The Body Shop International Limited (Formerly The Body Shop International PLC)

Annual report and consolidated financial statements for year ended 31 December 2017

Registered number : 01284170

Contents

Company Information

Directors
Natura Cosmeticos S.A.
R C Chatwin
I G Filho

Company Secretary
S Flook

Independent Auditor
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Statutory Auditor
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United Kingdom

Registered office
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BN17 6LS
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Registered number
01284170

Solicitors
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Bankers
Barclays Bank PLC
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HSBC Bank PLC

STRATEGIC REPORT

The Directors present the strategic report and the audited financial statements of The Body Shop International Limited ("the Company") and its subsidiary undertakings ("the Group") for the year ended 31 December 2017.

Registration as a private limited company and name change
On 15 January 2018 the Company re-registered from a public company to a private limited company by the name of The Body Shop International Limited.

Principal activities and review of business
The Group develops, distributes and sells naturally inspired beauty products, make up and skincare under "The Body Shop" trademark and other Company owned intellectual property. The Group distributes and sells such products through its own shops, home sales, e-commerce and through franchised outlets. The Group is present in major markets across all continents operating through Company markets (own store operations) and head franchise markets (third party).

On 7 September 2017 the Group was sold by L'Oreal SA. The entire share capital was acquired by Natura (Brasil) International B.V..

Key performance indicators
The board of Directors monitors the effectiveness of the Group's operations by considering various key performance indicators. The main indicators are revenue, operating profit and store numbers. Revenue for the year was £797m (2016: £754m), operating profit for the year was £29m (2016: £23m) and at year end 2017 there were 3,049 stores (Company 1,099 and franchise 1,950); and 2016 there were 3,082 stores (Company 1,132 and franchise 1,950). The increase in revenue and operating profit as well as the decrease in store numbers is in-keeping with the expectations and overall strategic direction of the management and directors.

The Body Shop saw growth in online sales and the franchisee channel as well as solid growth in the North America and Asia Pacific regions.

Principal risks and uncertainties
The Group's internal control framework aims to prevent and manage risk, particularly those of an economic, financial and legal nature to which the Group may be exposed, even though no absolute guarantee of a total absence of risk can ever be provided. The major risks considered during the year were:

Image and reputation - The Group's reputation and brand image may be compromised at any time in a globalised world where the report of an incident is conveyed from one continent to the next at the speed of the internet. The Body Shop International Limited has implemented crisis management procedures to prevent, manage and limit the consequences of undesirable events on the Group.

Product quality and safety - Consumer safety is an absolute priority. The Group evaluates the safety of raw materials and finished products. The Group is vigilant with regard to any new scientific data and cooperates where relevant with authorities.

Competition - The Group is subject to constant pressure from local and international competitors. This competition is healthy; it leads our teams to always focus on innovation to serve the interests of consumers and our brand.

Information systems and cyber risk – The risk of a malfunction, hacking or breakdown in our internal information systems for external or internal reasons cannot be ignored. In order to minimise the impact that this type of occurrence could have, we have strict rules with regard to data backups, cyber-crime, protection access and security to both computer hardware and software applications.

STRATEGIC REPORT (CONTINUED)

Intellectual property - The Group has a portfolio of trademarks; these are strategic assets. Trademarks and the products themselves may be infringed or counterfeited by parties wishing to illegally benefit from their reputation and goodwill. The Group's legal department is entrusted with the protection of these assets.

Before filing trademarks and as a part of the new product development process, prior rights searches are conducted. In view of the number of countries in which the products are sold, we cannot rule out the possibility that third parties may claim prior rights with regard to certain The Body Shop® products and services. This is a potential risk that has to be cited even though the likelihood of its occurrence is low due to the care taken when conducting prior rights searches.

Changes in regulations - The Group must fully comply with local legislation. The Group has legal counsel in many of the territories in which it operates, who ensure compliance and adhere with local legislation.

Approach to taxation - The Body Shop's Enrich Not Exploit™ Commitment extends to, underpins and drives The Body Shop's tax strategy. The group strives to identify, evaluate and properly manage all key tax risks. It adopts a highly compliant approach to tax management to ensure all taxation compliance is properly controlled and managed, and that it meets its obligation to fulfil its duties under the taxation laws of all jurisdictions in which it operates. It maintains strong, open and professional working relationships with the taxation authorities and consults with external advisers as appropriate.

Insurance - The objective of the Group's policy on insurance is to protect the Balance Sheet and Income Statement from the occurrence of identified material risks that could adversely affect it. This risk transfer forms an integral part of the Group's risk management process.

Market and economic uncertainties - Retail conditions are improving but an unforeseen deterioration in the economic climate may affect the Group's results.

Article 50 - The United Kingdom has initiated the process of leaving the European Union. This has to date created business uncertainty and may potentially impact on property prices, inflation rates, currency rates and more. The group considers volatility in exchange rates to be one of the main risks in relation to triggering Article 50 and believes the current hedging policies effectively mitigate this risk. The Group will continue to monitor and address other risks arising as appropriate.

Financial risk management objectives and policies - The Group's activities expose it to a number of financial risks including liquidity risks, currency risks and credit risks. The use of financial derivatives is governed by the board of Directors. The Group does not use derivative financial instruments for speculative purposes.

Liquidity risk – The Body Shop operates a prudent approach to cash flow and operates within the paramaters of its loan facility.

Currency risks - Due to its international sales and cost of sales denominated in different currencies, the fluctuation of main currencies may have an impact on the Group's results. In order to limit currency risk, the Group adopts a conservative approach of hedging before the year-end a significant portion of annual requirements for the following year, through forward purchases or sales contracts or through options. Requirements are established for the following year on the basis of the operating budgets of each subsidiary. These requirements are then reviewed regularly throughout the year in progress.

Credit risks – These may result from non-collection of receivables due to cash problems encountered by customers. The amount considered as posing a risk of non-collection has been provided for, as set out in note 16, representing 5.1% (2016: 3.6 %) of gross accounts receivable.

STRATEGIC REPORT (CONTINUED)

Future prospects

The priorities for The Body Shop in the future include: rejuvenating the brand, optimizing retail operations, strengthening the relationships with franchisees, enhancing the omnichannel experience and improving operational efficiency.

Our Enrich Not Exploit Commitment includes 14 targets for The Body Shop to achieve by 2020. The targets are the clearest manifestation of who we are and what we stand for. They will drive our performance in key areas and our overall progress towards our ultimate aim of being the world's most ethical and truly sustainable global business. For more information on our 14 targets, please visit our website at www.thebodyshop.com.

Further information on the Natura Cosmetics Group is set out in the Annual Report of Natura Cosmeticos S.A. for 2017 which is available from the registered office at Av Alexandre Colares, 1188, Sao Paulo, Brazil and online at www.natura.com.br.

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

R C Chatwin
Director
27 April 2018

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Company and the Group, together with the consolidated financial statements and auditor's report for the year ended 31 December 2017.

In accordance with section 414C (11) of the Act, the Directors have included within the strategic report information regarding the below matters as the Directors consider they are of strategic importance to the Group;

- financial risk management objectives and policies; and
- future developments.

Directors

The current Directors are listed on page 2 of the accounts. The Directors who served throughout the period or as otherwise stated were as follows;

J Schwartz (Chief Executive Officer) (resigned 7 September 2017)

C Mulliez (resigned 7 September 2017)

G Skingsley (resigned 7 September 2017)

Natura Cosmeticos S.A. (appointed 7 September 2017)

R C Chatwin (appointed 7 September 2017)

I G Filho (appointed 7 September 2017)

Dividends

The Directors do not recommend the payment of a dividend for the year end 31 December 2017 (In 2016: no dividend was declared. However, the 2015 final dividend of £41m was paid in 2016 – as explained in note 25).

Capital structure

The Body Shop International Limited is a wholly-owned subsidiary of Natura (Brasil) International B.V.. Details of the authorised and issued share capital of the Group are shown in note 25.

Directors' indemnities

The ultimate parent undertaking has made qualifying third party indemnity provisions for the benefit of the Group Directors which were made during the year and remain in force at the date of this report.

Political donations

There were no political donations for the period.

Branches

The Group operates and has branches in several geographical locations (see note 29).

Employees

Details of the number of employees and related costs are set out in note 7 to the financial statements.

The Group is dedicated to engaging and inspiring customers to buy naturally inspired personal care products. To do this, the Group focuses on attracting and retaining employees with great skills, knowledge and creative talent. In return, the Group offers an opportunity for employees to be part of a globally recognised brand and to play an active role in promoting social and environmental change through the Group's campaigning, volunteering and community-giving programmes.

The Group has a long-established policy of promoting diversity throughout the global business. Internal and external recruitment processes are monitored to ensure there is no deliberate bias. Human resources policies reflect the Group's commitment to a fair and equal organisation where everyone is encouraged to succeed regardless of sex, race, sexual orientation, age or disability.

In the event of an employee becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged.

DIRECTORS' REPORT (CONTINUED)

The Group aims to ensure that employees' pay and benefits are competitive in the marketplace. A flexible benefits programme is offered, in which employees can opt to trade certain benefits, such as additional holidays.

The Group prides itself on ensuring that all employees are aware of its performance. A mix of communication methods is used to engage and inform employees, including face-to-face communication sessions and the intranet.

The Group formally consults employees via 'The Body Shop Matters', a committee comprising employee-elected representatives.

Going concern

The Group's activities together with the factors likely to affect its future development and position are set out in the Strategic report.

The Group is expected to generate positive cash flows, on a full year basis, on its own activities for the foreseeable future.

The Directors have confirmed that they intend to continue trading for the foreseeable future and certainly for 12 months from the date of signing the accounts. After reviewing cash flow forecasts, budgets and loan and overdraft agreements, the Directors have reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and for this reason, they have continued to adopt the going concern basis in preparing the annual report and financial statements.

Post balance sheet events

On 23 February 2018, 20,000,000 ordinary shares in the Company with a nominal value of £0.05 per share were issued to the parent, Natura (Brasil) International B.V.. In consideration for the issue the intercompany loan, which at the Balance sheet date has a carrying value of £59m, was settled. This transaction resulted in share capital of £1m and share premium of £58m.

On 14 February 2018 The Body Shop International Limited provided a guarantee in favour of debenture holders in respect of debentures issued by Natura Cosmeticos S.A. in order to refinance part of the debt acquisition of The Body Shop International Limited. Natura Cosmeticos S.A. is the principal debtor for the issued debentures in an aggregate principal amount of Brazilian Reals 1,400,000,000 due on 14 August 2019 and The Body Shop International Limited act as a guarantor.

Research and development

The cost of research and development expenditure was £4m (2016: £4m). All research and development costs have been recognised through the Income Statement.

Auditor

Each of the persons who is a Director at the date of approval of this annual report confirms that:

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

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

Following the acquisition by Natura, it is proposed Deloitte LLP will resign as auditor at the forthcoming Annual General Meeting and a resolution to appoint KPMG will be proposed.

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

R C Chatwin
Director
27 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

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

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BODY SHOP INTERNATIONAL LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom GAAP, including FRS101: "reduce disclosure framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Body Shop International Limited (the 'parent Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement
- the Consolidated Statement of Comprehensive Income
- the Consolidated and Company Balance Sheets
- the Consolidated and Company Statement of Changes in Equity
- the Consolidated Statement of Cash Flows; and
- the related notes (1 to 31 for the Group and A to T for the Company).

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom accounting standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate for the basis of our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BODY SHOP INTERNATIONAL LIMITED (CONTINUED)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of the directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BODY SHOP INTERNATIONAL LIMITED (CONTINUED)

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Company's Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Group and of their parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Darren Longley FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 April 2018

Consolidated Income Statement for the Year ended 31 December 2017

	Note	Year ended 31 December 2017	Year ended 31 December 2016
		£m	£m
Revenue	5	797	754
Cost of sales		(240)	(228)
Gross profit		557	526
Other operating income		2	2
Operating expenses		(530)	(505)
Operating profit	6	29	23
Interest expense	9	(2)	(4)
Profit before tax		27	19
Income tax	10	(10)	(5)
Profit from continuing operations		17	14
Profit attributable to owners of the parent		17	14

Notes 1 to 31 form an integral part of these financial statements.

Net profit is wholly attributable to the owners of the Company.

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2017

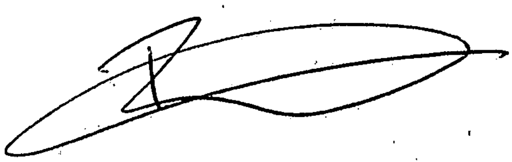
	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Consolidated profit for the year	17	14
Items that may or may not be reclassified subsequently to profit or loss:		
Foreign currency translation differences – foreign operations	(7)	29
Consolidated comprehensive income attributable to the owners of the parent	**10**	**43**

Consolidated Balance Sheet as at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Goodwill	11	121	124
Other intangible assets	12	42	46
Property, plant and equipment	13	93	91
Non-current financial assets	14	10	10
Deferred tax asset	10	7	6
Non-current assets		273	277
Inventories	15	85	90
Trade accounts receivables	16	55	54
Other current assets	17	27	29
Derivative financial instruments	18	5	11
Cash and cash equivalents	20	57	59
Current assets		229	243
Total assets		502	520
Liabilities			
Provisions for liabilities	21	(2)	(4)
Deferred tax liabilities	10	(3)	(1)
Non-current borrowings and debt	24	(7)	(8)
Non-current liabilities		(12)	(13)
Trade and other payables	22	(83)	(78)
Provisions for liabilities	21	(4)	(6)
Other current liabilities	23	(61)	(58)
Derivative financial instruments	18	(4)	(10)
Current tax liabilities	10	(6)	(2)
Borrowings	24	(60)	(91)
Current liabilities		(218)	(245)
Total liabilities		(230)	(258)
Net assets		272	262
Total Equity			
Share capital	25	11	11
Share premium	25	75	75
Profit and loss account		161	144
Foreign Currency Translation reserve		25	32
Equity attributable to the owners of the parent		272	262

Notes 1 to 31 form an integral part of these financial statements.

These financial statements were approved by the board of Directors on 27 April 2018 and were signed on its behalf by:



R C Chatwin
Director

Company registered number: 01284170

Consolidated Statement of Changes in Equity for year ended 31 December 2017

	Note	Share capital	Share premium	Foreign currency translation reserve	Profit and loss account	Non-Controlling interest	Total Equity
		£m	£m	£m	£m	£m	£m
Balance at 1 January 2016		11	75	3	171	1	261
Profit for the year		-	-	-	14	-	14
Translation of foreign investments		-	-	29	-	-	29
Remeasurement of Put liability		-	-	-	4	-	4
Dividend paid	25	-	-	-	(41)	-	(41)
Purchase of non-controlling interest		-	-	-	(4)	(1)	(5)
Balance at 31 December 2016		11	75	32	144	-	262
Balance at 1 January 2017		11	75	32	144	-	262
Profit for the year		-	-	-	17	-	17
Translation of foreign investments		-	-	(7)	-	-	(7)
Balance at 31 January 2017		11	75	25	161	-	272

Consolidated Statement of Cash Flows for year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	Year ended 31 December 2016 £m
Cash flows from operating activities			
Net profit attributable to owners of the company		17	14
Depreciation and amortisation		37	36
Changes in deferred taxes		1	(2)
Changes in provision		(4)	(1)
Share-based payment (including free shares)		-	2
Gross cash flow		51	49
Change in working capital:			
Decrease in inventories		5	6
Increase in trade and other receivables		(1)	(7)
Increase / (decrease) in trade and other payables		8	(8)
Decrease / (increase) in tax receivable balance		6	(6)
Net cash generated by operating activities (A)		69	34
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	12,13	(36)	(41)
Acquisition of subsidiary/non-controlling interest		-	(5)
Net cash used in investing activities (B)		(36)	(46)
Cash flows from financing activities			
Dividends paid	25	-	(41)
Issuance of short-term loans		31	22
Repayment of short term loans		(62)	-
Repayment of long-term borrowings		(1)	-
Net cash (used) in financing activities (C)		(32)	(19)
Net effect of changes in exchange rates and fair value (D)		(3)	10
Change in cash and cash equivalent (A+B+C+D)		(2)	(21)
Cash and cash equivalents at beginning of the year (E)		59	80
Cash and cash equivalents at the end of the year (A+B+C+D+E)		57	59

Interest paid amounts to £2m and £4m respectively in the years 2017 and 2016.
Tax paid amounts to £4m and £10m respectively in the years 2017 and 2016.

Consolidated Notes to the Financial Statements

1. General Information

The Body Shop International Limited (the "Company"), is a private Company limited by shares incorporated, domiciled and registered in England in the United Kingdom. The registered number is 01284170 and the registered address is Watersmead, Littlehampton, West Sussex, BN17 6LS.

The Body Shop International Limited changed its name from The Body Shop International PLC on 15 January 2018.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The principal activities of the Company and its subsidiary undertakings (collectively referred to as the "Group") are described in the strategic report.

The consolidated financial statements of the Company for the year ended 31 December 2017 and the year ended 31 December 2016 comprise the Group and its subsidiary undertakings.

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("IFRSs).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

3. Summary of significant accounting policies

3.1 Going concern

The Group's activities together with the factors likely to affect its future development and position are set out in the Strategic report on pages 3 to 5.

The Group is expected to generate positive cash flows, on a full year basis, on its own activities for the foreseeable future.

The Directors have confirmed that they intend to continue trading for the foreseeable future and certainly for 12 months from the date of signing the accounts. After reviewing of cash flow forecasts, budgets and loan and overdraft agreements, the Directors have reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future and for this reason, they have continued to adopt the going concern basis in preparing the annual report and financial statements.

3. Summary of significant accounting policies (continued)

3.2 Functional and presentation of currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate (the 'functional' currency). The consolidated financial statements are presented in GBP (£), which is the Group's presentational currency. All of the Group's and subsidiaries' presentational currency is GBP (£), their transactional currency is the local currency of the market in which they operate.

Monetary assets and liabilities denominated in foreign currencies are translated into GBP (£) at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into GBP (£) at the rate ruling on the date of the transaction. Exchange gains and losses are recognised in the profit and loss account.

3.3 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control is achieved when the Company has the power over the investee; is exposed, or has rights, to variable return from its involvement with the investee; and has the ability to use its power to affect its returns. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Change in subsidiary ownership and loss of control

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.4 Translation of the accounts of foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at closing exchange rates. Income statement items are translated at average exchange rates for the year.

The resulting translation difference attributable to the Group is entered directly under equity under the item Foreign Currency Translation reserve.

3. Summary of significant accounting policies (continued)

3.5 Employee benefits

Pension plans

Most of the employees of the Group are members of defined contribution schemes. The pension charge for the year relating to these employees is recognised as an expense for the year.

In addition to the above there is an amount of employee benefit liability recognised following local regulation in Australia.

3.6 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue is recognised as follows:

Sales

Sales are recognised when the risks and rewards inherent to ownership of the goods have been transferred to the customer.

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

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

Sale of goods – wholesale
Revenue is recognised when the following conditions are satisfied:

- The significant risks and rewards of ownership have been transferred to the buyer;
- There is no unfulfilled obligation that could affect the wholesaler or the distributor's acceptance;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sale of goods - retail
Revenue is recognised when the product is sold to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale, including credit card fees payable for the transaction.

Sale of goods - online
Revenue is recognised upon dispatch of the goods. The recorded revenue is the gross amount of the sale, including credit card fees for the transaction.

Freight income
Revenue is recognised upon dispatch of the goods.

Royalty income
Royalty income is recognised on an accruals basis in accordance with the substance of the relevant royalty agreements.

Sale of gift vouchers
Revenue from the sale of gift vouchers is initially recognised as a liability to the customer. This is released to revenue as the vouchers are redeemed. An element of breakage is recognised upfront on gift voucher sales based on historical data.

A 'breakage provision' is provided and reviewed monthly. It serves to address the percentage of gift vouchers that will expire before use.

3. Summary of significant accounting policies (continued)

Sale of loyalty cards

Loyalty cards entitle the holder to accrue loyalty points which may be used for discounted purchases and gifts for limited amounts of time. In line with IFRC 13, where loyalty points are issued in connection with a sale, revenue is deferred and amortised over the expected period of usage of the loyalty card. Separately, when loyalty points are gifted, outside of a sales transaction, an appropriate accrual is made for the Group's liability to the customer for gifts of product due under the terms of the card. An element of breakage is recognised upfront on loyalty points based on historic data.

3.7 Other income

Dividend income

Dividend income from subsidiaries is recognised when payment is declared.

Rental income

Rental income is recognised on a straight line basis over the term of the relevant lease. This is presented in other income.

3.8 Cost of sales

The cost of goods sold consists mainly of the cost of: inventory, distribution costs to the customer (including freight and delivery costs), and inventory impairment costs.

3.9 Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

3.10 Operating expenses

These expenses consist mainly of expenses relating to the advertisement and promotion of products to customers and consumers. They are charged to the income statement for the financial year in which they are incurred. Advertising and promotion includes store-related costs including depreciation of store assets and associated impairment charges.

They also include expenses that relate mainly to sales teams and sales team management, rental cars, marketing teams and administrative services, as well as general expenses and the costs of share-based payments (stock options and free shares).

3.11 Operating profit

Operating profit consists of gross profit less research and development expenses, advertising and promotion expenses, and selling, general and administrative expenses.

3.12 Finance costs

Net financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Net finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

3. Summary of significant accounting policies (continued)

3.13 Taxation

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax. Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carry forwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilised.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

3.14 Business combinations

Business combinations are accounted for by the purchase method. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of an acquisition and the Group's interest in the fair value of the identified assets and liabilities is recorded as Goodwill and allocated to the Cash Generating Units expected to benefit from the acquisition or the related synergies.

Goodwill is not amortised. It is tested for impairment at least once a year or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts. Impairments charged against goodwill are not reversed.

Impairment tests consist of comparing the carrying amount with the recoverable amount of each cash generating unit. Details of the cash generating units have been provided in note 11.

3.15 Valuation of goodwill in foreign currencies

Goodwill generated on acquisition of foreign companies is considered to form part of the assets and liabilities of the foreign Company, and is therefore expressed in the Group's functional currency and translated using exchange rates effective at the closing date.

3. Summary of significant accounting policies (continued)

3.16 Other intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

Intangible assets acquired through business combinations

Intangible assets consist of goodwill, trademarks and customer relationships. The carrying value of intangible assets are tested through discounted cash flow modelling.

Brand and product ranges

Brands and product ranges are amortised over their useful lives which is usually the length of the contract.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite useful life span.

They are amortised over their useful lives as estimated at the date of acquisition.

Software

Software is amortised over a 3-5 year period.

Key money

Key money is amortised over the lease term.

Customer relationships

Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market. The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition. For the UK, the useful lives of franchise contracts is 10 years. The carrying value of customer relationships is amortised over its useful economic life.

3.17 Property, plant and equipment

Property, plant and equipment is recorded on the balance sheet at cost and is not revalued.

Significant capital assets financed through finance leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within borrowings and debt on the balance sheet.

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment is considered to have a value of zero at the end of their useful lives.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Freehold property – over 30 years
- Short term leasehold property – over the period of the respective leases; and
- Point-of-sales advertising, stands and displays – over 2 to 10 years
- Other assets – 3 to 7 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Assets under construction are not depreciated until available for use. When available for use they are transferred into the appropriate asset class.

3. Summary of significant accounting policies (continued)

3.18 Non-current financial assets

Non-current financial assets include long-term loans and receivables maturing after more than 12 months.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

3.19 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.20 Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the value of inventories that can be realised upon sale, less a reasonable estimate of the costs associated with either the eventual sale or the disposal of the inventories in question. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historical and projected data.

3. Summary of significant accounting policies (continued)

3.21 Trade accounts receivable

Trade accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value. A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery.

3.22 Derivative financial instruments and hedging

Derivative financial instruments and hedges

The Group uses forward foreign exchange contracts and options to hedge the foreign currency transactions.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when a non-financial asset is depreciated or sold.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Foreign exchange gains and losses

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives.

3.23 Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

3. Summary of significant accounting policies (continued)

3.24 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Dilapidation provisions

The majority of the Group's premises are leased under operating leases. Leases include end of lease rectification clauses which impose certain requirements on the Group to complete repairs and maintenance or re-decoration activities if required. The Group provides for repairs and maintenance as the obligations to pay such amounts, at a future date are known. The Group does not provide for amounts where the potential exposure cannot be reliably measured and accordingly does not anticipate potential repairs and maintenance on the portfolio of stores. Additionally, the Group maintains the stores to a high standard and completes any necessary repairs and maintenance on a timely basis, addressing any events that require expenditure throughout the lease period as and when required. Such costs are expensed as incurred.

3.25 Borrowings and debt

Borrowings and debt are valued at amortised cost based on an effective interest rate.

Bank overdrafts considered to be financing are presented in current borrowings and debt.

Medium and long-term borrowings and debt are recorded under Non-current liabilities. Short-term borrowings and debt and the current portion of medium and long-term borrowings and debt are presented under current liabilities.

3.26 Leases

Operating lease payments and income

Payments made and received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Summary of significant accounting policies (continued)

Finance lease payments

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases, the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding leasing commitments, net of finance charges, are included in liabilities.

Leasing payments are analysed between capital and interest components so that the interest element is charged to the income statement over the period of the lease at a constant periodic rate of interest on the remaining balance of the liability outstanding.

3. Summary of significant accounting policies (continued)

3.27 Changes in accounting policy and disclosures

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 7, *Statement of cash flows on disclosure initiative*	The Group has adopted the amendments to IAS 7, *Statement of cash flows on disclosure initiative* for the first time in the current year. The adoption of these amendments has had no material impact on the Group's consolidated financial statements.
Amendments to IAS 12, *'Income taxes' on Recognition of deferred tax assets for unrealised losses*	The Group has adopted the amendments IAS 12, *'Income taxes' on Recognition of deferred tax assets for unrealised losses* for the first time in the current year. The adoption of these amendments has had no material impact on the Group's consolidated financial statements.
Annual improvements to 2014-2016 IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard	The Group has adopted the amendments to IFRSs included in the *Annual improvements to 2014-2016 IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard* for the first time in the current year. The adoption of these amendments has not resulted in any material impact on the financial performance or financial position of the Group.

3. **Summary of significant accounting policies (continued)**

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers (and the related Clarifications)*
IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*
IFRS 2 (amendments)	*Classification and Measurement of Share-based Payment Transactions*
IFRS 4 (amendments)	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IAS 40 (amendments)	*Transfer of Investment Property*
Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and IFRS 28 Investments in Associates and Joint Ventures*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
IFRIC 22	*Foreign Currency Transactions and Advanced Consideration*
IFRIC 23	*Uncertainty over income tax treatments*

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 16, 'Leases', addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15, 'Revenue from contracts with customers', at the same time. The Group has not yet decided on its transition approach and is currently in the process of compiling, identifying and analysing all the data required to accurately assess the impact of IFRS 16.

4. Accounting estimates and judgements

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the group's accounting policies

The Directors have assessed the critical judgements made in the process of applying the Group's accounting policies that have a significant effect on the amounts recognised in financial statements (apart from those involving estimations, which are dealt with below). The Directors are of the view that there are no judgements that need to be highlighted above the descriptions within the accounting policies in note 3 above.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are outlined below.

i) Impairment of Goodwill

The Group is required to test goodwill annually for impairment, or as triggering events occur. The recoverable amount of cash generating units to which goodwill is attached are determined based on value in use calculations. These calculations require the estimation of future cash flows, applying appropriate growth rates and a determining a suitable discount rate in order to calculate the present value of these cash flows. This assessment is performed on a market by market basis across the Group. Actual outcomes and cash flow performance in these markets could vary materially to those estimated. This risk is greatest in newer markets where the business remains in a start-up phase and the presence of The Body Shop brand is less established. Of these newer markets, the Brazilian businesses is considered to contain the greatest level of future estimation uncertainty. The total carrying amount of goodwill relating to Brazilian market at the balance sheet date is £25m. Details of the impairment loss calculation, including key assumptions and sensitivities is set out in note 11.

ii) Store-related assets

Property, plant and equipment, store goodwill and other intangible assets are reviewed for impairment if events or changes in circumstances indicate that their carrying amount may not be recoverable or at least annually. The recoverable amount of cash generating units to which assets are attached is determined based on value in use calculations. These calculations require the estimation of future cash flows, applying appropriate growth rates and determining a suitable discount rate in order to calculate the present value of these cash flows. This assessment is performed on a market by market, store by store, basis across the Group. Actual outcomes and cash flow performance in these markets could vary materially to those estimated. This risk is greatest in markets where there has been an impairment charge recorded in the current year as these markets are more sensitive to any movement in the underlying assumptions. Details of the impairment loss calculation, including key assumptions and sensitivities is set out in note 11.

5. Revenue

By type of revenue

	2017	2016
	£m	£m
Sale of goods	780	737
Royalties	5	4
Freight income	12	13
Total revenue	797	754

By geographical region

	2017	2016
	£m	£m
Europe and Middle East	387	383
Asia Pacific	215	195
America	168	154
South America	20	16
Other	7	6
Revenue by geographical region	797	754

6. Operating profit

Profit for the year has been arrived at after charging/ (crediting):

	2017	2016
	£m	£m
Depreciation of tangible assets	24	23
Deprecation of tangible fixed assets held under finance leases	1	1
Goodwill Amortisation	-	1
Amortisation of intangible assets	11	5
Research and development	4	4
Impairment of tangible fixed assets	1	5
Losses on disposals of tangible and intangible assets	-	1
Cost of inventories recognised as an expense	183	185
Net restructuring costs	4	2
Operating lease rentals	109	101
Personnel costs	236	221
Foreign exchange on cost of sales purchases	5	(7)

Auditor's remuneration	2017	2016
	£'000	£'000
Fees payable to the Group's auditor for the audit of the consolidated financial statements	141	350
Fees payable to the Company's auditor for the audit of the company's financial statements	129	200
Fees payable to the Company's auditor for other services to the group:		
- audit of the company's subsidiaries pursuant to legislation;	486	300
- other services	184	120
	940	970

7. Staff costs and average headcount

The staff costs and the average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2017	2016
	£m	£m
Salary	211	197
Social security and other taxes	17	16
Pension	6	6
Share based payments	2	2
	236	221
Headcount	No.	No.
Administration	1,409	1,298
Shops	4,461	4,217
	5,870	5,515

Personnel costs include the pension expense, the cost of any share-based payments (stock options and free shares) and payroll taxes.

8. Key Management Personnel

Costs recorded in respect of compensation and similar benefits granted to the Management Committee and the Board of Directors can be analysed as follows. These have been presented to the nearest thousands:

	2017	2016
	£'000	£'000
Wages	2,366	2,480
Benefits/Allowance	974	1,142
Bonus/Profit share	2,824	975
Pension/Share based payments	1,412	978
Social Security	356	465
Total	7,932	6,040

There were 9 executives who were members of the Management Committee 31 December 2017 (9 at the year ended 31 December 2016).

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid director was £311,200 salary, £950,000 bonus, £105,000 pension and £804,000 share-based payment (2016: £439,000 salary, £250,000 bonus, £96,000 pension and £343,000 share-based payment). During the year, the highest paid director exercised share options and received shares under a long-term incentive scheme. The Board consider that the Executive Committee members constitute key management personnel.

9. Other financial income and expenses

	2017	2016
	£m	£m
Interest expense	(2)	(4)

Consolidated Notes to the Financial Statements

10. Income and deferred tax

	2017	2016
	£m	£m
Current tax expense		
Current year	7	6
Adjustments for prior years	1	-
Current tax expense	**8**	**6**
Deferred tax expense		
Origination and reversal of temporary differences		
Current year	1	(2)
Adjustments for prior years	1	1
Deferred tax expense	**2**	**(1)**
Tax expense	**10**	**5**

	2017	2016
	£m	£m
Reconciliation of effective tax rate		
Profit	27	19
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	5	4
Effect of:		
Tax rates in foreign jurisdiction	2	(1)
Non-deductible expenses	1	2
Tax exempt revenues	(1)	(1)
Creation of unrecognised tax losses	1	1
Prior year adjustments	2	1
Share-based payments	-	(1)
Other movements	-	-
Total tax expense	**10**	**5**

Deferred tax

	Assets		Liabilities	
	2017	2016	2017	2016
	£m	£m	£m	£m
Property, plant and equipment	(1)	(2)	-	-
Intangible assets	-	-	3	4
Financial assets	-	-	-	1
Employee benefits	(1)	(1)	-	-
Share-based payments	(2)	(3)	-	-
Tax value of loss carry-forwards	(2)	(2)	-	-
Other	(1)	(2)	-	-
	(7)	(10)	3	5

Consolidated Notes to the Financial Statements

Income and deferred tax (continued)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for the financial reporting purposes:

	2017	2016
	£m	£m
Deferred tax assets	(7)	(6)
Deferred tax liabilities	3	1
	(4)	(5)

The effective tax rate for the year ended 31 December 2017 is 33% (2016: 26%) which is driven primarily by tax losses in Brazil and the US for previous periods.

Additional tax disclosure

2017

Deferred tax has not been recognised in respect of losses of £107m. There are other unrecognised deductible temporary differences of £14m. Net deferred tax assets of £34m have not been recognised in relation to these losses and temporary differences due to uncertainty surrounding future utilisation.

2016

Deferred tax has not been recognised in respect of losses of £85m, of which £78m will expire in the next 20 years. There are other unrecognised deductible temporary differences of £15m. Net deferred tax assets of £39.3m have not been recognised in relation to these losses and temporary differences due to uncertainty surrounding future utilisation.

	1 January 2017 £m	Recognised in income £m	Recognised in other £m	FX differences £m	31 December 2017 £m
Property, plant and equipment	(2)	-	-	1	(1)
Intangible assets	4	-	-	(1)	3
Financial assets	1	(1)	-	-	-
Employee benefits	(1)	-	-	-	(1)
Share-based payments	(3)	1	-	-	(2)
Tax value of loss carry-forwards	(2)	-	-	-	(2)
Other	(2)	1	-	-	(1)
	(5)	1	-	-	(4)

	1 January 2016 £m	Recognised in income £m	Recognised in other £m	FX differences £m	31 December 2016 £m
Property, plant and equipment	(1)	(1)	-	-	(2)
Intangible assets	4	(1)	-	1	4
Financial assets	-	-	-	1	1
Employee benefits	(1)	-	-	-	(1)
Share-based payments	(2)	(1)	-	-	(3)
Tax value of loss carry-forwards	(1)	-	-	(1)	(2)
Other	(2)	2	-	(2)	(2)
	(3)	(1)	-	(1)	(5)

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Income and deferred tax (continued)

Unrecognised deferred tax liabilities

UK legislation relating to Company distributions provides for exemption from tax for most overseas profits, subject to certain exceptions. A deferred tax liability of £0.2m (2016: £0.2m) has been recognised in relation to distributions forecast from the Canada subsidiary. Provision for deferred tax liabilities of £nil (2016: £0.3m) has not been provided on withholding taxation that would arise on the subsequent distribution of Canadian profits from the Canada subsidiary.

Deferred tax on the distribution of these Canadian profits has not been provided on the basis that the Group is able to control the timing of the reversals of the remaining temporary differences, and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets of £2m (2016: £2m) are being recognised based on the future forecast profits of the UK. As the UK is expected to make taxable profits in future periods, the full £2m (2016: £2m) is recognised accordingly.

2017

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017, and to 17% from 1 April 2020. Deferred rates at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. Goodwill

	2017	2016
	£m	£m
Cost		
At 1 January	126	108
Translation exchange differences	(3)	18
At 31 December	123	126
Impairment		
At 1 January	(2)	(1)
Impairment charge	-	(1)
At 31 December	(2)	(2)
Carrying value		
At 31 December	121	124

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) or group of units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

Consolidated Notes to the Financial Statements

Goodwill (continued)

	2017	2016
	£m	£m
Carrying value by market		
Australia	43	43
Brazil	25	28
UK	22	22
Hong Kong	13	13
Canada	9	9
Other markets	9	9
Carrying value at 31 December	**121**	**124**

Movements seen in Brazil goodwill relate to foreign exchange.

Impairment of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Goodwill with an indefinite useful life is allocated to the Group's cash generating units (CGUs). Where the goodwill has arisen on a store buy back, management considers the store to be the valid cash generating unit.

For goodwill relating to the acquisition of an entire market, the market, encompassing all entity income streams and expenditure, is considered to be the appropriate cash generating unit.

The recoverable amounts of the Group's cash generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on budgets approved by management. These cash flow projections cover a 10 year period. Any impairment charge is recognised in operating expenses.

Growth Rates

Growth rates within the value in use model are applied to key elements of each entities' financial performance metrics such as turnover, gross margin, accommodation costs, employment costs and operating costs. For store level CGU models, management have applied set rates to the differing types of store formats in the portfolio and individual rates for stores not aligned with the rest of the market. Market level CGU models apply growth rates applicable to all income streams and the model contains all applicable costs within each entity.

Terminal growth rates are based on the long term expectation of the economic growth of the market. These range from 1.1% to 3.2% in all years.

Discount Rates

The Group uses post-tax cash flows for the impairment test. As the Group operates in a wide range of geographies which varies in terms of economic conditions, the Group uses post-tax discount rates suitable for a particular geography to discount its cash flows. These discount rates are the weighted average cost of capital (WACC), adjusted by applying a country risk premium if necessary. Management agrees that these discount rates are suitable and appropriate to be used for this exercise. The details are provided below.

Sensitivity on Impairment

Within Brazil, the key assumption which drives the value in use calculation is the volume of franchisee rights granted and other channels such as direct selling. As at the year end there are 129 franchisees point of sale locations in Brazil and this is forecast to increase to 211 over the period to 2025. Whilst management are actively pursuing new franchisee partners and have made progress in this area, there is a risk that the business will not be successful in converting sufficient franchisee points of sale in order to satisfy the business plan or that the planned growth in direct sales is lower than expected. (The directors consider that a reasonably possible change to the budget assumption relating to franchisee uptake would be reduction of 3% of net revenue in each year of plan, this would not result in an impairment of goodwill.) The number of The Body Shop consultants is forecast to be 156,000 by 2025 by utilising the consultants that Natura S.A. currently has in Brazil. If future store openings were 5% lower than planned this would not lead to an impairment. If the number of consultants reached was 5% lower this would also not result in any impairment charge.

Goodwill (continued)

Goodwill within other markets would require a fundamental variation in future cash flows to trigger any impairment charge. An increase in the discount rate of 1% would not result in an impairment but would decrease future cash flows by £18m.

12. Other intangible assets

	Brands and product ranges £m	Software £m	Key Money and Others £m	Total £m
Cost				
1 January 2016	2	33	47	82
Additions	1	2	9	12
Disposals/Reversals	-	(2)	(1)	(3)
Translation variances	-	2	8	10
31 December 2016	3	35	63	101
Amortisation and provisions				
1 January 2016	-	(28)	(18)	(46)
Charge for the year	-	(2)	(3)	(5)
Disposals/Reversals	-	2	1	3
Translation variances	-	(2)	(5)	(7)
31 December 2016	-	(30)	(25)	(55)
Carrying amounts				
31 December 2016	3	5	38	46
Cost				
1 January 2017	3	35	63	101
Additions	-	2	3	5
Disposals/Reversals	-	(9)	(2)	(11)
Other movements	-	11	(11)	-
31 December 2017	3	39	53	95
Amortisation and provisions				
1 January 2017	-	(30)	(25)	(55)
Charge for the year	-	(6)	(5)	(11)
Disposals/Reversals	-	9	2	11
Translation variances	-	1	1	2
31 December 2017	-	(26)	(27)	(53)
Carrying amounts				
31 December 2017	3	13	26	42

Other intangible assets

Intangible assets are reviewed annually for impairment. The impairment tests are conducted as described in note 3.

Assets under construction, including software, of £3m (2016: £12m) are included within other intangible assets.

13. Property, plant and equipment

	Land and buildings £m	Point-of-sales advertising, stands and displays £m	Other including assets under construction £m	Total £m
Cost				
1 January 2016	**81**	**135**	**48**	**264**
Acquisitions	4	16	11	31
Disposals/reversals	(2)	(15)	(7)	(24)
Translation difference	4	17	4	25
Other movements	-	2	(3)	(1)
31 December 2016	**87**	**155**	**53**	**295**
Depreciation and provision				
1 January 2016	(56)	(89)	(38)	(183)
Charge for the year	(5)	(16)	(3)	(24)
Disposals/reversals	3	15	8	26
Translation difference	(3)	(12)	(3)	(18)
Impairments	-	(5)	-	(5)
31 December 2016	**(61)**	**(107)**	**(36)**	**(204)**
Carrying amounts				
31 December 2016	**26**	**48**	**17**	**91**
Cost				
1 January 2017	**87**	**155**	**53**	**295**
Acquisitions	5	14	12	31
Disposals/reversals	(5)	(21)	(14)	(40)
Translation difference	1	-	1	2
Other movements	3	(2)	(1)	-
31 December 2017	**91**	**146**	**51**	**288**
Depreciation and provision				
1 January 2017	(61)	(107)	(36)	(204)
Charge for the year	(6)	(14)	(5)	(25)
Disposals/reversals	5	21	14	40
Translation difference	(1)	(2)	(2)	(5)
Other movements	(2)	1	1	-
Impairments	-	(1)	-	(1)
31 December 2017	**(65)**	**(102)**	**(28)**	**(195)**
Carrying amounts				
31 December 2017	**26**	**44**	**23**	**93**

Assets under construction of £4m (2016: £5m) are included within property, plant and equipment.

Property, plant and equipment include lease contracts for the following amounts:

The Group's obligations under finance leases are secured by the lessors' title to the short term leasehold property, which have a carrying amount of £7m (2016: £7m).

At 31 December 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2016: £1m).

Fixed assets are reviewed annually for impairment. The impairment tests are conducted as described in note 3.

Property, plant and equipment (continued)

Impairment losses recognised in the year

During the year, the Group carried out a review of the recoverable amount of the store based assets (tangible and intangible) across all markets in line with the Group's accounting policies which determine that an impairment review is conducted at least annually. The review led to the recognition of an impairment loss of £1m (2016: £5m), which has been recorded against plant, property and equipment in the profit and loss account as shown in Note 6.

The Group tests store based assets annually for impairment, or more frequently if there are indications that they might be impaired.

Impairment of store based assets

The Group tests store based assets annually for impairment, or more frequently if there are indications that they might be impaired.

Each store is considered to be a cash generating unit. The recoverable amounts of the Group's cash generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on budgets approved by management. These cash flow projections cover a 5 year period to perpetuity with the exception of Brazil, which is 10 years based on an approved business plan.

Growth Rates

Growth rates within the value in use model are applied to key elements of each entities' financial performance metrics such as turnover, gross margin, accommodation costs, employment costs and operating costs. For store level CGU models, management have applied set rates to the differing types of store formats in the portfolio and individual rates for stores not aligned with the rest of the market. Terminal growth rates are based on the long term expectation of the economic growth of the market. These range from 1.1% to 5.3% in all years.

Geography	2017 Growth rate	2016 Growth rate
Australia	2.7%	2.8%
Germany	1.5%	1.2%
Denmark	1.8%	2.1%
France	1.9%	1.9%
Netherlands	1.6%	2.1%
Austria	1.1%	1.1%
USA	1.7%	2.1%
Canada	1.8%	2.0%
Hong Kong	3.2%	3.1%
Spain	1.6%	1.6%
Sweden	1.7%	2.1%
Mexico	2.7%	2.5%
Brazil	5.3%	2.0%

Property, plant and equipment (continued)

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Discount rates

The Group uses post-tax cash flows for the impairment test. As the Group operates in a wide range of geographies which varies in terms of economic conditions, the Group uses post-tax discount rates suitable for a particular geography to discount its cash flows. The discount rates are determined by the weighted average cost of capital (WACC), adjusted by applying a country risk premium if necessary. Management agrees that these discount rates are suitable and appropriate to be used for this exercise. Discount rates used range from 6.6% to 12.8% in 2017 (2016: 6.5% to 13.2%) as shown below.

Geography	2017 Discount rate	2016 Discount rate
UK	8.5%	7.3%
Australia	7%	7.9%
Germany	6.6%	6.9%
Denmark	9.7%	6.5%
France	6.9%	6.9%
Netherlands	9.2%	6.9%
Austria	7.8%	6.9%
USA	7.0%	7.9%
Hong Kong	10.7%	9.4%
Canada	8.1%	7.0%
Spain	8.3%	6.9%
Sweden	6.7%	6.8%
Brazil	12.8%	13.2%
Mexico	12.7%	11.2%

Sensitivity on Impairment

The impairment models are most sensitive to changes in the sales growth assumption. The sales growth assumptions made range from 1.1% to 3.2% in 2017. The directors consider that underperforming the growth forecast by 3% in year 1 is a reasonably possible change to the budget assumptions and would increase the impairment by £2m.

14. Non-current financial assets

	2017	2016
	£m	£m
Deposits and Guarantees	10	10
Total non-current financial assets	**10**	**10**

Consolidated Notes to the Financial Statements

15. Inventories

	2017	2016
	£m	£m
Finished products and consumables	93	100
Provision	(8)	(10)
	85	90

The cost of inventories recognised as an expense and included in cost of sales for the period ended 31 December 2017 is £183m (2016: £185m).

16. Trade receivables

	2017	2016
	£m	£m
Gross value	58	56
Provision	(3)	(2)
Total trade receivables	55	54

Trade accounts receivable are due within one year. The non-collection risk on trade receivables is therefore minimised, and this is reflected in the level of the allowance, which is less than 5.1% of gross receivables at the end of 2017. The policy of the Group is to provide for all the debtors which are more than 120 days overdue. At the year end the Group has no significant trade receivables overdue but not impaired.

17. Other current assets

	2017	2016
	£m	£m
Income tax receivable	4	6
Other debtors	6	7
Prepaid expenses	17	16
Total other current assets	27	29

18. Derivatives

All derivatives held for currency risk hedging purposes, including those intended to hedge the currency risk.

The fair value of the derivatives is their market value. The Group has no significant foreign currency exposures that are not hedged in the balance sheet.

	2017	2016
	£m	£m
Assets		
Forward foreign currency contracts held as assets	5	11
Liabilities		
Forward foreign currency contracts held as liabilities	(4)	(10)
Net position	1	1

Consolidated Notes to the Financial Statements

Derivatives (continued)

The above derivatives have a maturity of less than 18 months at inception and can be analysed as follows. The details of (purchase)/sale in various currencies by the Group provided below:

	Nominal Value		Market Value	
	2017	2016	2017	2016
	£m	£m	£m	£m
Purchase of GBP against foreign currencies				
EUR/GBP	(84)	(66)	(2)	4
USD/GBP	(34)	(34)	1	3
Sale of GPB against foreign currencies				
EUR/GBP	73	41	1	(3)
USD/GBP	40	32	(1)	(3)
Purchase of USD against foreign currencies				
USD/CAD	(1)	(12)	-	-
Other currency pairs	42	28	2	-
Currency Pairs Total	36	(11)	1	1

19. Financial instruments

19a Accounting classification and fair values

The Company enters into derivative financial instruments such as foreign exchange forward contracts and foreign exchange option contracts to manage its exposure to foreign exchange rate risk. It is the policy of the Group to enter into forward foreign exchange contracts to cover foreign currency payments and receivables of five major geographies which cover the significant portion of the foreign currency exposure. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and bpurchase transactions up to 12 months within for the Group five.geographies. The Group applies hedge accounting. The accounting policy followed for this is discussed in Note 3.

All of the above instruments are used to hedge the foreign currency risk and none of them are used for speculative purposes.

When measuring the fair value of derivatives, the Group uses market observable data as far as possible. Fair values are categorised under IFRS 13 into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the hierarchy as the lowest level input that is significant to the entire measurement.

The table in section 19a.i below shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial instruments (continued)

19a.i Assets and liabilities carried at fair value

The fair value of the instruments held by Group is based on the instruments purchased from HSBC (2016: by FINVAL (the L'Oréal Group financing entity which is part of the L'Oréal Group central Treasury) from the market). Management uses market sources in order to determine the fair value of derivatives.

As the fair value is derived from another observable input the Group considers all the derivative instruments as level 2.

	2017	2016
	£m	£m
Assets		
Forward foreign currency contracts held as assets	5	11
Liabilities		
Forward foreign currency contracts held as liabilities	(4)	(10)
Net position	1	1

19b Financial risk management

The Group's centralised treasury function manages financial risk, principally arising from liquidity risk, counterparty risk and environmental risk, in accordance with policies agreed by the Directors.

19b.i Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group is financed almost entirely through intercompany loans (2016: FINVAL). The Company has minimal external borrowing facilities.

Derivatives and exposure to market risks

Derivative instruments entered into to hedge identifiable foreign exchange are accounted for in accordance with hedge accounting principles.

The approach behind the fair valuation of derivatives is discussed in Note 18.

The table below contains the contractual maturities of financial assets and liabilities.

	2017	2016
Assets	£m	£m
Trade receivables	55	54
Forward foreign currency contracts held as assets	5	11
Total assets	60	65

Consolidated Notes to the Financial Statements

Financial Instruments (continued)

	2017			
	Demand for less than 1 year £m	From 2 to 5 years £m	Less than 5 years £m	Total £m
Liabilities				
Overdrafts and short term borrowings from parent	(59)	-	-	(59)
Finance leases	(1)	(3)	(4)	(8)
Forward exchange contracts used for hedging	(4)	-	-	(4)
Trade payables				
- Trade and other payables	(83)	-	-	(83)
- Other financial liabilities	(60)	-	-	(60)
Total	(207)	(3)	(4)	(214)

There are no financial assets receivable over more than one year.

	2016			
	Demand for less than 1 year £m	From 2 to 5 years £m	Less than 5 years £m	Total £m
Liabilities				
Overdrafts and short term loans with FINVAL	(80)	-	-	(80)
Other loans	(10)	-	-	(10)
Finance leases	(1)	(3)	(5)	(9)
Forward exchange contracts used for hedging	(10)	-	-	(10)
Trade payables				
- Trade and other payables	(78)	-	-	(78)
- Other financial liabilities	(58)	-	-	(58)
Total	(237)	(3)	(5)	(245)

Financial Instruments (continued)

Hedging of currency risk

The Group is exposed to currency risk on commercial transactions recorded on the balance sheet and on highly probable future transactions.

The Group's policy regarding its exposure to currency risk on future commercial transactions is to hedge, at the end of the year, a large part of the currency risk for the following year, using derivatives based on operating budgets in each subsidiary.

All the Group's future foreign currency cash flows are analysed in detailed forecasts for the budgetary year. Any currency risks identified are hedged by forward contracts or by options in order to reduce, as far as possible, the currency exposure of each subsidiary.

The term of the derivatives is aligned with the Group's settlements.

Owing to the Group's policy of hedging a large part of annual requirements for the following year at the end of the current year, the impact of changes in foreign exchange rates on the result of the subsidiary is marginal. No sensitivity is required on the translation risk arising out of the translation of the results in the presentation currency of the Group.

As all the foreign exchange forward and option contracts are held as current the associated cash flows are expected to affect the profit or loss within the following year.

19b.ii Interest Rate Risk

The Group is exposed to fluctuations of interest rates in the market. The table below shows the impact on profit and loss of the Group of a 100 basis point change.

Sensitivity analysis

	2017	2016
	£m	£m
Profit and Loss account		
Loss on increase to interest rates by 1%	(1)	(1)
	(1)	(1)

19b.iii Credit/Counterparty risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Group has financial relations with international banks rated investment grade. The Group thus considers that its exposure to counterparty risk is low.

Furthermore, the financial instruments used to manage exchange rate and interest rate risk are issued by leading international banking counterparties.

20. Cash and cash equivalents

	2017	2016
	£m	£m
Bank accounts and other cash and cash equivalents	57	25
Cash and cash equivalents maintained with related party	-	34
Total cash and cash equivalents	57	59

21. Provisions for liabilities

Provisions for liabilities are set up to cover probable outflows for the benefit of third parties without any equivalent consideration being received by the Group in return. They relate mainly to restructuring costs and tax risks and litigation, industrial, environmental and commercial risks relating to operations (breach of contract, product returns) and employee-related risks.

These provisions are estimated on the basis of the assumptions deemed most probable or by using statistical methods, depending on the type of provisions.

Provisions for liabilities are recorded either as non-current liabilities or as current liabilities, depending on their nature. Provisions for liabilities or litigation which must be settled within 12 months of the closing date, and those linked to the normal operating cycle (such as product returns), are recorded as current liabilities. Other provisions for liabilities and charges are recorded as non-current liabilities.

Other current provisions include dilapidation provision; the impact of discounting is not material.

	2017	2016
	£m	£m
Other non-current provisions	2	3
Non-current provisions for liabilities and charges	**2**	**3**
Provisions for restructuring	-	1
Provisions for product returns	1	1
Other current provisions	3	4
Current provisions for liabilities and charges	**4**	**6**
Total	**6**	**9**

	1 January 2017	Charges	Reversals	Utilisation	Other	31 December 2017
	£m	£m	£m	£m	£m	£m
Provisions for restructuring	1	1	(1)	(1)	-	-
Provisions for product returns	1	7	-	(7)	-	1
Other provisions for liabilities	7	2	(2)	(2)	-	5
Total	9	10	(3)	(10)	-	6

	1 January 2016	Charges	Reversals	Utilisation	Other	31 December 2016
	£m	£m	£m	£m	£m	£m
Provisions for restructuring	2	-	-	(1)	-	1
Provisions for product returns	-	6	-	(5)	-	1
Other provisions for liabilities	6	5	(2)	(2)	-	7
Total	8	11	(2)	(8)	-	9

22. Trade and other payables

	2017	2016
	£m	£m
Trade and other payables	83	78
Total trade and other payables	**83**	**78**

23. Other current liabilities

	2017	2016
	£m	£m
Other current liabilities	22	16
VAT and other taxes	11	13
Deferred income	5	6
Personnel and social security liabilities	23	23
Total other current liabilities	**61**	**58**

Deferred income arises largely from the sale of gift vouchers and from accounting for the Group's loyalty scheme, see note 3.6.

24. Borrowings

24a Fair value of borrowings and debts

Most of the Group's finance is through Natura (Brasil) International B.V. (2016: FINVAL). The Group has external (non-group) undrawn overdraft facilities for £11m and £122m intercompany debt, which was transferred from FINVAL to Natura (Brasil) International B.V. on the acquisition date (Table 24b. Debt by type). Interest is charged on loans by Natura (Brasil) International B.V. at arms-length rate. The Company is therefore subject to interest rate variations, and does not hedge its interest rate risk exposures.

Interest due to Natura (Brasil) International B.V. (2016: FINVAL) on loans is payable at the end of each interest period (typically 3 months but it could be a shorter period). Interest amounts outstanding at 31 December 2017 are included in accruals.

24b. Debt by type

	2017		2016	
	Non-current	Current	Non-Current	Current
	£m	£m	£m	£m
Financial lease debt	7	1	8	1
Overdrafts and short term loans with FINVAL	-	-	-	80
Overdrafts and short term borrowings from parent	-	59	-	10
Total	**7**	**60**	**8**	**91**

Consolidated Notes to the Financial Statements

Borrowings (continued)

24c. Debt by maturity date

	2017	2016
	£m	£m
Less than one year	60	91
More than one year	7	8
	67	99

24d. Debt by currency

	2017	2016
	£m	£m
Euro (EUR)	-	20
Brazilian Real (BRL)	-	10
British Pound (GBP)	67	56
Other	-	13
Total	67	99

24e. Breakdown of fixed rate and floating rate debt (after allowing for interest rate hedging instruments)

	2017	2016
	£m	£m
Floating rate	59	91
Fixed rate	8	8
Total	67	99

24f. Effective interest rates

Effective interest rates on Group debt are 0.7% in 2017 (2016: 0.98%) for short-term marketable instruments

Borrowings (continued)

24g. Average debt interest rates

Average debt interest rates after allowing for hedging instruments break down as follows:

		2017	2016
AUD	Australia Dollar	-	2.4%
BRL	Brazilian Real	-	16.0%
CAD	Canadian Dollar	1.2%	1.3%
DKK	Danish Kroner	0.0%	0.0%
EUR	Euro	0.0%	0.0%
GBP	Pound Sterling	0.6%	0.5%
HKD	Hong Kong Dollar	1.1%	1.0%
MXN	Mexican Nuevo Peso	7.4%	4.8%
SEK	Swedish Kroner	-0.2%	-0.3%
USD	US Dollar	-	1.3%
SGD	Singapore Dollar	1.5%	1.8%

24h. Obligation under finance lease

The Group is a lessee of various retail stores, offices, warehouses and plant and equipment under lease agreements with varying terms, escalation clauses and renewal rights.

There are no corporate restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

	Minimum lease payments		Present value of lease	
	2017	2016	2017	2016
	£m	£m	£m	£m
Amounts payable under finance leases:				
Within one year	1	2	1	1
Within two to five years	5	7	3	3
After five years	5	9	4	5
	11	18	8	9
Less: future finance charges	(3)	(9)	-	-
Present value lease obligation	8	9	8	9
Less: Amount due for settlement within 12 months (shown under current)	(1)	(1)	(1)	(1)
Amount due for settlement after 12 months	7	8	7	8

Consolidated Notes to the Financial Statements

Borrowings (continued)

It is the Group's policy to lease certain properties under finance leases. The average lease term is 37.5 years. For the period ended 31 December 2017, the average effective borrowing rate was 8% (2016: 8%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates to their carrying amount.

24i. Confirmed credit lines

The Group had no confirmed credit lines in 2017 and 2016.

25. Capital and reserves

Share Capital

	2017	2016
	£m	£m
Allotted, called up and fully paid		
226,710,201 ordinary shares of £0.05 each	11	11
Total share capital	**11**	**11**

Share premium account

	2017	2016
	£m	£m
Share premium	75	75
Total share premium	**75**	**75**

The Group has one class of ordinary shares which carry no right to fixed income.

Dividends

	2017	2016
	£m	£m
Amounts recognised as distribution to equity holders in the period		
Final dividend for the period ended 31 December 2015 of 18p per share paid in 2016	-	41
	-	41

26. Operating lease commitments

Operating lease payments represent rentals payable by the Group for some of its outlets, warehouses and offices under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The Group also leases items of plant and equipment on short and medium term leases. The majority of leases are subject to rent reviews.

Included in the below operating lease commitments, are leases whereby the Group has subsequently granted sub-leases to franchisees and other third parties. Due to the varying nature of both sub-lease durations and sub-lease incomes, it is not possible to provide accurate information as to the split of expected incomes from sublet properties over future periods.

There are no corporate restrictions imposed by lease arrangements such as those concerning dividends, additional debt and further leasing.

At the Balance Sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017			
	Maturity less than 1 year	Maturity from 1 to 5 years	Maturity over 5 years	Total
	£m	£m	£m	£m
Buildings	78	172	79	329
Other operating lease	1	-	-	1
Total operating lease	**79**	**172**	**79**	**330**

	2016			
	Maturity less than 1 year	Maturity from 1 to 5 years	Maturity over 5 years	Total
	£m	£m	£m	£m
Buildings	82	179	69	330
Other operating lease	1	-	-	1
Total operating lease	**83**	**179**	**69**	**331**

27. Other off-balance sheet commitments and contingent liabilities

The Group has no confirmed credit lines for 2017 and 2016.

Other significant off-balance sheet commitments have been identified and measured. They mainly fall due within 1 year and are as follows:

	2017	2016
	£m	£m
Guarantees given	(11)	(16)
Guarantees received	-	1
Total guarantees	**(11)**	**(15)**

The Group has arranged for certain guarantees to be provided to third parties in the ordinary course of business.

The Group files tax returns in many jurisdictions around the world and at any one time, various tax authorities are undertaking reviews of these returns. Applicable tax laws and regulations are subject to differing interpretations and the resolution of a final tax position can take several years to complete. Where it is considered that future tax liabilities are more likely than not to arise, an appropriate provision is recognised in the financial statements.

28. Transactions with related parties

The consolidated financial statements include transactions carried out between the Group, its subsidiaries, and its parent; as well as fellow subsidiaries, joint ventures and associates of parents considered to be related parties. The main transactions with these related parties and the associated outstanding balances are as follows:

	Parent	Others	Total
	£m	£m	£m
2017			
Transactions with related parties			
Purchase of services	(6)	(11)	(17)
Purchase of stock	-	(39)	(39)
Total	(6)	(50)	(56)
Year end balances			
Operating payables	(2)	-	(2)
Financial / (payables)	-	(59)	(59)
Total	(2)	(59)	(61)

	Parent	Others	Total
	£m	£m	£m
2016			
Transactions with related parties			
Purchase of services	(7)	(3)	(10)
Purchase of stock	-	(25)	(25)
Financial expenses	-	(1)	(1)
Total	(7)	(29)	(36)
Year end balances			
Operating payables	(1)	(3)	(4)
Financial / (payables)	-	(136)	(136)
Total	(1)	(139)	(140)

The amounts above relate to trading subsidiaries of the Natura Cosmeticos Group from 7 September 2017 to 31 December 2017 and the L'Oreal Group 1 January 2017 to 6 September 2017 (2016: the L'Oréal Group).

Sales of goods to related parties were made at the Group's usual list prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Transactions with Key Management personnel have been disclosed in Note 8.

29. Subsidiaries

Investments	Registered office	Principal activity	Class of shares held	Ownership (%) 2017	2016
The Body Shop Worldwide Limited	Building 7, Watersmead, Littlehampton, West Sussex DN17 6LS, UK	This company acts as a holding company and does not otherwise trade.	Ordinary	100	100
The Body Shop Global Travel Retail Limited	Building 7, Watersmead, Littlehampton, West Sussex DN17 6LS, UK	This company trades in The Body Shop products through airline and airport outlets around the world.	Ordinary	100	100
The Body Shop Canada Limited	155 Wellington Street West, Toronto, Ontario, M5V 3J7	The company trade in The Body Shop products in Canada.	Ordinary	100	100
Bulh Na-Bodhaige Inc.	77 Deans Rhode Hall Road, Monmouth Junction, New Jersey O8852	This company trades in The Body Shop products in USA.	Ordinary	100	100
The Body Shop (Singapore) Pie Ltd	The Body Shop, Killney Road, #06—1/06 Winsland House I, Singapore 239519	This company trades in The Body Shop products in Singapore.	Ordinary	100	100
The Body Shop International (Asia Pacific) Plc Ltd	The Body Shop, Killney Road, #6-02/06 Winsland House 1, Singapore 239519	This company operates the Asia Pacific region on behalf of The Body Shop International PLC.	Ordinary	100	100
The Body Shop Hong Kong Limited	Baker & McKenzie, Hutchinson House, 10 Harcourt Road, Hong Kong SAR	This company acts as a holding company and does not otherwise trade.	Ordinary	100	100
Mighty Ocean Company Limited	Baker & McKenzie, Hutchinson House, 10 Harcourt Road, Hong Kong SAR	This company trades in The Body Shop products in Hong Kong.	Ordinary	100	100
The Body Shop Beteillgungs GmbH	George-Glock-Strasse 8, 40474 Dusseldorf	This company acts as a holding company of The Body Shop Germany GmbH. The Body Shop Germany GmbH trades in The Body Shop products in Germany.	Ordinary	100	100
The Body Shop Benelux BV	Scorpius 1, 2132 LR Hoofddorp, The Netherlands	This company trades in The Body Shop products in the Netherlands.	Ordinary	100	100
The Body Shop Belgium NV	Scorpius 1, 2132 LR Hoofddorp, The Netherlands	This company trades in The Body Shop products in Belgium.	Ordinary	100	100
The Body Shop GbmH	Stemgasse 3/2/6, A-1010 Wien, Austria	This company trades in The Body Shop products in Austria.	Ordinary	100	100
The Body Shop Sweden AB	Box 17040, SE104 62 Stockholm, Sweden	This company trades in The Body Shop products in Sweden.	Ordinary	100	100
Cosmenatura SA	Calle de Hermosilla 30, 28001, Madrid, Spain	This company trades in The Body Shop products in Spain.	Ordinary	100	100
Dibel SA	IdeiaHub Palacio, Avenida Fontes, Pereira de Melo 16, 1050-010, Lisboa, Portugal	This company trades in The Body Shop products in Portugal.	Ordinary	100	100
The Body Shop Monaco SARI	Local 107, 17 Avenue des Spelugues, Centre Commercial Le Metropole, Monaco	This company trades in The Body Shop products in Monaco.	Ordinary	100	100

Consolidated Notes to the Financial Statements

Investments	Registered office	Principal activity	Class of shares held	Ownership (%) 2017	2016
The Body Shop Air Inc	CT Corporation System, 160 Mine Lake Ct Ste 200, Raleigh, NC 27615-6417	This company trades in The Body Shop® products in America	Ordinary	74	74
The Body Shop Air II	CT Corporation System, 160 Mine Lake Ct Ste 200, Raleigh, NC 27615-6417	This company trades The Body Shop® Products in America	Ordinary	85	85
The Body Shop Chile S.A.	Avenida Apoquindo 3885, Piso 2, Las Condes, Santiago, Chile	This company trades The Body Shop® products in Chile	Ordinary	100	100
HSB Hair, Skin and Bath Products Company Limited	Avenida de Praia Grande no. 759 Edifico Iau Heng, 5 andar, Macau	This company trades The Body Shop® products in Macau	Ordinary	100	100
The Body Shop Luxembourg SARL	163, rue du Kiem – L-8030 Strassen, Grand Duchy of Luxembourg	This company trades in The Body Shop products in Luxembourg	Ordinary	100	100
The Millennium Administration Company Limited	Building 7, Watersmead Littlehampton, West Sussex BN17 6LS, UK	This company is dormant.	Ordinary	100	100
GA Holdings (Guernsey) Limited	Mancllo Court, Admiral Pork, St Peter Port, Guernsey	This company trades in The Body Shop products in Guernsey.	Ordinary	100	100
GA Holdings (1979) Limited	12 Castle Street, St Helier, Jersey JE2 3RT	This company trades in The Body Shop products in Jersey.	Ordinary	100	100
The Body Shop Brasil Indústria e Comércio de Cosmeticas Ltda (formerly Body Store SA)	Rodovia Deputado Antonio Heil, no. 4605, sala 1C, city of Itaji, State of Santa Catarina	This company trades in Body Store and The Body Shop products in Brazil.	Ordinary	100	100
The Body Shop (France) SARL	51 Rue Le Peletiers 75009, Paris	This company trades in The Body Shop products in France.	Ordinary	100	100
B S Denmark A/S	3rd Floor, Ostergade 33, 1100 Copenhagen K	This company trades in The Body Shop products in Denmark.	Ordinary	100	100
The Body Shop Germany GbmH	George-Glock Strasse 8, 40474 Dusseldorf	This company trades in The Body Shop products in Germany.	Ordinary	100	100
The Body Shop At Home Germany GmbH	George-Glock Strasse 18, 40474 Dusseldorf	This company is dormant.	Ordinary	100	100
The Body Shop Service BV	Scorpius 1, 2132 LR Hoofddorp, The Netherlands	This company is for head office function in Netherlands.	Ordinary	100	100
The Body Shop Malaysia	16th Floor, Wisma Sime, Dalby, Jalan Raja Laut, 50350, Kuala Lumpr, W Malaysia	This company is to enable the Body Shop products to be traded in Malaysia.	Ordinary	100	100
The Body Shop Australia Pty Limited	Chadstone Tower 1' Level 7, 1341 Dandenong Road, Chadstone VIC 3148	This company trades in The Body Shop products in Australia.	Ordinary	100	100
Skin & Hair Care Preparations Inc.	77 Dean Rhode Hall Rod, Monmouth Junction, New Jersey 08852	This company acts as a holding company and is not trading.	Ordinary	100	100
BSI USA INC.	77 Dean Rhode Hall Rod, Monmouth Junction, New Jersey 08852	This company is dormant.	Ordinary	100	100

Consolidated Notes to the Financial Statements

Investments	Registered office	Principal activity	Class of shares held	Ownership (%) 2017	2016
Cimarrones SA	#6 Col. Tlacoquemecatl del Valle, C P 03200 Deleg. Benito Juarez	This company trades in The Body Shop products in Mexico.	Ordinary	100	100
Aramara S de RL	#6 Col. Tlacoquemecatl del Valle, C P 03200 Deleg. Benito Juarez	This company is dormant.	Ordinary	100	100
The Body Shop Brasil Franquias Ltda	Rua Tenerife, 31, 5th floor, Suites 51 and 52, Vila Olimpia, Zip Code 04548-040, City of Sao Paulo, State of Sao Paulo	This company trades in Body Store and The Body Shop products in Brazil.	Ordinary	100	100

During the year the company liquidated and disposed of its holdings in The Body Shop Online (II) Limited and The Body Shop Queenslie Limited.

30. Ultimate Parent Undertaking

On 7 September 2017 the group was sold by L'Oreal SA. The entire share capital was acquired by Natura (Brasil) International B.V..

The Company's ultimate parent undertaking is Natura Cosmeticos S.A., a Company incorporated in Brazil and listed on the Brazilian Exchange.

Natura Cosmeticos S.A. is the holding Company respectively of the smallest and largest Group of which the Company is a member and for which Group accounts are prepared. Copies of the accounts may be obtained from its registered office at, Av Alexandre Colares, 1188, Sao Paulo, Brazil.

31. Post balance sheet events

On 23 February 2018, 20,000,000 ordinary shares in the Company with a nominal value of £0.05 per share were issued to the parent, Natura (Brasil) International B.V.. In consideration for the issue the intercompany loan, which at the Balance sheet date has a carrying value of £59m, was released. This transaction resulted in share capital of £1m and share premium of £58m.

The financing of the Body Shop Group was provided by the wider Natura group until 26 March 2018. From this date, the Body Shop Group has secured a £70m revolving credit facility with HSBC.

Company Balance Sheet as at 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
Assets			
Goodwill	D	7	7
Other intangible assets	D	15	17
Property, plant and equipment	E	42	41
Investment in subsidiaries	F	262	252
Deferred tax asset	L	2	-
Non-current assets		**328**	**317**
Inventories	G	59	63
Trade accounts receivables	H	66	76
Cash and cash equivalents	I	21	9
Derivative financial instruments	O	5	10
Current assets		**151**	**158**
Total assets		**479**	**475**
Liabilities			
Obligations under finance leases	P	(7)	(8)
Provisions for liabilities	M	(2)	(2)
Non-current liabilities		**(9)**	**(10)**
Trade and other payables	J	(94)	(92)
Current tax liabilities		-	-
Obligations under finance leases	P	(1)	(1)
Borrowings	K	(49)	(47)
Derivative financial instruments	O	(4)	(10)
Current liabilities		**(148)**	**(150)**
Total liabilities		**(157)**	**(160)**
Net assets		**322**	**315**
Total Equity			
Share Capital	N	11	11
Share premium	N	75	75
Other reserves	N	2	15
Profit and loss account	N	234	214
		322	**315**

Notes A to T form an integral part of these financial statements.

The company's profit for the period was £8m (2016: profit £20m)

These financial statements were approved by the board of Directors on 27 April 2018 and were signed on its behalf by:

R C Chatwin
Director

Company registered number: 01284170

Company Statement of Changes in Equity for year ended 31 December 2017

	Note	Share capital	Share premium account	Other reserves	Profit and loss account	Total equity
		£m	£m	£m	£m	£m
At 1 January 2016		11	75	12	235	333
Profit for the year	N	-	-	-	20	20
Profit recognised on share option		-	-	3	-	3
Profit recognised on cash flow hedges		-	-	1	-	1
Deferred tax on share based payments	L	-	-	(1)	-	(1)
Dividends paid to equity shareholders	N	-	-	-	(41)	(41)
At 31 December 2016		11	75	15	214	315
At 1 January 2017		11	75	15	214	315
Profit for the year	N	-	-	-	8	8
Reclassification of share based payments		-	-	(12)	12	-
Loss recognised on cash flow hedges				(1)	-	(1)
At 31 December 2017		11	75	2	234	322

Company Notes to the Financial Statements

Company accounting policies

A. Basis of preparation

The Company financial statements have been prepared in accordance with FRS 101 as issued by the Financial Reporting Council.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

The Company has not presented its own income statement or statement of comprehensive income as permitted by section 408 of the Companies Act 2006.

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

- The requirements of IFRS 7 Financial Instruments: Disclosures;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

a. Measurement convention

The financial statements are prepared on a going concern basis applying the historical cost convention except for measurements of derivative financial instruments which are stated at their fair value.

b. Accounting estimates and judgements

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note B below, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Company's accounting policies

The Directors have assessed the critical judgements made in the process of applying the Company's accounting policies that have a significant effect on the amounts recognised in financial statements (apart from those involving estimations which are dealt with below). The Directors are of the view that there are no judgements that need to be highlighted above the descriptions within the accounting policies in note B below.

Company Notes to the Financial Statements

Company accounting policies (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are outlined below.

Impairment of Investments

The Company is required to test investments annually for impairment, or as triggering events occur. The recoverable amount of an investment is determined based on value in use calculations. These calculations require the estimation of future cash flows, applying appropriate growth rates and determining a suitable discount rate in order to calculate the present value of these cash flows. This assessment is performed on an investment by investment based on the underlying market which the investment holds an interest in. Actual outcomes and cash flow performance in these markets could vary materially to those estimated. This risk is greatest in newer markets where the business remains in a start-up phase and the presence of The Body Shop brand is less established. Of these newer markets, the Brazilian business is considered to contain the greatest level of future estimation uncertainty. The total carrying amount of investments relating to the Brazilian market at the balance sheet date is £62m. Details of the impairment loss calculation, including key assumptions and sensitivities is set out in note F.

B. Summary of significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1. Intangible Assets and Goodwill

Goodwill

Goodwill held in the Company arose from store buy backs. The assets, liabilities and contingent liabilities of the Company acquired are measured at fair value at the acquisition date. Any valuation differences identified when the acquisition is carried out are recorded under the corresponding asset and liability items.

Any residual difference between the cost of a buy back and the Company's interest in the fair value of the identified assets and liabilities is recorded as Goodwill and allocated to the Cash Generating Units which is considered to be the acquired store.

2. Other Intangible assets

Intangible assets are recorded on the balance sheet at cost. Intangible assets identified following an acquisition as well as internally generated intangible assets are also included in this item.

Intangible assets acquired through business combinations

They consist of goodwill, trademarks and customer relationships.

With regard to trademarks, the use of the discounted cash flow method is preferred to enable the value in use to be monitored more easily following the acquisition. The carrying value of intangible assets are tested through discounted cash flow modelling.

These approaches are based on a qualitative analysis of the trademark in order to ensure that the assumptions selected are relevant. The discount rate used is based on the discount rate for the target acquired. Terminal growth rates are consistent with available market data.

Trademarks are amortised over their useful lives which is usually 5 years.

Local trademarks which are to be gradually replaced by an international trademark already existing within the Group have a finite useful life span.

They are amortised over their useful lives as estimated at the date of acquisition.

Company Notes to the Financial Statements

Company accounting policies (continued)

International trademarks are trademarks which have an indefinite life span. They are tested for impairment at least once a year during the fourth quarter, and whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts.

The impairment test consists of calculating the recoverable amount of the trademark based on the model adopted when the acquisition took place.

Customer relationships refer to relations developed with customers either through contractual arrangements or by non-contractual means through constant revenue streams resulting from the target's competitive position or reputation in its market.

The useful life of a customer relationship is limited and varies depending on the estimated attrition rate of existing customers at the time of the acquisition.

The amortisation period applicable to patents corresponds to the period during which they enjoy legal protection.

Internally generated intangible assets

These mainly consist of software. The development costs of software for internal use are capitalised for the programming, coding and testing phases. The costs of substantial updates and upgrades resulting in additional functions are also capitalised.

Capitalised development costs are amortised from the date on which the software is made available in the entity concerned over its probable useful life, which in most cases is between 5 and 8 years.

3. Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

4. Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at cost and are not revalued.

Significant capital assets financed through capital leases, which transfer to the Group substantially all of the risks and rewards inherent to their ownership, are recorded as assets on the balance sheet. The corresponding debt is recorded within Borrowings and debt on the balance sheet.

The components of property, plant and equipment are recorded separately if their estimated useful lives, and therefore their depreciation periods, are materially different.

Depreciation and impairment losses are recorded in the income statement according to the use of the asset.

In view of their nature, property, plant and equipment are considered to have a value of zero at the end of the useful lives indicated above.

Company Notes to the Financial Statements

5. Non-current financial assets

Non-current financial assets include investments in non-consolidated companies and long-term loans and receivables maturing after more than 12 months.

Investments in non-consolidated companies are considered to be financial assets available-for-sale. As such, they are valued on the basis of their fair value, and unrealised losses and gains are accounted for through equity on the line other comprehensive income.

The fair value of listed securities is determined on the basis of the share price at the closing date. If the fair value of unlisted securities cannot be reliably determined, these securities are valued at cost.

If the unrealised loss accounted for through equity is representative of significant or prolonged impairment, this loss is recorded in the income statement.

Long-term loans and receivables are considered to be assets generated by the business. As such, they are valued at amortised cost. If there is an indication of a loss in value, a provision for impairment is recorded.

6. Impairment

Goodwill

Goodwill is not amortised. It is tested for impairment at least once a year or whenever an adverse event occurs. Adverse events may result among other things from an increase in market interest rates or from a decrease in actual sales or operational profit compared to forecasts. Impairment charged against goodwill cannot be reversed.

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Company Notes to the Financial Statements

7. Inventories

Inventories are valued at the lower of cost or net realisable value. Net realisable value is the value of inventories that can be realised upon sale, less a reasonable estimate of the costs associated with either the eventual sale or the disposal of the inventories in question. Cost is calculated using the weighted average cost method.

A provision is made for obsolete and slow-moving inventories on the basis of their probable net realisable value, estimated on the basis of historic and projected data.

8. Trade accounts receivable

Accounts receivable from customers are recorded at their nominal value, which corresponds to their fair value. A provision is made for any doubtful receivables based on an assessment of the risk of non-recovery. The Company's policy is to recommend credit insurance coverage when this is allowed by local regulations.

9. Cash and cash equivalents

Cash and cash equivalents consist of cash in bank accounts, units of cash unit trusts and liquid short-term investments with a negligible risk of changes in value and a maturity date of less than three months at the date of acquisition.

Investments in shares and cash, which are held in an account blocked for more than three months, cannot be recorded under cash and are presented under other current assets.

Bank overdrafts considered to be financing are presented in Current borrowings and debt.

Units of cash unit trusts are considered to be assets available-for-sale. As such, they are valued in the balance sheet at their market value at the closing date. Any related unrealised gains are accounted for in Finance costs, net in the income statement.

The carrying amount of bank deposits is a reasonable approximation of their fair value.

10. Derivative financial instruments and hedging

Derivative financial instruments and hedges

The Company uses forward foreign exchange contracts and options to hedge the foreign currency transactions.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when a non-financial asset is depreciated or sold.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Company Notes to the Financial Statements

Company accounting policies (continued)

Foreign exchange gains and losses

Foreign exchange gains and losses resulting from the difference between the value of foreign currency operating income and expenses translated at the spot rate effective on the transaction date and at the exchange rate effective on the settlement date are recognised directly on the appropriate income and expense lines, after allowing for hedging derivatives.

11. Leases

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

12. Income tax and deferred tax

The income tax charge includes the current tax expense payable by each consolidated tax entity and the deferred tax expense. Deferred tax is calculated whenever there are temporary differences between the tax basis of assets and liabilities and their basis for consolidated accounting purposes, using the balance sheet liability method.

The restatement of assets and liabilities linked to capital lease contracts results in the booking of deferred tax.

Deferred tax includes irrecoverable taxation on estimated or confirmed dividends.

Deferred tax is measured using the tax rate enacted at the closing date and which will also apply when the temporary differences reverse.

Deferred tax assets generated by tax loss carry forwards are only recognised to the extent it is probable that the entities will be able to generate taxable profit against which they can be utilised.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Company Notes to the Financial Statements

13. Borrowings and debt

Borrowings and debt are valued at amortised cost based on an effective interest rate.

In accordance with the principle of fair value hedge accounting, fixed-rate borrowings and debt swapped at a floating rate are valued on the balance sheet at market value. The resulting changes in value are recorded as finance costs and are offset by changes in the value of the related interest rate swaps.

The fair value of fixed-rate debt is determined by the discounted cash flow method using bond yield curves at the closing date, allowing for the spread corresponding to the Company's risk class to be taken into account.

The carrying amount of floating-rate debt is a reasonable approximation of its fair value.

Medium and long-term borrowings and debt are recorded under Non-current liabilities. Short-term borrowings and debt and the current portion of medium and long-term borrowings and debt are presented under Current liabilities.

The Company takes out bank loans to cover its medium-term financing needs and issues short-term marketable instruments in France and commercial paper in the US to cover its financing needs in the short term.

These borrowings are subject to an early repayment clause linked to compliance with financial ratios (covenants).

14. Finance costs

Financial debt consists of all current and non-current financial borrowings and debt, less cash and cash equivalents.

Finance costs consist of income and expenses arising on the items making up net financial debt during the accounting period, including gains and losses on the corresponding interest rate and foreign exchange rate hedges. As interest rate derivatives are fully effective, no ineffectiveness impacts finance costs.

Company Notes to the Financial Statements

C. Income statement disclosure

The audit fee of the company for the consolidated financial statements is disclosed in note 6 of the consolidated financial statements. Fees payable to Deloitte LLP and their associated for audit and non-audit services to the Company are not required to be disclosed because the Group financial statements disclose such fees on a consolidated basis.

Dividend disclosures are provided in note 25 of the consolidated financial statements.

The average number of persons employed by the Company (including Directors and key management personnel) during the year, analysed by category, was as follows:

	2017	2016
	£m	£m
Salary	77	69
Social security and other taxes	7	7
Pension	3	3
Share based payments	2	2
Total personnel expenses	**89**	**81**
Headcount	**No.**	**No.**
Administration	689	601
Distribution / manufacturing	118	120
Shops	2,027	1,968
Total	**2,834**	**2,689**

Personnel costs include the pension expense, the cost of any share-based payments (stock options and free shares), and payroll taxes.

See note 8 in the consolidated financial statements for key management personnel.

Costs under operating leases were as follows:

	2017	2016
	£m	£m
Operating lease rentals – Land and buildings	28	27
Opening lease rentals – Other	1	1
Total	**29**	**28**

Company Notes to the Financial Statements

D. Goodwill and other intangibles

Goodwill

	2017	2016
	£m	£m
Cost and net book value		
At 1 January and 31 December	7	7

Impairment tests for cash generating units

Goodwill has an indefinite useful life and is allocated to the Company's cash generating units (CGUs). Management have determined the CGU to be a store and impairment is based on the cash inflows of each store. The recoverable amounts of the Company's cash generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on budgets approved by management. Cash flows beyond the initial budgeted period are extrapolated using a growth rate of 1.9% (2016: 1.5%) and are extrapolated over 10 years. The growth rate does not exceed the long-term average growth rate for the cosmetics and beauty products retail business in which the CGU operates. A post-tax discount rate of 8.5% (2016: 7.3%) has been used in discounting the projected cash flows. Management have determined that this discount rate is suitable and appropriate to be used for this exercise.

Sensitivity on impairment

The directors consider that a reasonably possible change to the budget assumption would be a reduction of 3% in each year, this would not cause any impairment of goodwill.

Company Notes to the Financial Statements

D. Goodwill and other intangibles (continued)

Other intangible assets

Cost	Software £m
At 1 January 2016	30
Additions	6
Disposals	(1)
At 31 December 2016	35
Additions	3
At 31 December 2017	38
Amortisation	
At 1 January 2016	18
Charge for the year	2
Disposals	(2)
At 31 December 2016	18
Charge for the year	4
Impairment	1
At 31 December 2017	23
Carrying amounts	
At 31 December 2017	15
At 31 December 2016	17

Assets under construction of £3m (2016: £12m) are included within above.

Company Notes to the Financial Statements

E. Property, plant and equipment

Cost	Short term leasehold properties £m	Plant and equipment and Asset under construction £m	Total £m
At 1 January 2016	56	80	136
Additions	3	10	13
Disposals	-	(8)	(8)
At 31 December 2016	59	82	141
Additions	1	10	11
Disposals	(1)	(16)	(17)
At 31 December 2017	59	76	135
Accumulated Depreciation			
At 1 January 2016	38	61	99
Charge for the year	2	6	8
Disposals	(1)	(6)	(7)
At 31 December 2016	39	61	100
Charge for the year	2	6	8
Disposals	-	(15)	(15)
At 31 December 2017	41	52	93
Carrying amount			
At 31 December 2017	18	24	42
At 31 December 2016	20	21	41

Fixed assets are reviewed annually for impairment. The impairment tests are conducted as described in note 13. No assets have been pledged to secure the borrowings of the Company (see note 24).

Assets under construction of £4m (2016: £3m) are included within property, plant and equipment.

The Company's obligations under finance leases are secured by the lessors' title to the short term leasehold property, which have a carrying amount of £7m (2016: £7m). At 31 December 2017, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £nil (2016: £1m).

Company Notes to the Financial Statements

F. Fixed assets investments

	Fixed Asset Investment £m
Cost	
At 1 January 2016	247
Additions	13
At 31 December 2016	260
Additions	17
Disposals	(7)
At 31 December 2017	270
Provisions for impairment	
At 1 January 2016	(5)
Written back	1
Impairments	(4)
At 31 December 2016 and 31 December 2017	(8)
Net book value	
At 31 December 2017	262
At 31 December 2016	252

Fixed asset investments relate to the cost of the Company's investment in its subsidiaries.

For the list of subsidiaries please see Note 29 in the Group consolidated financial accounts. For discount and long-term growth rates see note 13.

During the year the company liquidated and disposed of its holdings in The Body Shop Online (II) Limited and The Body Shop Queenslie Limited.

Additions in the year relate to the capital injection into the Brazilian subsidiary.

Investments are held at cost less provisions for impairment. Each investment is considered to be its own cash generating unit. The carrying amount of investments has been allocated as follows:

	2017 £m	2016 £m
Carrying value by investment		
US	98	98
Brazil	62	45
Australia	49	49
Other	53	60
Total	262	252

Company Notes to the Financial Statements

F. Fixed assets investments (continued)

Investment impairment

The Company tests investments annually for impairment, or as triggering events occur. The cash generating unit for an investment is deemed to be the Company's share of the underlying market performance. The recoverable amount of an investment is determined based on value in use calculations. The recoverable amounts of the Company's cash generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on actual operating results and on budgets approved by management. These cash flow projections cover a 10 year period.

Growth Rates

Growth rates within the value in use model are applied to key elements of each entities' financial performance metrics such as turnover, gross margin, accommodation costs, employment costs and operating costs. For store level CGU models, management have applied set rates to the differing types of store formats in the portfolio and individual rates for stores not aligned with the rest of the market. Market level CGU models apply growth rates applicable to all income streams and the model contains all applicable costs within each entity. Note 13 details the growth rate applied in each market.

Discount Rates

The Company uses post-tax cash flows for the impairment test. As the Company's investments operate in a wide range of geographies which varies in terms of economic conditions, the Company uses post-tax discount rates suitable for a particular geography to discount its cash flows. These discount rates are determined at group level and are the weighted average cost of capital (WACC), adjusted by applying a country risk premium if necessary. Note 13 details the discount rate applied in each market.

Sensitivity on Impairment

As detailed in Note A the investment in Brazil is most sensitive to impairment. Within Brazil the key assumption which drives the value in use calculation is the volume of franchisee rights granted and other channels such as direct selling. As at the year-end there are 129 franchisees point of sale locations in Brazil and this is forecast to increase to 211 over the period to 2025. Whilst management are actively pursuing new franchisee partners and have made progress in this area, there is a risk that the business will not be successful in converting sufficient franchisee points of sale in order to satisfy the business plan or that the planned growth in direct sales is lower than expected. (The directors consider that a reasonably possible change to the budget assumption relating to franchisee uptake would be reduction of 3% of net revenue in each year of the plan, this would result in an additional investment impairment of £4m.) The number of The Body Shop consultants is forecast to be 156,000 by 2025 by utilising the consultants that Natura S.A. currently has in Brazil. If future store openings were 5% lower than planned this would not lead to an impairment. If the number of consultants reached was 5% lower this would also not result in any impairment charge. Goodwill within other markets would require a fundamental variation in future cash flows to trigger any impairment charge. An increase in discount rate of 1% would not result in an impairment but would decrease future cash flows by £18m.

G. Inventories

	2017	2016
	£m	£m
Finished goods	59	63
Net inventories	59	63

There is no material difference between the balance sheet value of inventory and their replacement cost.

The cost of inventories recognised as an expense and included in cost of sales for the period ended 31 December 2017 is £98m (2016: £95m).

Company Notes to the Financial Statements

H. Trade and other receivables

	2017	2016
	£m	£m
Amounts falling due within one year:		
Amount receivable for the sale of goods	33	35
Allowance for doubtful debts	(2)	(2)
	31	**33**
Amounts owed by subsidiary undertakings	23	30
Allowance for doubtful debts	(1)	-
Prepayments and accrued income	10	8
Other debtors	3	4
Corporation tax	-	1
Total	**66**	**76**

I. Cash and Cash equivalents

	2017	2016
	£m	£m
Cash and cash equivalents	21	9
Total	**21**	**9**

J. Trade and other payables

	2017	2016
	£m	£m
Trade payables	33	29
Social security and other taxes	7	8
Other payables	8	4
Accrued expenses	23	23
Deferred income	3	2
Amounts due to subsidiary undertakings	20	26
Total	**94**	**92**

Company Notes to the Financial Statements

K. Borrowings

	2017	2016
	£m	£m
Borrowings	49	47
Total	49	47

Amounts repayable to related parties of the Company carry interest of 0.7% (2016: 0.50% - 0.98%) per annum charged on the outstanding loan balances.

The Body Shop International Limited is financed entirely through Natura (Brasil) International B.V. (2016: FINVAL the L'Oréal Group financing entity which is part of the L'Oréal Group central Treasury). The Company has no external borrowing facilities. Interest is charged on loans by Natura (Brasil) International B.V. at an arms-length rate. The Company is therefore subject to interest rate variations, and does not hedge its interest rate risk exposures. Interest amounts outstanding at 31 December 2017 are included in accruals.

L. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017	2016	2017	2016
	£m	£m	£m	£m
Share-based payments	2	-	-	-
Total	2	-	-	-

	1 January 2017	Recognised in income	Recognised in Equity	31 December 2017
	£m	£m	£m	£m
Movement in deferred tax during 2017				
Share-based payments	-	2	-	2
	-	2	-	2

Movement in deferred tax during 2016

	1 January 2016	Recognised in income	Recognised in Equity	31 December 2016
	£m	£m	£m	£m
Share-based payments	1	-	(1)	-
	1	-	(1)	-

Company Notes to the Financial Statements

M. Provisions

Property related provisions include onerous contracts relating to buildings which the Company no longer occupy.

Other provisions consist of provisions for redundancy, commitments with suppliers regarding discontinued products and high risk letters of intention and are expected to be utilised within 12 months.

Other current provisions include dilapidation provision; the impact of discounting is not material.

	Property related provisions £m	Other provisions £m	Total £m
At 1 January 2016	1	1	2
Provisions utilised/credited in the period	-	-	-
At 31 December 2016	**1**	**1**	**2**
At 1 January 2017	1	1	2
Provisions utilised/credited in the period	-	-	-
At 31 December 2017	**1**	**1**	**2**

N. Capital and reserves

	2017 £m	2016 £m
Allotted called up and fully paid		
226,710,201 ordinary shares of £0.05	11	11
	11	11

	2017 £m	2016 £m
Share premium	75	75
	75	75

The share premium account consists of amounts subscribed for share capital in excess of their nominal value.

The Company has one class of ordinary shares which carry no right to fixed income.

Details of the Company's dividends' paid is shown in note 25 to the consolidated financial statements.

Company Notes to the Financial Statements

N. Capital and reserves (continued)

Other reserves

	Other reserves
	£m
At 1 January 2016	12
Share option expenses	3
Deferred tax on share based payments	(1)
Foreign currency forward contracts	1
At 31 December 2016	**15**
At 1 January 2017	15
Reclassification of share-based payments	(12)
Deferred tax on share based payments	-
Foreign currency forward contracts	(1)
At 31 December 2017	**2**

Other reserves were made up of hedging reserves and share-based payments. The share-based payment reserves were transferred to the profit and loss account during 2017 when the company transferred ownership.

Profit and loss account

	£m
At 1 January 2016	235
Dividends paid	(41)
Net profit for the period	20
At 31 December 2016	**214**
At 1 January 2017	214
Reclassification of share-based payments	12
Net profit for the period	8
At 31 December 2017	**234**

O. Financial instruments

	2017	2016
	£m	£m
Derivatives that are designated and effective as hedging instruments carried at fair value		
Forward foreign currency contracts held as assets	5	10
Forward foreign currency contracts held as liabilities	(4)	(10)
Option foreign currency contract held as assets	-	1
Net position at the balance sheet date	**1**	**1**

Hedging reserve

The Hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Company Notes to the Financial Statements

O. Financial instruments (continued)

	2017	2016
	£m	£m
Categories of financial instruments		
Financial assets at fair value		
Foreign Exchange Forward and Option Contracts (Principal value)		
Buy Contracts	(48)	(124)
Sell Contracts	108	24
	60	(100)
Financial liabilities at fair value		
Foreign Exchange Forward and Option Contacts (Principal value)		
Buy Contracts	(104)	(12)
Sell Contracts	54	107
	(50)	95

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Derivatives

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 80 per cent to 100 per cent of the exposure generated. The Company also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 12 months within 80 per cent to 100 per cent of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

Company Notes to the Financial Statements

P. Obligation under finance leases

	Minimum lease payments		Present value of lease	
	2017	2016	2017	2016
Obligation under finance lease	£m	£m	£m	£m
Amounts payable under finance leases:				
Within one year	1	2	1	1
In the second to fifth years inclusive	5	7	3	3
After five years	5	9	4	5
	11	18	8	9
Less: future finance charges	(3)	(9)	-	-
Present value lease obligations	8	9	8	9
Less: Amount due for settlement within 12 months (shown under current)	(1)	(1)	(1)	(1)
Amount due for settlement after 12 months	7	8	7	8

It is the Company's policy to lease certain properties under finance leases. The average lease term is 37.5 years. For the period ended 31 December 2017, the average effective borrowing rate was 8% (2016: 8%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Company's lease obligations approximates to their carrying amount.

The Company is a lessee of various retail stores, offices, warehouses and plant and equipment under lease agreements with varying terms, escalation clauses and renewal rights.

There are no corporate restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Q. Operating lease arrangements

The Company as lessee:

At the Balance Sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017	2016
	£m	£m
Within one year	20	20
One to five years	48	46
More than five years	22	19
Total	90	85

Operating lease payments represent rentals payable by the Company for some of its outlets, warehouses and offices under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. The Company also leases items of plant and equipment on short and medium term leases. The majority of leases are subject to rent reviews.

Company Notes to the Financial Statements

Q. Operating lease arrangements (continued)

Included in the above operating lease commitments, are leases whereby the Company has subsequently granted sub-leases to franchisees and other third parties. Due to the varying nature of both sub-lease durations and sub-lease incomes, it is not possible to provide accurate information as to the split of expected incomes from sublet properties over future periods.

Income from sublet properties recognised in the income statement in the current and prior periods are as follows:

	2017	2016
	£m	£m
Income from sub lease recognised in the year	1	1
Total	**1**	**1**

R. Contingencies

The Body Shop International Limited, acting as parent Company, provided guarantees when required to by some of its subsidiaries. For example as a guarantor for a lease agreement or to guarantee the liabilities of subsidiaries. Management do not expect anything to be paid out.

	2017	2016
	£m	£m
Bank Guarantees	10	20
Duty Drawback & Deferment	1	2
	11	22

S. Ultimate parent Company and parent Company of larger Group

On 7 September 2017 the group was sold by L'Oreal SA. The entire share capital was acquired by Natura (Brasil) International B.V..

The Company's ultimate parent undertaking is Natura Cosmeticos S.A., a Company incorporated in Brazil and listed on the Brazilian Exchange.

Natura Cosmeticos S.A. is the holding Company respectively of the smallest and largest Group of which the Company is a member and for which Group accounts are prepared. Copies of the accounts may be obtained from its registered office at Av Alexandre Colares, 1188, Sao Paulo, Brazil.

T. Post balance sheet events

On 23 February 2018, 20,000,000 ordinary shares in the Company with a nominal value of £0.05 per share were issued to the parent, Natura (Brasil) International B.V.. In consideration for the issue the intercompany loan, which at the Balance sheet date has a carrying value of £59m, was released. This transaction resulted in share capital of £1m and share premium of £58m.

On 14 February 2018 The Body Shop International Limited provided a guarantee in favour of debenture holders in respect of debentures issued by Natura Cosmeticos S.A. in order to refinance part of the debt acquisition of The Body Shop International Limited.

Natura Cosmeticos S.A. is the principal debtor for the issued debentures in an aggregate principal amount of Brazilian Reais 1,400,000,000 due on 14 August 2019 and The Body Shop International Limited act as a guarantor.