.3	5.0
Four to five years	3.0	4.3
More than five years	19.8	22.9
Total undiscounted lease payments	52.5	47.2

The Company does not have any finance leases.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

I. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries consisted of the following components:

	<u>2021</u> £ millions	<u>2020</u> £ millions
Investment in subsidiaries	1,271.9	1,264.5
Impairment	<u>(16.5)</u>	<u>(16.5)</u>
	<u>1,255.4</u>	<u>1,248.0</u>
	<u>2021</u> £ millions	<u>2020</u> £ millions
Cost:		
Balance at 1 January	1,264.5	1,057.8
Additions	<u>7.4</u>	<u>206.7</u>
Balance at 31 December	<u>1,271.9</u>	<u>1,264.5</u>
Accumulated impairment:		
Balance at 1 January	<u>16.5</u>	<u>16.5</u>
Balance at 31 December	<u>16.5</u>	<u>16.5</u>
Carrying Amount at 31 December	<u>1,255.4</u>	<u>1,248.0</u>

Acquisitions

On 9 March 2021, the Company purchased the issued share capital of Chanel (India) Private Limited from Chanel International B.V. for £5.3 million.

On 19 May 2021, the Company made an additional investment of £2.1 million in Chanel Thailand. The additional investment did not result in a change in ownership.

Impairment

The Company assessed all investments in subsidiaries for impairment indicators at 31 December 2021. The Company did not recognise any impairments in 2021 (2020: £nil).

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

J. INCOME TAXES

The following is a roll-forward of the deferred tax asset as of 31 December 2021 and 31 December 2020:

2021 £ millions	Recognised in			Closing balance
	Opening balance	income statement	Recognised in OCI	
Property, plant, and equipment	2.1	(0.9)	-	1.2
Retirement benefit obligations	(0.6)	(0.1)	(6.2)	(6.9)
Provisions	2.3	5.0	-	7.3
Other	0.8	(0.8)	-	-
	<u>4.6</u>	<u>3.2</u>	<u>(6.2)</u>	<u>1.6</u>

2020 (restated) ¹ £ millions	Recognised in			Closing balance
	Opening balance	income statement	Recognised in OCI	
Property, plant, and equipment	4.0	(1.9)	-	2.1
Other financial assets	2.9	(2.8)	(0.1)	-
Retirement benefit obligations	(1.2)	-	0.6	(0.6)
Provisions	1.5	0.8	-	2.3
Other	0.5	0.3	-	0.8
	<u>7.7</u>	<u>(3.6)</u>	<u>0.5</u>	<u>4.6</u>

¹ See Note B for details on the prior period restatement.

Factors that may affect the future tax charge/(credit)

The UK Budget 2021 announcements on 3 March 2021 included an increase to the UK's main corporation tax rate to 25%, effective from 1 April 2023 with the new law substantially enacted on 24 May 2021. The 2020 UK deferred tax assets and liabilities were calculated at 19%, which was the enacted rate at 31 December 2020. As of 31 December 2021, the UK deferred tax assets and liabilities have been re-measured at 25% to reflect the effective date of 1 April 2023.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

K. TRADE RECEIVABLES AND OTHER ASSETS

	2021		2020 (restated) ¹	
	Current	Non-current	Current	Non-current
	£ millions	£ millions	£ millions	£ millions
Trade receivables	101.6	-	67.9	-
Loans to related parties	409.9	1,304.1	55.6	1,797.6
Other financial assets	14.7	23.9	18.2	23.6
Other non financial assets	0.2	1.3	0.2	0.8
	<u>526.4</u>	<u>1,329.3</u>	<u>141.9</u>	<u>1,822.0</u>

¹ See Note B for details on the prior period restatement.

Loans to related parties are interest bearing at arm's-length commercial borrowing rates. There is no expected credit loss provision recognised in relation to loans to related parties.

Trade receivables consisted of the following components:

	2021	2020
	£ millions	£ millions
Gross trade receivables	101.9	67.8
Provision for expected credit losses	(0.3)	(0.4)
Net carrying amount	<u>101.6</u>	<u>67.4</u>
Aging of trade receivables:		
Not past due	35.4	25.9
Less than one month past due	9.3	9.7
Greater than one month past due	1.9	1.1
Due from related party	<u>55.3</u>	<u>31.1</u>
	<u>101.9</u>	<u>67.8</u>
Movement in provision for expected credit losses:		
Balance at 1 January	(0.4)	(1.2)
Impairment losses	(0.1)	(0.2)
Amounts written-off as uncollectible	0.2	1.0
Balance at 31 December	<u>(0.3)</u>	<u>(0.4)</u>

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

L. INVENTORIES

Inventories consisted of the following components:

	2021 £ millions	2020 £ millions
Finished goods	27.1	57.4
Reserves	(10.5)	(27.8)
	<u>16.6</u>	<u>29.6</u>

The cost of inventories recognised in the statement of income was £146.3 million (2020: £119.0 million). In addition, the Company recognised £4.3 million in income related to the net reversal of losses and obsolescence on the recognition of inventory at net realisable value (2020: £19.0 million expense). Reversals occur in the event that stock previously provided for has been sold in the current year.

M. BORROWINGS

Below is a breakdown of borrowings by maturity:

	2021 £ millions
	Senior notes
Current	-
2023	-
2024	147.8
2025	-
2026	301.8
Beyond	941.9
Unamortised debt issuance costs	(0.9)
Balance at 31 December	<u>1,390.6</u>

Financing arrangements

On 13 October 2020, the Company issued £439.0 million (\$600.0 million) of Senior Notes in four Series in a private placement transaction pursuant to a Note Purchase Agreement as follows: (i) \$75 million 2.45% Senior Notes due 13 October 2030, (ii) \$175 million 2.55% Senior Notes due 13 October 2032, (iii) \$175 million 2.70% Senior Notes due 13 October 2035 and (iv) \$175 million 3.2% Senior Notes due 13 October 2040. On that same day, two existing Senior Notes borrowing arrangements held by two of the Company's subsidiaries were novated to the Company at their principal amounts of £439.0 million (\$600 million) and £536.1 million (€600 million), respectively. Details of the terms of these Notes are provided in Note 18.

Lines of credit

As of 31 December 2021, the Company had confirmed lines of credit totalling £717.4 million (2020: £707.6 million). Of this, £702.4 million is a new syndicated revolving credit facility that was arranged during the year. This facility replaced a previous facility put in place in May 2020 that expired in May 2021. The facility terminates on the fifth anniversary of the signing of the agreement, with two one-year extension options available at the Company's request. The Company has not drawn down on these lines in 2021 or 2020. Details of the terms of these lines are provided in Note 18.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

N. RETIREMENT BENEFIT OBLIGATIONS

The Company operates a defined benefit retirement plan in the UK. The liabilities and assets for the defined benefit retirement plan are computed on an actuarial basis and are either funded currently or accumulated in unfunded reserves.

On 1 February 2021, Holland and Holland Limited, a former subsidiary of the Company that was transferred to a related party, was sold to a third party with the defined benefit pension assets and liabilities transferred to the Company, where it was merged with the Chanel Limited defined benefit scheme in 2022. On transfer, the Company acquired a net asset of £0.4 million, comprising £29.2 million of plan assets and a defined benefit obligation of £28.8 million. Subsequent to the transfer, the plan was closed to future accrual.

The defined benefit plan exposes the Company to certain risks that are consistent with those defined in Note 19 of the consolidated financial statements.

The Company recognised an expense of £2.3 million and £2.4 million related to its defined contribution plans in 2021 and 2020, respectively.

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

	<u>2021</u>	<u>2020</u>
	<u>Defined Benefit Plans</u>	<u>Defined Benefit Plans</u>
Discount rate	2.0% - 3.0%	1.4% - 2.7%
Expected rate of salary increase	3.0% - 4.7%	3.0%-4.3%
Future pension increases	2.9%	2.7%
Inflation	2.2% - 3.0%	2.1%-2.7%
The average life expectancy in years of pensioner retiring at age 65:		
Male	22.0	21.9
Female	23.5	23.3

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

	Defined Benefit Plans	
	2021	2020
	£ millions	£ millions
Service cost:		
Current service cost, including administrative expenses	3.6	2.6
Curtailments	(0.9)	-
Other	(0.4)	-
Total service cost, including administrative expenses	2.3	2.6
Net interest	0.3	0.2
Components of defined benefit costs recognised in statement of income	2.6	2.8
Remeasurements on the net defined benefit liability:		
Return on plan assets, excluding amounts included in net interest	(23.6)	(5.3)
Actuarial losses due to changes in demographic assumptions	0.2	0.3
Actuarial (gains) losses due to changes in financial assumptions	(7.4)	9.2
Actuarial losses due to changes in financial assumptions	7.1	-
Components of defined benefits (income) costs recognised in other comprehensive income	(23.7)	4.2
	(21.1)	7.0

The Company recognised £23.7 million of actuarial gains and £4.2 million of actuarial losses on defined benefit retirement plans directly in shareholder's equity in 2021 and 2020, respectively. Accumulated actuarial gains recognised in shareholder's equity were £23.2 million (2020: £0.5 million actuarial losses).

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

	Defined Benefit Plans	
	2021	2020
	£ millions	£ millions
Present value of funded defined benefit obligation	(111.9)	(83.9)
Fair value of plan assets	139.2	86.6
Funded status	27.3	2.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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

	Defined Benefit Plans	
	2021	2020
	£ millions	£ millions
Defined benefit obligation, 1 January	83.9	74.3
Total service cost	3.4	2.5
Interest cost	2.1	2.0
Contributions from plan participants	0.1	0.1
Actuarial losses due to changes in demographic assumptions	0.2	0.3
Actuarial (gains) losses due to changes in financial assumptions	(7.4)	9.2
Actuarial losses due to experience adjustments	7.1	-
Transfers	(2.9)	(2.2)
Curtailement	(0.9)	-
Acquisition of plan	28.8	-
Benefits paid	(2.5)	(2.3)
Defined benefit obligation, 31 December	111.9	83.9

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

	Defined Benefit Plans	
	2021	2020
	£ millions	£ millions
Fair value of plan assets, 1 January	86.6	81.2
Interest income	1.8	1.8
Return on plan assets, excluding amounts in interest income	23.6	5.3
Contributions from the employer	0.8	0.7
Contributions from plan participants	0.1	0.1
Transfers	(0.2)	(0.2)
Acquisitions	29.2	-
Benefits paid	(2.5)	(2.3)
Administrative expenses paid	(0.2)	-
Fair value of plan assets, 31 December	139.2	86.6

NOTES TO THE COMPANY FINANCIAL STATEMENTS

The fair value of the plan assets at 31 December 2021 and 31 December 2020 for each category are as follows:

	2021	2020
	Fair value of plan assets	Fair value of plan assets
	£ millions	£ millions
Equity securities	90.5	61.8
Government bonds	23.1	16.4
Corporate bonds	4.3	3.7
Property	4.8	3.6
Other	16.5	1.1
	139.2	86.6

In 2022, the Company is committed to make a contribution of £0.8 million.

The average duration of the defined benefit obligation is 19.2 years (2020: 20.3 years).

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

An increase in the discount rate of half a percentage point would decrease the defined benefit obligation by £9.7 million.

An increase in the expected rate of salary increase of half a percentage point would increase the defined benefit obligation by £1.3 million.

A decrease in the mortality rate of 10% for both men and women would increase the defined benefit obligation by £2.4 million.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

O. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities consisted of the following:

	2021	2020
	£ millions	£ millions
Trade payables	<u>54.1</u>	<u>23.4</u>
Other liabilities:		
Salaries, commissions, and related	66.3	50.3
Advertising, promotion, and demonstration	9.3	3.0
Other liabilities	<u>36.7</u>	<u>26.1</u>
	<u>112.3</u>	<u>79.4</u>
	<u>166.4</u>	<u>102.8</u>

P. PROVISIONS

	Product-related	Asset retirement obligations	Provisions with related parties	Total
	£ millions	£ millions	£ millions	£ millions
Balances at 1 January 2021	4.2	0.2	6.6	11.0
Additional provisions recognised	16.2	-	7.5	23.7
Used during the year	<u>(16.2)</u>	<u>-</u>	<u>(7.5)</u>	<u>(23.7)</u>
Balances at 31 December 2021	<u>4.2</u>	<u>0.2</u>	<u>6.6</u>	<u>11.0</u>

Product related provisions represent the expected refund to customers for sales returns, when the customer has a right to return the product within a given period. The expected refund is as an adjustment to revenue.

Additionally, the Company recognises a provision for Asset retirement obligations, which represents the cost to restore an item of property, plant and equipment back to its original condition at the end of its useful life or lease term, whichever is shorter.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Q. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

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

Financial Assets

	2021		2020	
	Current	Non-Current	Current	Non-Current
	£ millions	£ millions	£ millions	£ millions
Financial assets at amortised cost:				
Trade receivables	101.6	-	67.4	-
Loans to related parties	409.9	1,304.1	55.6	1,797.6
Cash and cash equivalents	1,321.7	-	2,173.9	-
Other	14.7	23.9	18.2	23.6
	<u>1,847.9</u>	<u>1,328.0</u>	<u>2,315.1</u>	<u>1,821.2</u>

Financial Liabilities

	2021		2020	
	Current	Non-Current	Current	Non-Current
	£ millions	£ millions	£ millions	£ millions
Financial liabilities at amortised cost:				
Borrowings	-	1,390.6	-	1,413.2
Trade payables	54.1	-	23.4	-
Lease liabilities	10.2	169.1	6.5	96.8
Loan from related party	-	499.9	-	531.0
Other	112.3	9.4	79.4	-
	<u>176.6</u>	<u>2,069.0</u>	<u>109.3</u>	<u>2,041.0</u>

The fair value measurement and hierarchy levels are disclosed in Note 22.

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

2021	Less than 1 year	1-5 years	5+ years	Total
	£ millions	£ millions	£ millions	£ millions
Financial liabilities at amortised cost:				
Borrowings	40.9	597.0	1,126.4	1,764.3
Trade payables	54.1	-	-	54.1
Loan from related party	-	499.9	-	499.9
Other	112.3	9.4	-	121.7
	<u>207.3</u>	<u>1,106.3</u>	<u>1,126.4</u>	<u>2,440.0</u>

There are various risks associated with financial instruments, including capital risk, financial risk, market risk, liquidity risk and credit risk. Further details of these risks are discussed in Note 22 of the consolidated financial statements.

R. RELATED-PARTY TRANSACTIONS

Balances and transactions between the Company and entities under common control

	2021 £ millions	2020 £ millions
Trade receivables and other current assets	479.5	102.7
Other non-current assets	1,328.0	1,821.2
Trade payables and other liabilities	545.0	550.5
Revenue	219.9	162.9
Cost of sales	51.6	42.4
Dividend income	2,457.6	903.1
Investment income, net	37.0	16.3
Finance costs, net	(4.6)	(3.3)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

S. CHANGES IN WORKING CAPITAL

Changes in working capital consisted of the following components:

	2021	2020 (restated)¹
	£ millions	£ millions
Inventories	13.0	0.8
Trade receivables	(34.9)	26.4
Trade payables	30.7	(36.0)
Other receivables and payables	24.6	5.7
	<u>33.4</u>	<u>(3.1)</u>

¹ See Note B for details on the prior period restatement.

T. GUARANTEES AND COMMITMENTS

Chanel Ceres PLC, a subsidiary of the Company, issued Sustainability-Linked Guaranteed Notes on the Luxembourg Stock Exchange, details of which are included in Note 18. Per the terms of the agreement governing the Sustainability-Linked Guaranteed Notes, the Company is the Guarantor in regard to the issuance of the Notes and as a result, the proceeds raised by Chanel Ceres PLC have been loaned to the Company with the same terms as the Notes themselves.

The Company has commitments of £12.6 million related to global climate initiatives (2020: £15.6 million).

LIST OF SUBSIDIARIES

U. ENTITIES INCLUDED IN CONSOLIDATION

<u>Entity (Legal Name)</u>	<u>Location of Incorporation</u>	<u>Ownership Percentage (%)</u>	<u>Entity (Legal Name)</u>	<u>Location of Incorporation</u>	<u>Ownership Percentage (%)</u>
Chanel Limited	United Kingdom	Parent			
19M ¹	France	100%	Chanel S.L.U.	Spain	100%
Activite Creation Tissage 3	France	100%	Chanel S.r.l.	Italy	100%
Adobinve SL	Spain	68%	Chanel s.r.o	Czech Republic	100%
Afroditi Inc.	United States	100%	Chanel Saint Honoré	France	100%
American Fragrances, Inc.	United States	100%	Chanel SARL *	Luxembourg	100%
Artlux S.A.	Switzerland	100%	Chanel SARL *	Switzerland	100%
Asitop Gesellschaft mbH	Germany	100%	Chanel spółka z ograniczoną odpowiedzialnością ² *	Poland	100%
Ateliers de May ²	France	100%	Chanel SRL	Belgium	100%
Barrie France	France	100%	Chanel Sweden AB *	Sweden	100%
Barrie Knitwear Limited	United Kingdom	100%	Chanel Unipessoal Limitada	Portugal	100%
Blue Wave USA Inc. ³	United States	68%	Chanel Vietnam Company Limited *	Vietnam	100%
Calzaturificio Gensi Group S.r.l	Italy	80%	Chanel, Inc. *	United States	100%
Capsum	France	68%	Château Canon	France	100%
Capsum Inc.	United States	68%	Château Rauzan-Ségla	France	100%
Cellini 04 R.E. S.r.l. ²	Italy	100%	Colomer Leather Group S.L.	Spain	100%
			Compania Universal de Perfumeria Francesca (CUPFSA)		
Chanel *	France	100%	S.de R.L. *	Panama	100%
Chanel *	Monaco	100%	Conceria Galera Giovanni S.p.A. ²	Italy	73%
Chanel (Australia) Pty. Limited *	Australia	100%	Conceria Samanta S.p.A.	Italy	77%
Chanel (China) Co. Ltd.	Mainland China	100%	Croydon Logistics Limited *	United Kingdom	100%
Chanel (Guam) Inc.	United States	100%	Crushlab SARL ²	Luxembourg	100%
Chanel (India) Private Limited *	India	100%	CUPFSA Colombia S.A.S. ²	Colombia	100%
Chanel (Kuala Lumpur) Sdn Bhd. *	Malaysia	100%	Défiluxe SAS	France	51%
Chanel (Pty) Limited *	South Africa	100%	Desrues	France	100%
Chanel (Thailand) Limited *	Thailand	100%	Diprolux Inc.	United States	100%
Chanel Argentina S.R.L.	Argentina	100%	Domaine de l'Île	France	92%
Chanel Asia Pacific Pte Limited *	Singapore	100%	ERES *	France	100%
Chanel Canada ULC *	Canada	100%	Eres Belgique SRL	Belgium	100%
Chanel Ceres PLC ² *	United Kingdom	100%	Eres Fashion UK Limited	United Kingdom	100%
Chanel Coordination	France	100%	Eres GmbH	Germany	100%
Chanel Coordination B.V.	Netherlands	100%	Eres Italie S.r.l.	Italy	100%
Chanel Coordination S.r.l.	Italy	100%	Eres LLC ³	United States	100%
Chanel Creation B.V.	Netherlands	100%	Eres Moda ve Lüks Tüketim Ürünleri Limited	Turkey	100%
Chanel Denmark ApS *	Denmark	100%	Eres Paris Australia Pty Ltd	Australia	100%
Chanel G.K.	Japan	100%	Eres Paris S.L.	Spain	100%
Chanel Gayrimenkul ve Tekstil Limited Sirketi	Turkey	100%	Eres U.S. Inc.	United States	100%
Chanel GmbH	Austria	100%	Établissements Bodin Joyeux	France	100%
Chanel GmbH	Germany	100%	Europarfumeria, S.de R.L.	Panama	100%
			Europrestigio Distribuição e Comércio de Artigos de Luxo Ltda.	Brazil	100%
Chanel Hong Kong Limited *	Hong Kong S.A.R.	100%	Excel (Greater China) Limited	Hong Kong S.A.R.	100%
Chanel Inc. *	Taiwan Region	100%	Excelsia S.R.L. *	Costa Rica	100%
Chanel India Business Solutions Private Limited *	India	100%	Fragrances Exclusive Inc.	United States	100%
Chanel International B.V. *	Netherlands	100%	Fyma Production ²	France	100%
Chanel Korea YH	South Korea	100%	G&D Reinsurance S.A. ¹	Luxembourg	100%
Chanel Limitada	Macao S.A.R.	100%	G.K. Chanel Research and Innovation	Japan	100%
Chanel Limited *	Hong Kong S.A.R.	100%	Gant Causse	France	100%
Chanel Limited FZE *	United Arab Emirates	100%	Goossens Paris	France	100%
Chanel LLC	Ukraine	100%			
Chanel Moda ve Lüks Tüketim Ürünleri Limited Sirketi	Turkey	100%	Goossens UK Limited ²	United Kingdom	100%
Chanel New Zealand ULC *	New Zealand	100%	Grupo Ledexport	Spain	100%
Chanel Norway AS *	Norway	100%	Hugotag Ennoblement	France	100%
Chanel Parfums Beauté	France	100%	Icarus Limited	Hong Kong S.A.R.	100%
Chanel Pte Limited *	Singapore	100%	Immobili Rosmini S.r.l.	Italy	100%
Chanel S. de R.L. *	Panama	100%	INMATEC Technologies GmbH ⁴	Germany	85%
Chanel S.A. de C.V.	Mexico	100%	International Metal and Jewelry Co., Ltd.	Thailand	100%

LIST OF SUBSIDIARIES

<u>Entity (Legal Name)</u>	<u>Location of Incorporation</u>	<u>Ownership Percentage (%)</u>	<u>Entity (Legal Name)</u>	<u>Location of Incorporation</u>	<u>Ownership Percentage (%)</u>
ISPB	France	100%	Pavliaux SAS	France	100%
Kamel	France	100%	Pells del Llobregat, SA	Spain	60%
Lapoduk SARL	Luxembourg	100%	Perfumeria Francesca (Bolivia) S.r.l	Bolivia	100%
L'Atelier des Matier	France	100%	Pieles del Segura, SA	Spain	100%
Le Creuset d'Art ¹	France	51%	Pieles Quintana SA	Spain	100%
Lemarié	France	100%	Pile S.A.	Panama	100%
Les Ateliers de Verneuil-en-Halatte	France	100%	Pourunefoi	France	100%
Les Moulinsages de Riotord	France	80%	Roveda S.r.l.	Italy	100%
Lesage Intérieurs	France	76%	SC Ateliers de Verneuil-en-Halatte	France	100%
Lesage Paris	France	100%	SCEA Du Château Berliquet	France	100%
Maison Massaro	France	100%	SCI Aineuil	France	100%
Maison Michel	France	100%	SCI Anbras	France	100%
Maison Michel UK Limited	United Kingdom	100%	SCI Bokoutro	France	100%
Manufacture de Cuir Gustave Degermann ³	France	100%	SCI Faimin	France	100%
Manufactures de Mode	France	100%	SCI Kamel 2	France	100%
Manufactures de Mode Italia S.r.l. ²	Italy	100%	SCI ODACE ²	France	100%
Med Participations	France	100%	SCI Onurb	France	100%
Mégisserie Richard	France	80%	SCI Pantino	France	100%
Montex	France	100%	SCI Passysimple	France	100%
Moussax	France	100%	SCI Saroule	France	100%
Moussree	France	100%	SCI Sarouleagain	France	100%
MUSPAC ³	France	93%	SCI SürdeSoie ¹	France	100%
Neverwill	France	100%	SCI Teteatete	France	100%
NILLAB Manufacture Italiene S.p.A. ²	Italy	60%	SCI Traudepezze	France	100%
OOO Chanel	Russia	100%	SCI Venette ²	France	100%
Orlebar Brown (US) Wholesale LLC	United States	100%	SCI YNOD ²	France	100%
Orlebar Brown Australia Pty Ltd ²	Australia	100%	Settile ¹	France	100%
Orlebar Brown France	France	100%	Sevy LLC	United States	100%
Orlebar Brown Inc.	United States	100%	Société en Nom Collectif Encorin	France	100%
Orlebar Brown Limited *	United Kingdom	100%	Sotraflor	France	50%
Orlebar Brown Miami, LLC	United States	100%	Spring Roll, L.P.	United States	75%
Orlebar Brown NY1, LLC	United States	100%	St. Supéry, Inc.	United States	100%
Orlebar Brown Spain S.L.	Spain	100%	Sushi LLC	United States	100%
Overland Realty LLC.	United States	100%	Tannerie Haas	France	100%
Paima S.r.l. ¹	Italy	70%	TCC Direct, Inc.	United States	100%
Paloma	France	100%	The Chanel, Inc. Statutory Trust	United States	100%
Paraffection	France	100%	Tmine Inc.	United States	100%
Pardeir	France	100%	Trochair Limited *	United Kingdom	100%
Pardestin	France	100%	Ultimate Yarns & Fibres Limited ²	United Kingdom	100%
Parfumerie Versailles (1991) Limitée	Canada	100%	Ultimate Yarns & Fibres Mongolia LLC ¹	Mongolia	100%
Parfumerie Versailles, S de R.L. de C.V.	Mexico	100%	Ulysse Cazbonne	France	100%
Parfums Chanel Limited *	Ireland	100%	Vastrakala Exports Private Limited	India	90%
Parivresse	France	100%	Versailles International Inc.	United States	100%
Partois	France	100%	Vimar 1991 S.R.L.	Italy	100%

¹ Entity was acquired/created in 2021.

² Entity was acquired/created in 2020.

³ Entity was dissolved/merged in 2021.

⁴ Percentage ownership increased from 17.4% to 85% in 2021.

* Chanel Limited has a direct ownership in the entity

All shares issued and owned are ordinary.

Eres Fashion UK Limited, Maison Michel UK Limited, Trochair Limited, Goossens UK Limited and Croydon Logistics Limited are companies registered in the United Kingdom under company number 00893083, 09083976, 00246398, 12572546 and 00574704 respectively. They are consolidated in these financial statements and have benefitted from an audit exemption for their financial statements for the year ended 31 December 2021, pursuant to Article 479A of the UK Companies Act 2006.