Interparfums

Consolidated financial statements

2019

Consolidated financial statements

Consolidated income statement

(€ thousands) Except per share data which is in units	Notes	2018	2019
Sales	4.1	**455 342**	**484 260**
Cost of sales	4.2	(161 097)	(175 441)
Gross margin		**294 245**	**308 819**
% of sales		*64,6%*	*63,8%*
Selling expenses	4.3	(210 458)	(216 978)
Administrative expenses	4.4	(17 599)	(18 772)
Operating profit		**66 188**	**73 069**
% of sales		*14,5%*	*15,1%*
Financial income		2 440	2 090
Interest and similar expenses		(1 141)	(1 199)
Net finance costs		**1 299**	**891**
Other financial income		5 058	4 288
Other financial expense		(4 996)	(5 095)
Net financial income (expense)	4.5	**1 361**	**84**
Income before income tax		**67 549**	**73 153**
% of sales		*14,8%*	*15,1%*
Income tax	4.6	(19 888)	(22 057)
Effective tax rate		*29,4%*	*30,2%*
Net income		**47 661**	**51 096**
% of sales		*10,5%*	*10,6%*
Attributable to non-controlling shareholders		511	463
Net income		**47 150**	**50 633**
% of sales		*10,4%*	*10,5%*
Net earnings per share [1]	4.7	1,14	1,12
Diluted earnings per share [1]	4.7	1,14	1,12

(1) Restated for bonus share grants

Consolidated statement of comprehensive income and expense

(€ thousands)	2018	2019
Consolidated net profit for the period	**47 661**	**51 096**
Available-for-sale assets	-	-
Currency hedges	184	(153)
Deferred tax arising from items able to be recycled	(63)	53
Items able to be recycled in profit or loss	**121**	**(100)**
Actuarial gains and losses	512	(33)
Deferred taxes on items unable to be recycled	(176)	11
Items unable to be recycled in profit or loss	**336**	**(22)**
Other comprehensive income total	**457**	**(122)**
Comprehensive income for the period (1)	**48 118**	**50 974**
Attributable to non-controlling shareholders	511	463
Attributable to equity holders of the parent	**47 607**	**50 511**

Consolidated balance sheet

ASSETS (€ thousands)	Notes	2018	2019
Non-current assets			
Net trademarks and other intangible assets	3.1	155 813	154 979
Net property, plant, equipment	3.2	6 495	7 081
Right-of use assets	3.3	-	11 038
Long-term investments	3.4	10 674	2 862
Other non-current financial assets	3.4	3 566	3 066
Deferred tax assets	3.12	8 286	9 556
Total non-current assets		**184 834**	**188 582**
Current assets			
Inventory and work-in-progress	3.5	100 700	106 469
Trade receivables and related accounts	3.6	91 806	93 700
Other receivables	3.7	5 639	5 580
Corporate income tax		918	1 003
Current financial assets	3.8	59 276	54 045
Cash and cash equivalents	3.8	153 696	151 624
Total current assets		**412 035**	**412 421**
Total assets		**596 869**	**601 003**

SHAREHOLDERS' EQUITY & LIABILITIES (€ thousands)	Notes	2018	2019
Shareholders' equity			
Share capital		128 897	141 787
Additional paid-in capital		-	-
Retained earnings		268 551	270 409
Net income for the year		47 150	50 633
Equity attributable to parent company shareholders		**444 598**	**462 829**
Non-controlling interests		1 642	1 609
Total shareholders' equity	3.9	**446 240**	**464 438**
Non-current liabilities			
Provisions for non-current commitments	3.10	8 363	9 338
Non-current borrowings	3.11	10 144	-
Non-current lease liabilities	3.11	-	8 297
Deferred tax liabilities	3.12	2 632	2 604
Total non-current liabilities		**21 139**	**20 239**
Current liabilities			
Trade payables and related accounts	3.13	74 013	63 664
Current borrowings	3.11	20 223	10 018
Current lease liabilities	3.12	-	3 334
Provisions for contingencies and expenses	3.10	904	178
Income tax		3 325	4 569
Other liabilities	3.13	31 025	34 563
Total current liabilities		**129 490**	**116 326**
Total shareholders' equity and liabilities		**596 869**	**601 003**

Statement of changes in consolidated shareholders' equity

(€ thousands)	Number of shares	Share capital	Paid-in capital	Other comprehensive income	Retained earnings and income	Total equity		
						Group share	Non-controlling interests	Total
As of December 31, 2017(1)	**38 878 263**	**117 179**	**-**	**(1 454)**	**306 078**	**421 803**	**1 425**	**423 228**
Bonus share issues	3 905 966	11 718	-	-	(11 718)	-	-	-
2018 net income	-	-	-	-	47 150	47 150	511	47 661
Change in actuarial gains and losses on provisions for pension obligations	-	-	-	336	-	336	-	336
Remeasurement of financial instruments at fair value	-	-	-	121	-	121	-	121
2017 dividend paid in 2018	-	-	-	-	(26 060)	(26 060)	(294)	(26 354)
Treasury shares	(51 560)	-	-	-	(347)	(347)	-	(347)
Currency translation adjustments	-	-	-	-	1 595	1 595	-	1 595
As of December 31, 2018(1)	**42 732 669**	**128 897**	**-**	**(997)**	**316 698**	**444 598**	**1 642**	**446 240**
Bonus share issues	4 296 562	12 890	-	-	(12 890)	-	-	-
2019 net income	-	-	-	-	50 633	50 633	463	51 096
Change in actuarial gains and losses on provisions for pension obligations	-	-	-	(22)	-	(22)	-	(22)
Remeasurement of financial instruments at fair value	-	-	-	(100)	-	(100)	-	(100)
2018 dividend paid in 2019	-	-	-	-	(30 325)	(30 325)	(294)	(30 619)
Changes in Group structure of consolidated operations	-	-	-	-	-	-	(202)	(202)
Treasury shares	26 218	-	-	-	(2 932)	(2 932)	-	(2 932)
Currency translation adjustments	-	-	-	-	977	977	-	977
As of December 31, 2019(1)	**47 055 449**	**141 787**	**-**	**(1 119)**	**322 161**	**462 829**	**1 609**	**464 438**

(1) Excluding treasury shares

Statement of cash flows

(€ thousands)	2018	2019
Cash flows from operating activities		
Net income	47 661	51 096
Depreciation, amortization and other	9 478	15 298
Net finance costs	(1 299)	(891)
Tax charge of the period	19 888	22 057
Operating cash flows	**75 728**	**87 560**
Interest expense payments	(1 447)	(1 300)
Tax payments	(18 981)	(20 095)
Cash flow after interest expense and tax	**55 300**	**66 165**
Change in inventory and work in progress	(11 408)	(8 757)
Change in trade receivables and related accounts	(15 969)	(2 003)
Change in other receivables	4 718	(197)
Change in trade payables and related accounts	8 704	(9 746)
Change in other current liabilities	8 394	4 001
Change in working capital needs	**(5 561)**	**(16 702)**
Net cash flows provided by (used in) operating activities	**49 739**	**49 463**
Cash flows from investing activities		
Net acquisitions of intangible assets	(1 085)	(2 001)
Net acquisitions of property, plants and equipment	(2 463)	(3 160)
Net acquisitions of marketable securities (>3 months)	(517)	4 784
Changes in investments and other non-current assets	(7 335)	8 312
Net cash flows provided by (used in) investing activities	**(11 400)**	**7 935**
Financing activities		
Issuance of borrowings and new financial debt	-	-
Debt repayments	(20 000)	(20 000)
Discharge of lease liabilities	-	(3 752)
Dividend payments to shareholders	(26 060)	(30 325)
Capital increases	-	-
Treasury shares	(1 408)	(5 393)
Net cash flows provided by (used in) financing activities	**(47 468)**	**(59 470)**
Change in net cash	**(9 129)**	**(2 072)**
Cash and cash equivalents, beginning of year	162 825	153 696
Cash and cash equivalents, end of year	**153 696**	**151 624**

The reconciliation of net cash breaks down as follows:

(€ thousands)	2018	2019
Cash and cash equivalents	153 696	151 624
Current financial assets	59 276	54 045
Net cash and current financial assets	**212 972**	**205 669**

Notes to the consolidated financial statements

Annual highlights

<u>February</u>

Launch of the *Montblanc Explorer* line
Montblanc Explorer is an invitation to a fantastic journey, an irresistible call for adventure. This unconventional woody-aromatic-leather Eau de Parfum reveals an Italian Bergamot, contrasted by a rich Vetiver from Haiti and an exclusive Patchouli from Sulawesi.

Launch of the *Jimmy Choo Floral* line
Subtle yet luminous, sophisticated yet urban, a radiant expression of femininity and a symphony of floral, fruity and musky notes.

Launch of the *Mademoiselle Rochas Couture* line
Mademoiselle Rochas reinvents her original signature to become *Couture*: a refined, elegant Eau de parfum.

<u>April</u>

Launch of the *Coach Floral Blush* line
An airy and colorful scent associating sparkling notes create a sensual, bold fragrance.

<u>May</u>

Launch of the Lanvin *A girl in Capri* line
A luminous and fruity cocktail combining notes of sparkling citrus and pink pepper capturing the sunshine and refreshing sea breeze of Capri.

Launch of the Boucheron *Quatre en Rouge* line
Quatre en Rouge, launch of a bold fragrance. With a permeating and reassuring trail hiding an irresistible power of attraction and seduction.

Dividend
A dividend of €0.71 per share was paid for fiscal 2018 in early May 2019, a 17% increase from 2017, in light of the bonus issue of June 2018.

<u>June</u>

Bonus share issue
The company proceeded with its 20th bonus share issue on the basis of one new share for every ten shares held.

New license agreement
In early June, the global life and style brand, Kate Spade New York and Interparfums SA announced the signature of a 10 ½ year exclusive worldwide fragrance license agreement to create, produce and distribute perfumes for the brand beginning in fall 2020.

<u>August</u>

Launch of the *Boucheron Jaïpur Bouquet* line
The new *Jaïpur Bouquet* line is a refined woody floral featuring a luminous and brilliant trail of precious notes.

<u>September</u>

Launch of the *Jimmy Choo Urban Hero* line
Jimmy Choo Urban Hero is a woody aromatic Eau de Parfum inspired by the urban environment. It celebrates the intensity and contrasts of modern masculinity, working the codes of street art.

October

Interparfums is included in the Gaïa index

Interparfums was ranked 11th in the 2019 campaign of the Gaia Rating agency which assesses the Environmental Social and Governance (ESG) performances of the top 70 French SMEs and mid-tier firms in the category of companies "with revenue between €150 and €500 million".

Launch of the *Rochas Byzance* line

The rebirth of *Byzance* for a new era. A new feminine and sensual launch where the power of seduction and pleasure come together to create a modern-day fairytale.

1 Accounting principles

1.1 Compliance statement

In accordance with EC regulations 1606/2002 of July 19, 2002 on international accounting standards, the 2019 consolidated financial statements of Interparfums are established in compliance with IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) applicable since 2005 as endorsed by the European Union.

Financial information presented herein is based on:
- IFRS standards and interpretations subject to mandatory application;
- Options retained and exemptions used by the Group for the preparation of IFRS consolidated financial statements.

The consolidated financial statements at December 31, 2019 were adopted by the Board of Directors on March 2, 2020. They will become definitive after having been approved by the ordinary general meeting of April 24, 2020.

1.2 Changes in accounting standards

Furthermore, no standards, amendments or interpretations currently under review by IASB and IFRIC were applied in advance in the financial statements for the period ending December 31, 2019.

The following standards, amendments or interpretations that entered into effect on January 1, 2019 were applied by the company in preparing its consolidated financial statements for the six-month period ended December 31, 2019:

IFRS 16 - Leases

The main lease agreements identified which are required to be recognized in the balance sheet under assets are the premises of the Paris headquarters, the New York and Singapore offices and the Rouen warehousing facility.

In application of IFRS 16, all lease agreements are now recognized on the balance sheet as a right to use an asset (right-of-use asset) and a liability corresponding to the present value of future payments.

With respect to these terms, the Company has applied the longest possible term, including options for renewal for the lessee, based on the intention for the continued use the premises.

The gross value of right-of-use assets on that basis amounted to €14.6 million (see note 3.3)

For the application of this standard, Interparfums Group elected as transition option to adopt the modified retrospective transition approach. Comparative financial statements for prior years are not restated.

Under this transition method, the cumulative effect of initially applying the standard is recognized as an adjustment to opening equity while measuring the right-of-use asset at an amount equal to the lease liability, adjusted for any lease payments made at or before the commencement date and prepayments and benefits received from lessors.

The initial impacts of IFRS 16's first-time application on the balance sheet were as follows:
- recognition of right-of-use assets and lease liabilities;
- the reclassification of assets and liabilities recognized under existing finance leases at December 31, 2018 (vehicle leases);
- the reclassification of deferred lease payments as a deduction from right-of-use assets.

In addition, the following simplification measures were applied to the transition:

- leases of assets representing a low unit value or a short lease term (less than 12 months as from January 1, 2019) are not recognized in the balance sheet as an asset and liability and were instead recorded as expenses;
- the present values applied on the transition date are based on market rates, country by country and according to both the term of each of lease and also the payment schedule to which is added a spread for the purpose of taking into account the specific economic environments of each country, whereby the Group cannot apply the incremental borrowing rate in light of its limited debt.

The reconciliation between debt recorded under "lease liabilities" and items presented under off-balance sheet commitments at December 31, 2018 on that basis broke down as follows:

Off balance sheet commitments at December 31, 2018	**17 882**
Lease period adjustments	(98)
Contract expiring in the period	(6 144)
New contracts	4 129
Discounting of debt at present value	(589)
Off balance sheet commitments at December 31, 2019	**15 180**

IFRIC 23 - Uncertainty over income tax treatments

In recent years, Interparfums SA has been subject to tax audits concerning notably, on two occasions, the activity of Interparfums Suisse, without however calling into question the legal basis for this company.

However, in 2018 tax authorities raised questions about the potential tax in France of all or part of the earnings generated by Interparfums Suisse. Because the territoriality of this company had never, at any time, been challenged, Interparfums SA did not consider recording a provision for tax contingencies in the financial statements for the period ended December 31, 2018 to be necessary.

In February 2020, the French tax authorities chose to continue their investigations by conducting a new audit focusing on the same subject and the same period.

Based on the conclusions of its attorneys and legal and tax advisors, considering it to be within its rights, the company did not modify its position and in consequence has still not recorded a provision for tax contingencies for this matter in its accounts for the period ended December 31, 2019.

The company has not identified any other uncertainties which could affect taxable income, tax bases or the tax rate.

Changes in accounting standards

The following standards, amendments or interpretations that entered into force on January 1, 2019 have been studied and are without impact on the consolidated financial statements for the period ending December 31, 2019:

- Amendments to IAS 19 “Plan amendment, curtailment or settlement”;
- Annual improvements (2015-2017 cycle).

1.3 Basis of consolidation

Interparfums S.A.		Controlling interest (%)	Ownership interest (%)
Interparfums Suisse Sarl	Switzerland	100 %	100 %
Inter España Parfums et Cosmetiques S.L.	Spain	100 %	100 %
Parfums Rochas Spain	Spain	51%	51%
Interparfums Srl	Italy	100 %	100 %
Interparfums Luxury Brands	United States	100 %	100 %
Interparfums Asia Pacific pte Ltd	Singapore	100 %	100 %

The procedures to wind up the German subsidiary Interparfums GMBH have been completed and the company's removal from the trade register is in progress. It was deconsolidated in consequence on December 31, 2019.

Subsidiaries' financial statements are prepared on the basis of the same accounting period as the parent company. The fiscal year covers the 12-month period ending on December 31.
All Group subsidiaries are fully consolidated.

1.4 Translation method

The company's operating currency and currency for the presentation of financial statements is the euro.

Transactions in foreign currencies are translated at the exchange rate in effect on the date of the transaction. Payables and receivables in foreign currency are translated at the exchange rate in force on December 31, 2019. Translation losses and gains arising from the conversion of accounts denominated in foreign currencies on December 31, 2019 are recorded in the income statement. Hedged transactions are translated at the negotiated exchange rate.

The main exchange rates applied for the translation of subsidiaries' accounts in relation to the euro are as follows:

Currency	Closing exchange rate		Average exchange rate	
	2018	2019	2018	2019
US dollar (USD)	1,1450	1,1234	1,1810	1,1195
Singapore dollar (SGD)	1,5591	1,5111	1,5926	1,5273
Swiss franc (CHF)	1,1269	1,0854	1,1550	1,1124

1.5 Use of estimates

The preparation of consolidated financial statements requires the use of estimates and assumptions for the valuation of certain balance sheet and income statement balances. These concern primarily the valuation of intangible assets, amounts to be set aside for provisions for contingencies and expenses and provisions for inventory losses. Although these estimates are based on management's best knowledge of current events and situations, actual results may ultimately differ from these estimates.

1.6 Sales

Revenue includes principally ex-warehouse sales to distributors and agents and direct sales to retailers for the portion realized by Group subsidiaries.
Revenue from perfume and cosmetics products is presented net of all forms of discounts and rebates.
Revenue is recognized on the basis of conditions of transfer to the buyer of the risks and rewards incident to ownership. Amounts invoiced at year-end when the actual transfer of title occurs in the following year are not recognized under revenue of the year in progress.

1.7 Trademarks and other intangible assets

Trademarks and other intangible fixed assets, including trademarks under licensing contracts and acquired trademarks are recorded at cost. These legally protected trademarks are classified as indefinite life intangible assets and are not amortized.

Finite life intangible assets such as upfront license fees are amortized on a straight-line basis over the duration of the license.

Rights on molds for bottles and related items are classified as finite life intangible assets and amortized over a period of between three and five years.

Licenses and upfront license fees are remeasured whenever there is any indication of impairment. Their recoverable value is determined according to the discounted cash flow method defined as the present value of estimated future cash flows expected to arise from the continuing use of these assets calculated according to their estimated or actual length. Data used originates from the annual and multi-year budgets for duration of the license agreements drawn up by Management.

Own brands are also tested for impairment at least once a year by comparing their net carrying value with their recoverable value. The recoverable value represents the higher of fair value less costs to sell and its value in use on the basis of the present value of estimated future cash flows derived from five-year budgets discounted to infinity.

A provision for impairment is recorded if this value is lower than the carrying value.

The discount rate before tax applied for remeasurement is the weighted average cost of capital (WACC) of 7.94% at December 31, 2019 compared to 6.21 % at December 31, 2018. This ratio is determined on the basis of a negative long-term interest rate of 0.05 % corresponding to the average rate for 10-year OAT French fungible treasury bonds of the last quarter, the rate expected by an investor in this sector and the specific risk premium for this sector. The perpetuity growth rate used is 1.40 % at December 31, 2019 and 1.85 % at December 31, 2018.

Costs generated on acquisition analyzed as directly attributable costs are included in the cost of the acquired assets.

Other intangible assets are amortized over their useful lives and subject to impairment testing when an indication of impairment exists.

All license agreements provide for international rights of use. Other intangible assets, in particular rights on molds for bottles are mainly used in France by our subcontractors.

1.8 Property, plant and equipment

Tangible fixed assets are valued at cost (purchase price plus acquisition-related costs) and depreciated over their estimated useful lives on a straight-line basis (2 to 5 years). Tangible fixed assets include molds for caps.
The majority of tangible fixed assets are used in France.

1.9 Inventory and work-in-progress

Inventories are valued at the lower of cost or probable resale value. A provision for impairment is recorded when their probable resale value is lower than the carrying value.
The cost of inventories of raw materials and supplies is valued on the basis of average weighted prices.
The cost of finished products includes the cost of materials used, production expenses and a share of indirect costs valued at a standard rate.

At the end of every year, these standard rates are compared with the effective rate obtained based on actual figures at year-end.

1.10 Other non-current financial assets

Because they are destined to be held for more than one year, all Group marketable securities have been classified as "Available-for-sale financial assets" and presented in "Non-current financial assets.

Marketable securities on initial recognition are recorded at cost and subsequently remeasured at fair value corresponding to the market value at the end of each period.

Gains and losses on “available-for-sale financial assets” are recorded at year-end in equity. However, a significant or prolonged decline in fair value below the cost value of the securities would be recognized in profit or loss.

In addition, the line item "non-current financial assets" also includes a royalties advance on the Karl Lagerfeld license agreement that is charged against future royalties every year. This advance was remeasured at present value according to the amortized cost method over the license agreement's term and the corresponding offset is recognized by increasing the amortization of upfront license fees.

1.11 Receivables

Accounts receivable are recorded at face value. A provision for impairment is recorded on a case-by-case basis when the probable recovery value is deemed to be less than the carrying value.

1.12 Deferred tax

Timing differences between the tax base of consolidated assets and liabilities and tax on restatements on consolidation give rise to the recognition of deferred taxes under the liability method based on the known year-end tax conditions.

Potential tax savings resulting from loss carry forwards are recorded under deferred tax assets only when their use in the short term is deemed likely, and subject to depreciation when appropriate, are maintained in the balance sheet.

1.13 Current financial assets

Current financial assets consist of investments in the form of certificates of deposits, term deposits, capital redemption contracts or any other vehicles having maturities of more than three months.

1.14 Cash and cash equivalents

The item “Cash and cash equivalents” includes marketable securities and cash at bank and in hand that consist of highly liquid investments with maturities of less than three months readily convertible to a known cash amount and subject to an insignificant risk of changes in value.

1.15 Treasury shares

Interparfums shares held by the Group are recorded as a deduction from equity at cost. If sold, the proceeds are recorded directly under equity net of tax.

1.16 Provisions for contingencies and expenses

- Retirement severance benefits

This reserve is maintained to honor employee pension benefit commitments and corresponds to the present value of the payments to which employees are entitled, under the collective bargaining agreement, once they retire.

For the measurement of retirement severance benefits, Interparfums has adopted the procedure for voluntary severance agreements introduced by Ordinance 2017-1387 published in the French Official Journal of September 23, 2017 and Decree 2017-1398 published in the French Official Journal of September 26, 2017. This procedure provides for the systematic signature of a severance agreement by the employer and the employee specifying the terms and conditions of the termination. Because the method in force prior to the end of the reporting period involved compulsory retirement, the impact of this change in the assumptions used for calculation was recognized under past service costs. The projected unit credit was applied. This method takes into account rights and wages projected to term, the probability of payment as well as the prorated amount of seniority so that commitments correspond to the value of service already rendered by employees.

Accordingly, the calculation of commitments for severance benefits involves estimating the probable present value of projected benefit obligations (PBO), i.e. the rights of employees at the time of departure taking into account the probability of departure and death of the employees before term as well as the impact of revaluations and discounts. This projected benefit obligation is then prorated to take into account the seniority of the employees of the company on the calculation date.

- Provisions for other contingencies and expenses

A provision is recognized when the company has a present obligation (legal or constructive) as a result of a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

1.17 Financial instruments

Derivative financial and hedging instruments are used by the Group to reduce exposure to interest rate and foreign exchange risks. Such instruments are not used for speculative purposes.

Currency hedges

The company has recourse to forward exchange contracts and cash flow hedges put into place at the time receivables or payables are recognized. These contracts have maturities of three to six months according to the maturities of the corresponding receivables and payables in foreign currencies (primarily the US dollar and Sterling pound). Currency gains and losses from these instruments are recognized in the income statement when the receivables are booked.

In addition, hedges have been put into place in 2018 and 2019 to cover budgeted sales in the first nine months of 2019 in US dollars. In accordance with IFRS 9 these hedges were accounted for as cash flow hedges. Hedge accounting is applicable if the hedge is formally defined and documented on inception of the hedging relationship and it is demonstrated that the hedging relationship will be highly effective over the life of the hedging instrument. At year-end, hedging instruments corresponding to these criteria are recognized in the balance sheet at fair value. The ineffective portion of changes in fair value of these hedging instruments is recorded in profit or loss and the effective portion in equity. In 2019, revenue was restated to eliminate the impact of these hedges.

Interest rate hedges

A swap to hedge interest-rate risk in connection with the Rochas loan subject to interest based on 3-month Euribor was arranged in 2015. In compliance with IFRS 9, the difference in the market value of this instrument and the notional amount is recorded in the income statement.

1.18 Borrowings

On initial recognition, borrowings are measured at fair value to which are added transaction costs directly attributable to the issuance of the liability.
At year-end, borrowings are recognized at amortized cost according to the effective interest rate method.

1.19 Other liabilities

Other financial debt and operating liabilities are measured at fair value on initial recognition. These amounts generally correspond to the amounts of the invoices in the case of short-term payables.

1.20 Performance share awards

IFRS 2 requires that a charge be recorded in the income statement with a corresponding increase to reserves representing the market value of restricted stock awards to employees, estimated on the grant date. This value also takes into account assumptions relating to the departure of beneficiaries and the rate of probability of achieving performance criteria to be eligible for the shares. Changes occurring after the grant date do not have an impact on this initial valuation. This expense is amortized and adjusted upon each exercise for changes in assumptions regarding the presence of the beneficiaries over the vesting period.

1.21 Registration of trademarks

Under IAS 38, expenses incurred in connection with the registration of each trademark are not capitalized and are expensed under "research and consulting costs".

1.22 Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year after subtracting treasury shares.

Fully-diluted earnings per share are calculated based on the average number of shares outstanding in the period, after subtracting only treasury shares destined to be held on a long-term basis and adjusted for the effects of all potential diluted ordinary shares resulting from the exercise of stock options in the period.

To ensure the comparability of information, basic and diluted earnings per share of the prior year are systematically recalculated to take into account bonus share grants in the year in progress.

2 Principles of presentation

2.1 Presentation of the income statement

The consolidated income statement of the company is presented by function. Under this format, expenses and income are broken down by function (cost of sales, selling expenses, administrative expenses) and not according to the nature of the origin of expenses and income.

2.2 Presentation of the balance sheet

The consolidated balance sheet is presented according to a breakdown between assets and liabilities defined as current or non-current.

2.3 Segment information

Segment information presented in this report is based on the segments used by management to monitor Group operations.

2.3.1 Business lines

The company's main activity is "Perfumes". Because the financial performance indicators of each brand making up this business are similar, the Group's income statement and balance sheet in consequence represents the "Perfumes" business as a whole.

The company also manages a "Fashion" business of small size and representing the operations generated by the fashion component of the Rochas brand. However, because the "Fashion" business accounts for less than 0.5 % of revenue, it is not presented separately in the income statement.

Significant balance sheet items relating to the "fashion" business are presented in note 5.1.

2.3.2 Geographical segments

The company has a significant international dimension and analyses sales by geographic segment.
All assets necessary for the company's activity are located in France.

3 Notes to the balance sheet

3.1 Trademarks and other intangible assets

3.1.1 Nature of intangible assets

(€ thousands)	2018	+	-	2019
Gross value				
Indefinite useful life intangible assets				
Lanvin trademark	36 323	-	-	36 323
Rochas Fragrances trademark	86 739	-	-	86 739
Rochas Fashion trademark	19 086	-	-	19 086
Finite useful life intangible assets				
S.T. Dupont upfront license fee Dupont	1 219	-	-	1 219
Van Cleef & Arpels upfront license fee	18 250	-	-	18 250
Montblanc upfront license fee	1 000	-	-	1 000
Boucheron upfront license fee	15 000	-	-	15 000
Karl Lagerfeld upfront license fee	12 877	-	-	12 877
Other intangible assets				
Rights on molds for bottles and related items	11 895	1 750	(3)	13 642
Registration of trademarks	570	-	-	570
Software	3 368	251	(68)	3 551
Total gross amount	**206 327**	**2 001**	**(71)**	**208 257**
Amortization and impairment				
Indefinite useful life intangible assets				
S.T. Dupont upfront license fee Dupont	(1 219)	-	-	(1 219)
Van Cleef & Arpels upfront license fee	(18 250)	-	-	(18 250)
Montblanc upfront license fee	(748)	(67)	-	(815)
Boucheron upfront license fee	(8 000)	(1 000)	-	(9 000)
Karl Lagerfeld upfront license fee	(9 065)	(635)	-	(9 700)
Other intangible assets				
Rights on molds for bottles and related items	(9 937)	(879)	-	(10 816)
Registration of trademarks	(500)	-	-	(500)
Software	(2 795)	(236)	53	(2 978)
Total amortization and impairment	**(50 514)**	**(2 817)**	**53**	**(53 278)**
Net total	**155 813**	**(816)**	**(18)**	**154 979**

Own brands

- **Lanvin trademark**

As Interparfums acquired ownership for the Lanvin trademark and brand name for class 3 products (perfumes) in July 2007 no amortization was recognized in its balance sheet.

- **Rochas trademark**

As Interparfums acquired ownership for the Rochas trademark and brand name for products of class 3 (perfumes) and class 25 (fashion) in May 2015, no amortization was recognized in its balance sheet.

Licensed brands

- **S.T. Dupont upfront license fee Dupont**

The total upfront license fee of €1,219,000 has been fully amortized since June 30, 2011.

- **Van Cleef & Arpels upfront license fee**

An upfront license fee of €18 million paid on January 1, 2007 has been fully amortized since December 31, 2018. An amendment agreement extending the partnership between Van Cleef & Arpels and Interparfums was signed in May 2018 for six additional years. This amendment does not provide for an additional upfront license fee.

- **Montblanc upfront license fee**

The upfront license fee of €1 million paid on June 30, 2010 is amortized over the 15.5 year term of the Montblanc license agreement.

- **Boucheron upfront license fee**

The upfront license fee of €15 million paid on 17 December 2010 is amortized over the 15-year term of the Boucheron license agreement.

- **Karl Lagerfeld upfront license fee**

The upfront license fee of €12,877,000 was recognized in 2012 and is amortized over the term of the Lagerfeld license agreement or 20 years starting from January 1, 2012.
The upfront license fee includes the difference between the nominal value and the present value of the advance on royalties for €3,287,000 (See note 3.3 – Other non-financial assets).
A provision for the impairment of the upfront license fee of €5,113,000 was recorded on December 31, 2016.

- **Rights on molds for bottles and related items**

Rights on molds for bottles and related items are amortized over 5 years. Design costs are amortized over 3 years.

3.1.2. Impairment tests

- **Own brands**

A valuation was performed of the Lanvin and Rochas brands on December 31, 2019 by discounting future cash flows to infinity. No provision was recorded.

- **Upfront license fees**

All upfront license fees were measured on December 31, 2019 using the discounted cash flow method over the term of the licenses.

No provision was recorded for impairment in 2019.

For all discounts, the weighted average cost of capital (WACC) of 7.94 % is applied.

- **Analysis of sensitivity**

A one-point increase in the discount rate before tax or the perpetuity growth rate would not result in an additional impairment charge on trademarks and other intangible assets.

3.2 Property, plant and equipment

(€ thousands)	2018	+	-	2019
Fixtures, improvements, fittings	6 225	756	(2 304)	4 677
Office and computer equipment and furniture	2 375	368	(256)	2 487
Molds for bottles and caps	12 234	1 939		14 173
Other [1]	1 087		(538)	549
Total gross amount	**21 921**	**3 063**	**(3 098)**	**21 886**
Accumulated depreciation and impairment [1]	(15 426)	(2 220)	2 841	(14 805)
Net total	**6 495**	**843**	**(257)**	**7 081**

(1) Decreases include the reclassification of vehicle leases as "right-of-use assets" representing an opening gross amount of €538,000 and an amortization expense of €286,000.

3.3 Right-of use assets

The main lease agreements identified which are required to be recognized in the balance sheet under assets in application of IFRS16 are the premises of the Paris headquarters, the New York and Singapore offices and the Rouen warehousing facility.

"Right-of use assets" also includes components relating to vehicle leases previously presented as tangible assets under IAS 17.

At December 31, 2019, “right-of use assets” broke down as follows:

	2018	+	-	2019
Gross value				
Property leases	-	14 602	-	14 602
Vehicle leases [1]	-	635	(136)	499
Total gross amount	**-**	**15 237**	**(136)**	**15 101**
Amortization				
Property leases	-	3 755	-	3 755
Vehicle leases [1]	-	427	(119)	308
Total amortization	**-**	**4 182**	**(119)**	**4 063**
Net total	**-**	**11 055**	**(17)**	**11 038**

(1) increases include the reclassification of vehicle leases from "tangible assets" to "right-of-use assets" representing an opening gross amount of €538,000 and an amortization expense of €286,000.

3.4 Long-term investments and other non-current financial assets

3.4.1. Long-term investments

Long-term investments consist primarily of deposit guarantees on property and since the end of March 2018, a loan granted to the Interparfums Inc. parent company in the amount of €8.1 million (US$10 million) under normal market conditions. This loan was repaid in May 2019 in monthly installments of US$1 million for 10 months for the principal plus the interest thereon.

3.4.2. Other non-current financial assets

The signature of the Karl Lagerfeld license agreement resulted in an advance on royalty payments to be charged against future royalties of €9.6 million. This advance was discounted over the license agreement term and reduced accordingly to €3.1 million at December 30, 2019.

The corresponding offset is recognized by increasing the amortization of upfront license fees.

3.5 Inventory and work-in-progress

(€ thousands)	2018	2019
Raw materials and components	40 647	43 924
Finished goods	63 342	66 174
Total gross amount	**103 989**	**110 098**
Allowances for raw materials	(842)	(1 342)
Impairment of finished goods	(2 447)	(2 287)
Accumulated provisions for impairment	**(3 289)**	**(3 629)**
Net total	**100 700**	**106 469**

3.6 Trade receivables and related accounts

(€ thousands)	2018	2019
Total gross amount	93 720	95 723
Impairment	(1 914)	(2 023)
Net total	**91 806**	**93 700**

The aged trial balance for trade receivables breaks down as follows:

(€ thousands)	2018	2019
Not due	80 131	72 370
0-90 days	12 320	21 536
91-180 days	661	876
181-360 days	208	41
More than 360 days	400	900
Total gross amount	**93 720**	**95 723**

3.7 Other receivables

(€ thousands)	2018	2019
Prepaid expenses	2 761	2 668
Interparfums Holding current accounts	419	-
Value-added tax	1 730	1 756
Hedging instruments	159	126
License royalties	393	592
Other	177	438
Total	**5 639**	**5 580**

3.8 Current financial assets, cash and cash equivalents

(€ thousands)	2018	2019
Current financial assets	59 276	54 045
Cash and cash equivalents	153 696	151 624
Current financial assets, cash and cash equivalents	**212 972**	**205 669**

3.8.1. Current financial assets

Current financial assets, represented by investments with maturities greater than three months, break down as follows:

(€ thousands)	2018	2019
Term deposit accounts	59 072	53 602
Other current financial assets	204	443
Current financial assets	**59 276**	**54 045**

3.8.2. Cash and cash equivalents

Cash in banks and cash equivalents having maturities of less than three months break down as follows:

(€ thousands)	2018	2019
Interest-bearing accounts	-	-
Term deposit accounts	53 273	21 861
Capital redemption contracts	51 788	52 562
Current interest-bearing accounts	7 597	16 228
Bank balances	41 038	60 973
Cash and cash equivalents	**153 696**	**151 624**

3.9 Shareholders' equity

3.9.1. Share capital

As of December 31, 2019, Interparfums' capital consisted of 47,262,190 shares fully paid-up with a par value of €3, 72.68 %-held by Interparfums Holding.

Capital increases in 2019 are the result of the bonus issue of June 14, 2019 in the amount of 4,296,562 shares on the basis of one new share for every ten shares held.

3.9.2 Restricted stock awards

Plan 2016

After a vesting period of three years, performance shares ("*actions gratuities*" or restricted stock units) of the 2016 plan were remitted to employees present on September 6, 2019, without application of a holding period and after duly noting the fulfillment of 100% of the conditions of performance at December 31, 2018; On this basis, the company remitted 172,851 shares acquired on the market for €3.6 million.

In accordance with IFRS 2, the Interparfums SA share price used to estimate the value in the consolidated financial statements of this plan is the average price for the last three trading sessions preceding the implementation of the plan or €23.98. The fair value applied on the award date is €22.46 after taking into account future dividends.
The total charge to be amortized over the duration of the plan (three years) was €2.9 million or €660,000 recognized for fiscal 2019

Plan 2018

The maximum number of shares to be awarded is 133,000 shares for senior executives and managers and 26,000 shares for all other employees under the plan issued on December 31, 2019.

Shares previously purchased by the company on the market are vested by their beneficiaries after a vesting period of three and a half years.

The vesting of these shares is contingent on a condition of presence and conditions of performance. The shares awarded without consideration and fully vested may be sold on the vesting date without the application of a holding period.

Actual transmission of the securities is contingent on the presence of the employee on June 30, 2022 regardless of the status of the beneficiary and/or criteria of performance relating to consolidated revenue for fiscal 2021 for 50 % of the restricted stock units awarded, and consolidated operating profit for 50 % of the remaining restricted stock units awarded to senior executive and manager beneficiaries.

To ensure the availability of shares for remittance to employees on maturity, the company purchased 131,614 shares on the market on December 31, 2019 for a total amount of €5.2 million. These shares are presented as a deduction from shareholders' equity.

At December 31, 2019, the estimated number of shares to be remitted was 142,571.

In accordance with IFRS 2, the Interparfums SA share price used to estimate the value in the consolidated financial statements is that of the last trading session preceding the implementation of the plan or € 33.15. The fair value applied on the award date is € 30.20 after taking into account future dividends. The total expense to be spread over the duration of the plan (3.5 years) amounted to €3.9 million.

At December 31, 2019, the cumulative expense since the beginning of the plan was €1,118,000.

3.9.3. Treasury shares

Within the framework of the share repurchase program authorized by the General Meeting of April 26, 2019, 75,127 Interparfums shares with a nominal value of €3 per share were held by the company as of December 31, 2019 or 0.16% of the share capital.
Changes in the period break down as follows:

(€ thousands)	Av. exch. rate	Number of shares	Book Value
At December 31, 2018	**33,75**	**82 959**	**2 800**
Acquisitions	42,36	342 600	14 514
Bonus share issue of June 14, 2019		6 161	-
Disposals	41,13	(356 593)	(14 667)
Impairment		-	133
At December 31, 2019	**37,00**	**75 127**	**2 780**

Management of the share buyback program is assured by an investment services provider within the framework of a liquidity agreement in compliance with the conduct of business rules of the French association of financial market professionals (AMAFI).

Purchases of shares under this program are subject to the following conditions:
- The maximum purchase price is € 70 per share, excluding execution costs;
- The total number of shares acquired may not exceed 5% of the company's capital stock.

3.9.4. Non-controlling interests

Non-controlling interests concern percentages not held in European subsidiaries (Interparfums Deutschland GmbH: 49%; Parfums Rochas Spain S.L: 49%). that break down as follows:

(€ thousands)	2018	2019
Reserves attributable to non-controlling interests	1 131	1 146
Earnings attributable to non-controlling interests	511	463
Non-controlling interests	**1 642**	**1 609**

Non-controlling shareholders have an irrevocable obligation and the ability to offset losses by an additional investment.

The procedures to wind up the German subsidiary Interparfums GMBH have been completed and the company's removal from the trade register is in progress. This subsidiary was deconsolidated in consequence on December 31, 2019.

3.9.5. Information on equity

In compliance with the provisions of article L.225-123 of the French commercial code, the shareholders' meeting of September 29, 1995 decided to create shares carrying a double voting right. These shares must be fully paid up and recorded in the company's share register in registered form for at least three years.

Since 1998, the company has adopted a policy of distributing dividends that today represent approximately 65 % of consolidated earnings, destined to reward shareholders while at the same time associating them with the Group's expansion. In early May 2019, a dividend of €0.71 per share was paid or a total of €30.3 million.

Given its financial structure, the Group has the ability to secure financing for important projects from banks in the form of medium-term loans. At the end of May 2015, a 5 year €100 million loan was obtained to finance the acquisition of the Rochas brand. At December 31, 2019, the nominal amount still outstanding on this loan amounted to €30 million.

The level of consolidated shareholders' equity is regularly monitored to ensure the company continues to have sufficient financial flexibility to take advantage of all potential opportunities for external growth.

3.10 Provisions for contingencies and expenses

(€ thousands)	2018	Allowances	Actuarial gains / losses	Provisions used the period	Reversal of unused provisions	2019
Provisions for retirement severance payments	8 363	729	34	(23)	-	9 103
Provision for expenses (1)	-	235	-	-	-	235
Total provisions for expenses > 1 year	**8 363**	**964**	**34**	**-**	**0**	**9 338**
Provision for expenses (1)	554	-	-	(554)	-	-
Other provisions for contingencies < 1 year	350	28	-	(100)	(100)	178
Total provisions for contingencies > 1 year	**904**	**28**	**-**	(654)	**(100)**	**178**
Total provisions for contingencies and expenses	**9 267**	**992**	**34**	**(654)**	**(100)**	**9 516**

(1) The provision for expenses concerns the social contribution payable in connection with the restricted share unit plan of 2018.

3.10.1 Provisions for retirement severance payments

For the measurement of retirement severance benefits, Interparfums has adopted the procedure for voluntary severance agreements introduced by Ordinance 2017-1387 published in the French Official Journal of September 23, 2017 and Decree 2017-1398 published in the French Official Journal of September 26, 2017.

For 2019, the following assumptions were applied:
- A negotiated termination at age 65;
- A rate of 50 % for employer payroll contributions for all employees;
- A 3 % average rate for annual salary increases;
- An employee turnover rate depending on the age of employees;
- The TH 00-02 mortality table for men and the TF 00-02 mortality table for women; and
- A discount rate for the 10 year IBOXX corporate bond index of 0.70%.

On the basis of these assumptions, the annual expense of €729,000 recorded under current income breaks down as follows:
- Service costs: €598,000;
- Financial expense: €131,000.

Actuarial gains and losses in 2019 resulted in a loss of €34,000 recorded under reserves resulting primarily from changes in assumptions and experience adjustments.

A 0.5% increase in the discount rate would result in a €16,000 reduction in the present value of rights at December 31, 2019 versus a 0.5% decrease resulting in a €17,000 increase.

3.10.2 Other provisions or disputes

The provision for expenses concerns the social contribution payable in connection with the restricted share unit plan.

In recent years, Interparfums SA has been subject to tax audits concerning notably, on two occasions, the activity of Interparfums Suisse, without however calling into question the legal basis for this company.
However, in 2018 tax authorities raised questions about the potential tax in France of all or part of the earnings generated by Interparfums Suisse. Because the territoriality of this company has never, at any time, been challenged, Interparfums SA did not consider recording a provision for tax contingencies in the financial statements for the period ended December 31, 2018 to be necessary.

In February 2020, the French tax authorities chose to continue their investigations by conducting a new audit focusing on the same subject and the same period.

Based on the conclusions of its attorneys and legal and tax advisors, considering it to be within its rights, the company did not modify its position and in consequence has still not recorded a provision for tax contingencies for this matter in the accounts for the period ended December 31, 2019.

Other provisions for contingencies relate to commercial and employment-related litigation.

3.11 Borrowings, financial liabilities and lease liabilities

Borrowings and financial liabilities

A loan with was obtained on May 29, 2015 with a face value of €100 million repayable over five years to finance the acquisition of the Rochas brand executed on that same date.

Its repayment is made in quarterly installments of €5 million each for the principal. This loan will be subject to interest equal to the 3-month Euribor plus the applicable margin.

This debt is recognized at fair value to which is allocated the €775,000 in transaction costs directly attributable to the acquisition, in compliance with IFRS 9.

Lease liabilities

“Lease liabilities" includes liabilities representing the present value of future these payments recognized as assets in accordance with IFRS 16. The main lease contracts included under this heading are those relating to the premises of the Paris headquarters, the New York and Singapore offices and the warehousing facility in Rouen.

3.11.1 Changes in finance costs

In accordance with IAS 7, cash flows relating to changes in borrowings and financial liabilities break down as follows:

(€ thousands)	2018	Cash flow	Non-cash items			2019
			Net acquisitions	Changes in fair value	Amortization	
Borrowings	30 000	(20 000)	-	-	-	10 000
Loan acquisition costs	(74)	-	-	-	65	(9)
Interest rate swap	181	-	-	(154)	-	27
Total borrowings and other financial debt	**30 107**	**(20 000)**	**-**	**(154)**	**65**	**10 018**
Lease liabilities	260	(3 751)	(58)	15 180	-	11 631
Total financial debt	**30 367**	**(20 000)**	**(58)**	**(154)**	**65**	**21 649**

3.11.2 Breakdown of borrowings, financial liabilities and lease liabilities by maturity

(€ thousands)	Total	< 1 year	1 to 5 years	> 5 years
Borrowings and financial liabilities	10 018	10 018	-	-
Lease liabilities	11 631	3 334	8 297	-
Total at December 31, 2019	**21 649**	**13 352**	**8 297**	**-**

3.11.3 Additional disclosures

The Rochas loan contracted in May 2015 was covered by an interest rate swap covering 90% of the debt, guaranteeing a maximum rate of 2%.
At December 31, 2019, on the basis of a notional amount of €10 million, a gain of €154,000 in connection with this swap was recognized in the income statement whereby the Group did not apply hedge accounting in accordance with IFRS 9. The market value of the swap at December 31, 2019 represented a negative amount for the company of €27,000.

3.11.4 Covenants

The Rochas loan obtained by the parent company is subject to the following covenant ratios:
- Interest coverage ratio: consolidated EBITDA / consolidated interest expense;
- Leverage ratio: Consolidated net debt / consolidated EBITDA.

At 31 December 2019, all these covenants were met. The current level of these ratios is considerably below the contractual limits. As a result, the Group has considerable financial flexibility in respect to these commitments.

3.12 Deferred tax

Deferred taxes arise mainly from timing differences between financial accounting and tax accounting. Deferred taxes from consolidation adjustments and deferred taxes based on loss carryforwards are recovered as follows:

(€ thousands)	2018	Changes through reserves	Changes through income	2019
Deferred tax assets				
Timing differences between financial and tax accounting	4 224	-	312	4 536
Provisions for retirement liabilities	179	11	(11)	179
Loss carryforwards	376	-	(88)	288
Swap instrument	-	-	-	-
IFRS 16 - right-of-use assets	-	80	(8)	72
Leases	1	-	1	2
Intra-group inventory margin	2 775	-	1 294	4 069
Advertising and promotional costs	844	-	(146)	698
Other	80	(80)		0
Total deferred tax assets before amortization	**8 479**	**11**	**1 354**	**9 844**
Depreciation of deferred tax assets	(192)		(96)	(288)
Net deferred tax assets	**8 287**	**11**	**1 258**	**9 556**
Deferred tax liabilities				
Acquisition costs	556	-	-	556
Bonus shares	-	(213)	213	-
Levies imposed by governments	210	-	13	223
Borrowing costs associated with the Rochas brand acquisition	27	-	(22)	5
Capitalization of costs associated with the Rochas brand acquisition	1 677	-	-	1 677
Gains (losses) on treasury shares	-	177	(177)	0
Impairment of treasury shares	101	-	(46)	55
Forward hedging instruments	50	(53)	14	11
Derivatives	11	-	66	77
Total deferred tax liabilities	**2 632**	**(89)**	**61**	**2 604**
Total net deferred tax	**5 654**	**100**	**1 197**	**6 952**

3.13. Trade payables and other current liabilities

3.13.1. Trade payables and related accounts

(€ thousands)	2018	2019
Trade payables for components	22 979	20 019
Other trade payables	51 034	43 645
Total	**74 013**	**63 664**

3.13.2. Other liabilities

(€ thousands)	2018	2019
Accrued credit notes (1)	2 598	6 646
Tax and employee-related liabilities	17 951	15 144
Accrued royalties	9 638	9 322
Hedging instruments	42	12
Interparfums Holding current accounts	-	1 752
Other liabilities	796	1 687
Total	**31 025**	**34 563**

(1) "Accrued credit notes" includes a provision for returns from customers of the US subsidiary in the amount of €3,415,000 in 2019.

As required by IFRS 15, it is specified that the other liabilities include liabilities for a contract in for non-significant amounts (less than 2% of other liabilities).

3.14. Financial instruments

Financial instruments according to IFRS 9 classifications for measurement break down as follows:

		31/12/2019				31/12/2018	
(€ thousands)	**Notes**	**At amortized cost**	**Fair value through profit or loss**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Other non-current financial assets							
Long-term investments		2 862	-	2 862	2 862	10 674	10 674
Total non-current financial assets	3.4	3 066	-	3 066	3 066	3 566	3 566
Current financial assets							
Trade receivables and related accounts	3.6	93 700	-	93 700	93 700	91 806	91 806
Other receivables	3.7	5 454	-	5 580	5 580	5 639	5 639
Derivative instruments subject to hedge accounting (based documentation establishing the hedging relationship)		126	-	-	-	-	-
Other current financial assets	3.8	54 045	-	54 045	54 045	59 276	59 276
Cash and cash equivalents	3.8	151 624	-	151 624	151 624	153 696	153 696
Non-current financial liabilities							
Non-current borrowings and financial liabilities	3.11	-	-	-	-	10 144	10 144
Current liabilities							
Trade payables and related accounts	3.13	63 664	-	63 664	63 664	74 013	74 013
Current borrowings and financial liabilities (1)	3.11	9 956	27	10 018	10 018	20 223	20 223
Other liabilities	3.13	34 551	-	34 563	34 563	31 025	31 025
Derivative instruments subject to hedge accounting (based on documentation establishing the hedging relationship)		12	-	-	-	-	-

(1) The fair value of borrowings and financial liabilities is measured as the total value of future cash flows discounted according to the prevailing interest rate on the market for comparable instruments.

No change in fair value has been recorded through equity.

In accordance with IFRS 13, current and non-current financial assets, cash and cash equivalents and borrowings and financial liabilities are measured using directly observable inputs other than quoted market prices or provided by financial institutions (level 2). The carrying value of other financial assets presented above represents a satisfactory approximation of their fair value.

3.15 Risk management

The primary risks related to the Group's business and organization result from interest rate and foreign exchange rate exposures that are hedged using derivative financial instruments. The potential impacts of other risks on the company’s financials are not material.

3.15.1 Interest rate risks

The Group's interest rate exposure is related principally to debt. The objective of the Group's policy is to ensure a stable level of financial expense through the use of hedges in the form of interest rate swaps (fixed rate swaps). These financial instruments are not eligible for hedge accounting under IFRS 9. The Group nevertheless considers that these transactions are not speculative in nature and are necessary to effectively manage its interest rate exposure.

3.15.2 Liquidity risks

The net position of financial assets and liabilities by maturity is as follows:

(€ thousands)	< 1 year	1 to 5 years	> 5 years	Total
Other non-current financial assets	500	2 000	566	3 066
Current financial assets	-	28 456	25 589	54 045
Cash and cash equivalents	151 624	-	-	151 624
Total financial assets	**152 124**	**30 456**	**26 155**	**208 735**
Borrowings and financial liabilities	(9 991)	-	-	(9 991)
Total financial liabilities	**(9 991)**	**0**	**-**	**(9 991)**
Net position before hedging	**142 133**	**30 456**	**26 155**	**198 744**
Hedging of assets and liabilities (swaps)	(27)	-	-	(27)
Net position after hedging	**142 106**	**30 456**	**26 155**	**198 717**

3.15.3. Foreign exchange risks

Net positions of the Group in the main foreign currencies are as follows:

(€ thousands)	USD	GBP	JPY
Assets	25 450	5 919	1 228
Liabilities	(4 271)	(1 596)	(3)
Net position before hedging at the closing price	**21 179**	**4 323**	**1 225**
Net position hedged	(16 539)	(3 157)	(861)
Net position after hedging	**4 640**	**1 166**	**364**

Because a significant portion of Group sales is in foreign currencies, it incurs a risk from exchange rate fluctuations, primarily from the US dollar (46.6 % of sales) and to a lesser extent the pound sterling (5.6 % of sales) and the Japanese yen (1.3 % of sales).

- Foreign exchange risk management policy

The Group's exchange rate risk management policy seeks to cover budget exposures considered highly probable related to monetary flows resulting from US dollar sales, as well as trade receivables in the period in US dollars, pound sterling and Japanese yens.

To this purpose, the Group has recourse to forward exchange sales, according to procedures that prohibit speculative trading:

- All forward currency hedging must be backed in terms of amount and maturity by an identified economic underlying asset;
- All budget exposures are identified.

At December 31, 2019, the Group had hedged 65 % of its receivables in US dollars, 54% of its payables in Pound Sterling and 70% for trade receivables booked in Japanese yen.

- Sensitivity to foreign exchange risk

A 10% fluctuation in the exchange rate of the US dollar and the pound sterling in relation to the euro represents a pertinent risk factor that may reasonably occur within a given year. An immediate upswing in the exchange rate (US dollar and pound sterling) of 10% would result in a maximum positive currency effect of €25.7 million on sales and €20.4 million on operating income. A 10% decrease of these same exchange rates would have an inverse negative effect.

3.15.4. Counterparty risk

Financial instruments and cash deposits used by the Group to manage interest rate and foreign exchange risks are obtained from top-tier counterparties with benchmark ratings.

4 Notes to the income statement

4.1 Breakdown of consolidated sales by brand

(€ thousands)	2018	2019
Montblanc	108 773	140 729
Jimmy Choo	99 631	103 498
Coach	84 394	86 477
Lanvin	59 003	52 082
Rochas	34 095	34 546
Boucheron	19 430	18 295
Van Cleef & Arpels	13 610	15 339
Karl Lagerfeld	12 582	13 937
Paul Smith	6 587	5 557
S.T. Dupont	5 682	4 715
Repetto	4 631	2 781
Other	4 734	4 350
Perfume sales	**453 152**	**482 306**
Rochas fashion license revenues	2 190	1 954
Total revenue	**455 342**	**484 260**

4.2 Cost of sales

(€ thousands)	2018	2019
Raw materials, trade goods and packaging	(163 204)	(171 182)
Changes in inventories	14 802	10 736
POS advertising	(2 521)	(3 493)
Staff costs	(5 174)	(6 109)
Allowances and reversals for depreciation/impairment (1)	(1 904)	(3 993)
Property leasel expenses (1)	(2 054)	(232)
Transportation costs	(722)	(844)
Other expenses related to the cost of sales	(320)	(324)
Total cost of sales	**(161 097)**	**(175 441)**

(1) Changes in these line items result from the application of IFRS 16 in 2019.

4.3 Selling expenses

(€ thousands)	2018	2019
Advertising	(105 409)	(109 538)
Royalties	(33 259)	(36 254)
Staff costs	(30 893)	(30 986)
Service fees / subsidiaries	(8 243)	(6 712)
Subcontracting	(7 369)	(6 566)
Transportation costs	(5 063)	(5 854)
Travel and entertainment expenses	(5 046)	(7 577)
Allowances and reversals for depreciation/impairment (1)	(5 355)	(4 867)
Tax and related expenses	(3 535)	(3 793)
Commissions	(1 417)	(1 601)
Property lease expenses (1)	(1 943)	(560)
Other selling expenses	(2 926)	(2 670)
Total selling expenses	**(210 458)**	**(216 978)**

(1) Changes in these line items result from the application of IFRS 16 in 2019.

4.4 Administrative expenses

(€ thousands)	2018	2019
Purchases and external costs	(5 580)	(6 440)
Staff costs	(9 044)	(9 411)
Property lease expenses (1)	(481)	(118)
Allowances and reversals for depreciation/impairment (1)	(979)	(1 466)
Travel expenses	(653)	(603)
Other administrative expenses	(862)	(734)
Total administrative expenses	**(17 599)**	**(18 772)**

(1) Changes in these line items result from the application of IFRS 16 in 2019.

4.5 Net financial income (expense)

(€ thousands)	2018	2019
Financial income	2 440	2 090
Interest and similar expenses	(1 141)	(1 199)
Net finance costs	**1 299**	**891**
Currency losses	(4 996)	(5 095)
Currency gains	5 057	4 288
Net currency gains (losses)	**61**	**(807)**
Other financial income and expenses	**1**	**0**
Net financial income / (expense)	**1 361**	**84**

4.6 Income taxes

4.6.1 Analysis of income taxes

(€ thousands)	2018	2019
Current income tax - France	(15 620)	(17 817)
Current income tax – Foreign operations	(5 502)	(5 437)
Total current income tax	**(21 122)**	**(23 254)**
Non-current income tax	**217**	
Deferred tax- France	917	1 541
Deferred tax- Foreign operations	100	(344)
Total deferred taxes	**1 017**	**1 197**
Total income taxes	**(19 888)**	**(22 057)**

4.6.2. Reconciliation of the effective tax expense and theoretical tax expense

The difference between the effective tax recorded and the theoretical tax expense calculated by applying the tax rate of 34.43 % applicable in France for fiscal 2018 and 2019 to pre-tax income reflects the following.

(€ thousands)	2018	2019
Tax base	**67 549**	**73 153**
Theoretical tax calculated at the parent company rate	(23 257)	(25 187)
Effect of tax rate differences	2 839	3 151
Recognition of tax income not previously classified as tax assets	242	-
Tax adjustments	(125)	-
Permanent non-deductible differences	413	(21)
Income tax	**(19 888)**	**(22 057)**

4.7 Earnings per share

(€ thousands) except number of shares and earnings per share in euros	2018	2019
Consolidated net income	47 150	50 633
Average number of shares	41 395 363	45 073 082
Basic earnings per share (1)	**1,14**	**1,12**
Dilutive effect of stock options:		
Potential additional number of fully diluted shares	-	-
Potential fully diluted average number of shares outstanding	41 395 363	45 073 082
Diluted earnings per share(1)	**1,14**	**1,12**

(1)Adjusted for bonus shares granted in 2018 and 2019.

5 Segment reporting

5.1 Business lines

Because the company manages a single main business segment of "Perfumes" and the financial performance indicators of each brand making up this business are similar, the Group's income statement and balance sheet represent in consequence mainly the "Perfumes" business.

Because the "Fashion" business representing the revenue generated by the Rochas brand was not significant (less than 0.5 % of Group sales), a separate presentation thereof has not been produced. Assets and liabilities relating to the Rochas brand at December 31, 2019 were as follows:

(€ thousands)	Perfumes	Fashion	Total
Intangible assets - Rochas brand	86 739	19 086	105 825
Medium-term loan	8 211	1 807	10 018

The amount of the loan has been allocated by business in proportion to the breakdown of intangible assets.

Segment assets and liabilities consist of assets (liabilities) used primarily in France.

5.2 Geographical segments

Sales by geographical sector break down as follows:

(€ thousands)	2018	2019
North America	140 122	151 715
South America	35 200	35 023
Asia	64 071	67 883
Eastern Europe	39 955	42 580
Western Europe	91 490	91 576
France	35 008	36 907
Middle East	43 197	51 172
Africa	4 109	5 450
Perfume sales	**453 152**	**482 306**
Rochas fashion license revenues	**2 190**	**1 954**
Total	**455 342**	**484 260**

6 Other information

6.1 Off-balance sheet commitments

The following presentation of off-balance sheet commitments is based on AMF recommendation No. 2010-14 of December 6, 2010.

6.1.1 Off-balance sheet commitments in connection with the company's operating activities

(€ thousands)	Main characteristics	2018	2019
Guaranteed minima on trademark royalties	Guaranteed minima on royalties regardless of sales achieved for each of the trademarks in the period.	324 810	329 043
Headquarters rental payments (1)	Rental payments due over the remainder of the lease terms (3, 6 or 9 years).	15 869	-
Guaranteed minima for warehousing and logistics (1)	Contractual minima for remuneration of warehouses to be paid regardless of sales volume for the period.	2 013	-
Firm component orders	Inventories of components on stock with suppliers that the company undertakes to purchase as required for releases and which the company does not own.	6 528	5 042
Total commitments given in connection with operating activities		**349 220**	**334 085**

(1) Lease obligations are included in the balance sheet as of January 1, 2019, the date of the first-time application of FRS 16 - Leases.

6.1.2 Off-balance sheet commitments in connection with the company's financing activities

Commitments with respect to forward currency sales at December 31, 2019 amounted to US$18,500, £2,700,000 and ¥105,000,000.

6.1.3 Commitments given by maturity at December 31, 2019

(€ thousands)	Total	Up to 1 year	1 to 5 years	5 years or more
Guaranteed minima on trademark royalties	329 043	30 279	131 966	166 798
Firm component orders	5 042	5 042	-	-
Total commitments given	**334 085**	**35 321**	**131 966**	**166 798**

Maturities are defined on the basis of the contract terms (license agreements, logistic agreements, etc.)

6.1.4 Commitments received

Commitments in connection with forward currency sales at December 31, 2019 amounted to €16,539,000 for hedges for US dollars, €3,157,000 for pound sterling and €861,000 for Japanese yen representing total commitments of €20,557,000.

6.2 License agreements

	Nature of license	License inception date	Duration	Expiration date
S.T. Dupont	Inception	July 1997	11 years	-
	Renewal	January 2006	5 years and 6 months	-
	Renewal	January 2011	6 years	-
	Renewal	January 2017	3 years	December 2019
	Renewal	January 2020	1 year	Renewable
Paul Smith	Inception	January 1999	12 years	-
	Renewal	July 2008	7 years	-
	Renewal	July 2017	4 years	December 2021
Van Cleef & Arpels	Inception	January 2007	12 years	-
	Renewal	January 2019	6 years	December 2024
Jimmy Choo	Inception	January 2010	12 years	-
	Renewal	January 2018	13 years	December 2031
Montblanc	Inception	July 2010	10 years and 6 months	-
	Renewal	January 2016	5 years	December 2025
Boucheron	Inception	January 2011	15 years	December 2025
Repetto	Inception	January 2012	13 years	December 2024
Karl Lagerfeld	Inception	November 2012	20 years	October 2032
Coach	Inception	June 2016	10 years	June 2026
Kate Spade	Inception	January 2020	10 years and 6 months	June 2030

In June 2019, Interparfums and Kate Spade entered into an exclusive global 10 ½ year fragrance license agreement as from January 2020.

Under this agreement, Interparfums will create, produce and distribute new perfumes and fragrance-related products. Interparfums will distribute these fragrances globally to department and specialty stores and duty free shops, as well as in Kate Spade retail stores beginning fall 2020.

6.3 Own brands

Lanvin

At the end of July 2007, Interparfums acquired the Lanvin brand names and international trademarks for fragrance and make-up products from the Jeanne Lanvin company.

Interparfums and Lanvin concluded a technical and creative assistance agreement in view of developing new perfumes effective until June 30, 2019 and based on net sales. The Jeanne Lanvin company holds a buy back option for the brands which will be exercisable on July 1, 2025.

Rochas

At the end of May 2015, Interparfums acquired the Rochas brand (perfumes and fashion) from Procter & Gamble. This transaction covered all Rochas brand names and registered trademarks (*Femme, Madame, Eau de Rochas*,…) mainly for class 3 (fragrances) and class 25 (fashion).

6.4 Employee-related data

The increase in the number of employees in the year is linked to the growth in business.

6.4.1 Workforce by department

Number of employees at	31/12/2018	31/12/2019
Executiv e Management	2	4
Production & Operations	43	48
Marketing	55	62
Export	71	77
France	44	41
Finance & Corporate Affairs	54	61
Rochas fashion	7	7
Total	**276**	**300**

6.4.2 Headcount by region

Number of employees at	31/12/2018	31/12/2019
France	206	218
North America	55	64
Asia	15	18
Total	**276**	**300**

6.4.3 Staff costs

(€ thousands)	2018	2019
Wages	29 061	30 226
Social charges	10 577	10 759
Profit-sharing benefits	3 710	3 840
Performance share awards	911	1 778
Total staff costs	**44 259**	**46 603**

In addition, €644,000 in supplemental retirement benefits for executive management were paid in 2019.

6.5 Information on related parties

No new agreements were entered into in the period, involving a significant amount or that were not in accordance with normal market conditions, between the parent company and its subsidiaries.

6.5.1 Management Committee members

The members of the Management Committee exercise responsibilities in the areas of strategy, the management and oversight. They have employment contracts and receive compensation as follows:

(€ thousands)	2018	2019
Wages and social charges	6 679	7 314
Share based payment expenses	337	571

Total gross compensation for the three corporate officers breaks down as follows:

(€ thousands)	2018	2019
Gross wages	2 028	2 076
Benefits in-kind	19	19
Supplemental retirement contribution	44	45
	2 105	**2 140**

The executive officers Philippe Benacin and Jean Madar, co-founders of Interparfums SA are also executive officers and majority shareholders of the parent company Interparfums Inc.

6.5.2 Board of Directors

The members of the Board of Directors exercise responsibilities in the areas of strategy, management consulting, acquisitions and oversight. Only outside directors are paid directors' fees that break down as follows:

(€ thousands)	2018	2019
Attendance fees received[1]	180	146

[1] Calculated on the basis of actual Board meeting attendance

6.5.3 Relations with the parent company

The accounts of Interparfums SA and its subsidiaries, through Interparfums Holding, are fully consolidated into the accounts of Interparfums Inc., whose registered office is located at 551 Fifth Avenue, New York, NY 10176, United-States. No material transaction exists between Interparfums SA and Interparfums Inc. or Interparfums Holding.

6.6 Statutory Auditors' fees

Total auditors' fees expensed in the income statement relating to their engagement as statutory auditors break down as follows:

(€ thousands)	Mazars				SFECO & Fiducia Audit			
	2018	%	2019	%	2018	%	2019	%
Statutory auditing, certification of accounts, review of separate and consolidated accounts								
For the Issuer	310	67%	330	71%	100	100%	103	100%
For fully consolidated subsidiaries	145	31%	129	28%	-	-	-	
Services other than for the certification of accounts								
For the Issuer	8	2%	8	2%	-	-	-	-
For fully consolidated subsidiaries	25	-	28	-	-	-	-	-
Total	**463**	**100%**	**467**	**100%**	**100**	**100%**	**103**	**100%**

Services other than account certification relate to statements certificates issued at the request of the company for bank covenants and sales for our licensors and suppliers.

In accordance with applicable regulations, these assignments were approved by the board of directors acting in the capacity of audit committee.

6.7 Post-closing events

None.