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Registration number: 5990648

Harrods Group (Holding) Limited

Annual Report and Consolidated Financial Statements

for the period ended 01 February 2020

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Harrods Group (Holding) Limited

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Harrods Group (Holding) Limited

Group Strategic Report for the period ended 01 February 2020

Business review

The directors present their Group Strategic Report for the 52 week period ended 1st February 2020 (2019: 52 weeks).

Principal activity

The principal activity of the company is that of an investment holding company.

The group operates Harrods, the world renowned store in Knightsbridge, London. Since the store first opened its doors in 1849, Harrods has always prided itself on a reputation for service excellence and for offering the finest quality merchandise.

Other group activities include aviation services business from London's Luton and Stansted airports, concessions at London's Heathrow and Gatwick airports, export of Harrods branded merchandise to overseas department stores and airport terminals, and direct sales via the internet at Harrods.com. The group also operates in the real estate business through Harrods Estates.

On the 26th of February 2019, Harrods Group (Holding) Limited acquired 2% of the shares of QH Participations Limited from Beauchamp Company No 2 Limited, a related party, for a nominal value. This resulted in an increase of its ownership of the subsidiary to 100%.

Results of ordinary activities before exceptional items

For the period ended 1st February 2020, Gross Transaction Value increased by 4.5% to £2,381.1m (2019: £2,277.7m) whilst group turnover increased 1.6% to £1,040.5m (2019: £1,023.8m).

Below is a table showing Gross Transaction Value which is a measure of retail turnover on a gross basis before adjusting for concessions, consignments, staff discounts and the cost of loyalty scheme points. The Gross Transaction Value also includes turnover of other non-retail subsidiaries. The board believes that Gross Transaction Value represents a good guide to the overall activity of the group.

	52 weeks 1 February 2020 £M	52 weeks 2 February 2019 £M	Growth £M	Growth %
Gross Transaction Value (Incl VAT)	2,381.1	2,277.7	103.4	4.5%
Gross Transaction Value (Excl VAT)	2,018.4	1,929.8	88.6	4.6%
Turnover	1,040.5	1,023.8	16.7	1.6%

The period saw a significant programme of capital expenditure, with total additions of £116.6m (2019: £68.8m). Focus has continued on investing in luxury boutiques primarily in our Knightsbridge store but also at the airports.

Harrods Group (Holding) Limited
Group Strategic Report (Continued)
for the period ended 01 February 2020

Principal risks and uncertainties

The major business risks and uncertainties for the Harrods Business relate to:

- (i) Events impacting the level of international travel to the UK, including terrorism, natural disasters and movements in currency exchange;
- (ii) Cyber-attack and general threat to information security;
- (iii) Evolving customer needs and expectations, creating the need for constant business transformation; and
- (iv) Brexit and its impact on the economic and commercial environment as well as human resources.

The directors continue to reassess and monitor risk through the risk management committee and mitigation plans are put in place accordingly. Security and internal audit work together and with our insurers to monitor and remedy operational risks on an ongoing basis.

Covid-19

The Covid-19 pandemic has been a significant challenge for the business. The impact of the crisis, and subsequent closure of Harrods, has reached our employees, customers, supply chain and store, together with the local and wider community.

The safety of our employees and customers is of utmost importance. The difficult decision was taken to close the store following the government mandate that all non-essential shops be closed from 23rd March 2020. During the closure, the Group furloughed the majority of employees under the UK Coronavirus Job Retention Scheme.

The store was re-opened on the 15th of June 2020. As part of the gradual reopening process, extra steps and precautionary measures were implemented to ensure compliance with social distancing and the highest health and safety and sanitation practices. We have followed government guidance in all re-opening plans, as well as leading industry best practices, as informed by our stakeholders and industry bodies.

Additionally, we stand by our suppliers by continuing to pay punctually and in line with our agreements, to ensure strong supplier relationships through the pandemic and beyond.

Our focus has been on ensuring that Harrods reopened in as strong a position as possible to ensure a successful business in the long-term.

Credit risk

The group's principal credit risk relates to the recovery of trade debtors, although it is not considered significant due to the nature of the business which is predominantly a retail business with purchases settled at the time of the transaction. In order to manage credit risk relating to other trade debtors, subsidiary credit controllers and directors review the aged debtors and collection history on a regular basis and take follow up action where required.

There are no long overdue debts or non-current group receivables at 1st February 2020 (2019: £nil).

Currency risk

The group is exposed to foreign exchange risk on overseas purchasing, but only approximately 12% (2019: 12%) of the group's purchases are contracted in a foreign currency. Transaction exposures are hedged partially using forward currency contracts or currency options, up to one year in advance. Additionally, the group accepts foreign currency in the Knightsbridge store and airport outlets and retains this currency to settle foreign currency obligations.

KPIs

There are no other KPIs required to be reported at a group level other than turnover and profit, after tax, that would give a fuller understanding of the groups business.

Harrods Group (Holding) Limited

Group Strategic Report (Continued)

for the period ended 01 February 2020

Harrods Group Section 172(1) statement

The directors of the company act in a way they consider, in good faith, is most likely to promote the success of the company for the benefit of its' members as a whole, and in doing so have regard to the:

- a) likely consequence of any decision in the long term
- b) interests of the company's employees
- c) need to foster the company's business relationships with suppliers, customers and others
- d) impact of the company's operations on the community and the environment
- e) desirability of the company maintaining a reputation for high standards of business conduct
- f) need to act fairly between members of the company

The following section outlines how the Directors take these factors into account in their decision making in relation to the following stakeholder groups:

Our customers

Harrods' customers are fundamental to its success and Harrods strives to offer the highest possible standards of customer service and experience to ensure that customer expectations are exceeded. Harrods prides itself on being a business that is built around the needs of our customers and adapts and reacts to ensure we are at the forefront of customer experience.

Our people

Our newly launched Employee Values - We are Human, We Strive to Exceed, We Build Trust, We Take Pride and We are One - are closely aligned to the achievement of Harrods' strategic priorities. Our People Promise – Uniquely You, Together Harrods – ensures that we put our People at the centre of the organisation.

Our brands and suppliers

The Harrods store operates both an 'own bought' and a 'concession' model and maintains a close working relationship with these stakeholders, to align our respective cultures for our mutual economic benefit and to ensure the best possible retail offering to Harrods' customers.

Our community

Harrods has been a London institution for over 170 years and is keenly aware of its responsibilities both as a local London business and member of the London business community.

Harrods continues to support both local and national charities and encourages employees to volunteer for charity partners. The NSPCC remains Harrods corporate charity partner. In the period ended 1st February 2020, almost £500,000.

Our environmental impact and sustainability

This financial year, Harrods has revisited and relaunched its sustainability strategy. The strategy has been given a vision and identity and is now a strong voice within the decision making practices of the business.

Harrods "Path to Sustainability" is closely aligned with Harrods strategy and purpose, with the business committing to being a responsible and sustainable operator as it can, in as short a timeframe as possible. The four strategic pillars cover operations, products, partnership, and people.

Our long term decision making

The primary function of the Group Board is to develop the Group's strategy and oversee its implementation in order to promote the long-term success of the business for the benefit of its stakeholders and deliver sustainable shareholder value. The business aim to ensure that decisions support the Group's purpose and values, together with its strategic priorities.

Harrods Group (Holding) Limited
Group Strategic Report (Continued)
for the period ended 01 February 2020

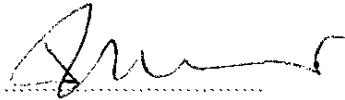
Our standards

Harrods has carried out a review of its company values during this financial year and has developed five core values which underpin its behaviours and ways of working: We are Human, We Strive to Exceed, We Build Trust, We Take Pride and We are One. Harrods has robust company policies and practices which align with these values and are regularly monitored and reviewed. These company policies include clear procedures setting out how employees can raise any concerns.

Our members

The company is an indirect 100% subsidiary of Qatar Holding LLC. The interests and views of the ultimate partner company is included in our long-term decision making and strategic priorities. The Group Board is currently comprised of two representatives of the Shareholder and the Managing Director of Harrods (all of whom also sit on the Harrods board) and a non-executive director, which allows their interests to be represented.

Approved by the Board on 24 September 2020 and signed on its behalf by:



D J Webster
Company secretary

Harrods Group (Holding) Limited
87 - 135 Brompton Road
Knightsbridge
London
SW1X 7XL

Harrods Group (Holding) Limited

Directors' Report

for the period ended 01 February 2020

The directors present their Report together with the audited Consolidated Financial Statements of Harrods Group (Holding) Limited and its subsidiary companies ("the group") for the 52 week period ended 1 February 2020 (2019: 52 weeks).

Results and dividends

Turnover for the period ended 1 February 2020 totalled £1,040.5m (2019: £1,023.8m).

The profit for the period, after taxation, amounted to £130.5m (2019: £130.7m). The group did not declare a dividend in the period. (2019: £57.3m).

Directors of the group

The directors who held office during the period were as follows:

H.E. Sheikh Hamad Bin Jassim Bin Jaber Al-Thani (resigned 19th May 2020)

H.E. H A Al-Abdulla

M E S I Al-Mahmoud

M A Ward

S J Brown

Future developments

The company has considerable financial resources together with long term contracts with a number of customers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

Going Concern

In light of the unprecedented circumstances following Covid-19, management have carried out a reforecast to the end of January 2022. The uncertainty arising from these circumstances creates difficulty in forecasting the performance of the business through the next financial year. However, management has worked hard to obtain a meaningful understanding of the impact the pandemic will have on trade including the effect of overseas and tourist travel.

The Group has adequate cash and available facilities to fund its operations for the foreseeable future. The business was in compliance with the financial conditions under the facility agreement, up to July 2020. Management identified that it would be appropriate to reset these covenants with the banks and, as such, have obtained agreement in August 2020 to replace the current covenants through April 2021 with a monthly liquidity test and a quarterly EBITDA covenant. Management expect the Group will be able to meet these liquidity and EBITDA covenants.

Management modelled a base case plan with realistic but cautious assumptions to understand the impact on cash flows and covenant headroom. Management stress tested the cash flows with severe but plausible downside scenarios. Management noted in the stress testing scenarios modelled that the liquidity and EBITDA covenants could be breached in April 21. While management believes these scenarios are unlikely to occur, in the event that a potential covenant breach scenario is identified, there are still a number of mitigating actions that could be taken.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

There is further analysis of the going concern basis of preparation in Note 2.

Directors' Report (Continued) for the period ended 01 February 2020

Employment of disabled persons

It is the policy of the group to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

Charitable donations

The charitable donations made by the group and charged in the Financial Statements were £98k (2019: £37k). In addition, during the period the group supported various charities by hosting fundraising events within the Harrods store in Knightsbridge. There were no political donations.

Environmental matters

Harrods Limited have commissioned a carbon footprint study of their UK operation including the Knightsbridge Store, distribution centres, associated offices and car park for the time coinciding with the financial period ending 1 February 2020, covering Scope 1 and 2 under the principles of the World Business Council for Sustainable Development (WBCSD) GHG Protocol. The Harrods total carbon footprint is 21,892 Co2 tonnes (2019: 18,559 Co2t).

Payment of creditors

It is the group's policy to agree payment terms as part of any formal contract with a supplier and to make every endeavour to abide by the agreed terms. Where a purchase is not covered by a formal contract, and no agreement is reached in advance of raising an order, the group's policy is to pay suppliers within 30 days after the end of the month of receipt of goods or services.

The group is sympathetic to, and pays particular attention to, the cash flow needs of its smaller suppliers. At period end the number of days payable outstanding was 33 days (2019: 32 days).

Disclosure of information to the Auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's Auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the Auditor is unaware.

Post balance sheet events

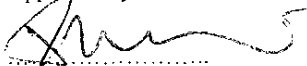
The Group has considered the need for any adjustments to be made following the outbreak of Covid-19 for the 52-week period ended 1st February 2020. At the balance sheet date, the World Health Organisation had not yet declared the outbreak a pandemic. There was not yet a significant outbreak in the UK and government restrictions were not in place. As such the information available at the time could not have predicted the extent of the crisis nor the impact on the business. Therefore, these events have been deemed non-adjusting post balance sheet events in the financial statements.

See note 30 for further analysis of management's decision to treat the Covid-19 pandemic as a non-adjusting post balance sheet event.

Reappointment of Auditors

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

Approved by the Board on 24th September 2020 and signed on its behalf by:



D J Webster
Company secretary
Harrods Group (Holding) Limited

87 - 135 Brompton Road
Knightsbridge
London
SW1X 7XL

Harrods Group (Holding) Limited

Statement of Directors' Responsibilities
for the period ended 01 February 2020

The directors acknowledge their responsibilities for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Financial Statements for each financial period. Under that law the directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these Financial Statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements 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 group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Harrods Group (Holding) Limited

Independent Auditor's Report to the Members of Harrods Group (Holding) Limited for the period ended 01 February 2020

Opinion

We have audited the financial statements of Harrods Group (Holding) Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 1 February 2020 which comprise the consolidated Profit and Loss Account, the consolidated and parent company Balance Sheet, consolidated Statement of cash flows, the consolidated Statement of comprehensive income, the consolidated and parent Statement of changes in equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the group's and of the parent company's affairs as at 1 February 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and 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 to provide a basis for our opinion.

Emphasis of matter – Effects of COVID -19

We draw attention to Note 2 of the financial statements, which describe the financial and operational consequences the company is facing as a result of COVID-19 which is impacting consumer demand and supply chains. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Harrods Group (Holding) Limited

Independent Auditor's Report to the Members of Harrods Group (Holding) Limited (Continued) for the period ended 01 February 2020

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

- Adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- The Financial Statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

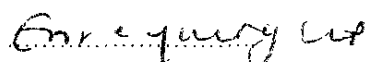
Auditor's responsibilities for the audit of the financial statements

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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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



Julie Carlyle (Senior Statutory Auditor)

For and on behalf of Ernst and Young LLP, Statutory Auditor

1 More London Place

London

SE1 2AF

Date: 22 September 2020

Harrods Group (Holding) Limited

Consolidated Profit and Loss Account
for the period ended 01 February 2020

		Total 52 weeks ended 1 February 2020 £M	Total 52 weeks ended 2 February 2019 £M
	Note		
Turnover	3	1,040.5	1,023.8
Cost of sales		(433.2)	(434.9)
Gross profit		607.3	588.9
Distribution costs		(330.6)	(314.1)
Administrative expenses		(52.5)	(58.6)
Other operating income	4	34.2	32.2
Fair value movement		(1.3)	0.5
Operating profit	5	257.1	248.9
Profit on disposal of subsidiaries	16	-	1.9
Loss on closure of Harrods Estates branch	6	(0.6)	-
Profit on ordinary activities before interest and taxation		256.5	250.8
Interest receivable and similar income	10	3.3	1.0
Interest payable and similar charges	11	(84.1)	(85.8)
Profit before tax		175.7	166.0
Taxation	12	(45.2)	(35.3)
Profit for the financial period		130.5	130.7
Attributable to non-controlling interests		-	(0.3)
Profit attributable to:			
Owners of the company		130.5	130.4

The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited
Consolidated Statement of Comprehensive Income
for the period ended 01 February 2020

		52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
	Note		
Profit for the period		130.5	130.7
(Loss) on hedging reserve		(2.5)	(0.4)
Actuarial gains on defined benefit pension scheme	24	6.1	80.9
Movement of deferred tax relating to pension (surplus)		(1.1)	(13.8)
Prior year adjustment		1.9	
Other comprehensive income for the period		4.4	66.7
Total comprehensive income for the period		134.9	197.4
Attributable to non-controlling interests		-	(0.3)
Profit attributable to:			
Owners of the company		134.9	197.1

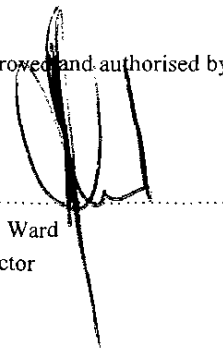
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Harrods Group (Holding) Limited

Consolidated Balance Sheet as at 1 February 2020

	Note	1 February 2020 £M	2 February 2019 £M
Fixed assets			
Intangible assets	14	402.0	417.5
Tangible assets	15	1,358.7	1,297.9
		<u>1,760.7</u>	<u>1,715.4</u>
Current assets			
Stocks	18	112.0	109.4
Debtors: amounts falling due within one year	19	70.2	62.8
Cash at bank and in hand		224.8	197.7
		<u>407.0</u>	<u>369.9</u>
Creditors: Amounts falling due within one year	20	<u>(363.6)</u>	<u>(1,263.7)</u>
Net current assets/ (liabilities)		<u>43.4</u>	<u>(893.8)</u>
Total assets less current liabilities		1804.1	821.6
Creditors: Amounts falling due after more than one year	20	<u>(1,522.0)</u>	<u>(665.0)</u>
Net assets excluding pension asset		282.1	156.6
Net pension asset	24	117.1	107.7
Net assets		<u><u>399.2</u></u>	<u><u>264.3</u></u>
Capital and reserves			
Called up share capital	22	3.8	3.8
Share premium reserve	22	264.5	264.5
Other reserves		(13.2)	(10.7)
Profit and loss account		144.1	0.2
Equity attributable to owners of the company		<u>399.2</u>	<u>257.8</u>
Non-controlling interest		-	6.5
Total equity		<u><u>399.2</u></u>	<u><u>264.3</u></u>

Approved and authorised by the Board on 24 September 2020 and signed on its behalf by:


M A Ward
Director

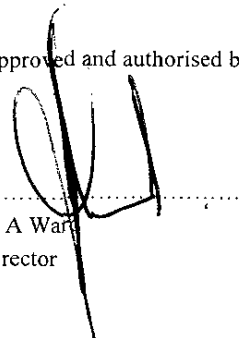
The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited

Company Balance Sheet as at 1 February 2020

	Note	1 February 2020 £M	2 February 2019 £M
Fixed assets			
Investments	16	262.6	262.6
Current assets			
Debtors: amounts falling due within one year	19	35.1	68.2
Cash at bank and in hand		1.2	0.3
		<u>36.3</u>	<u>68.5</u>
Creditors: Amounts falling due within one year	20	<u>(0.2)</u>	<u>(32.2)</u>
Net current assets		<u>36.1</u>	<u>36.3</u>
Net assets		<u><u>298.7</u></u>	<u><u>298.9</u></u>
Capital and reserves			
Called up share capital	22	3.8	3.8
Share premium reserve	22	264.5	264.5
Profit and loss account		30.4	30.6
Total equity		<u><u>298.7</u></u>	<u><u>298.9</u></u>

Approved and authorised by the Board on 24 September 2020 and signed on its behalf by:


 M A Ward
 Director

The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited

Consolidated Statement of Changes in Equity for the period ended 1 February 2020 Equity attributable to the parent company

	Share capital £M	Share premium £M	Revaluation reserve £M	Other reserves £M	Profit and loss account £M	non-controlling interest £M	Total equity £M
At 4 February 2018	3.8	264.5	-	(10.3)	(140.0)	6.2	124.2
Profit for the financial period	-	-	-	-	130.4	0.3	130.7
Actuarial gain on pension scheme	-	-	-	-	67.1	-	67.1
Movement in hedging reserve	-	-	-	(0.4)	-	-	(0.4)
Movement in non-controlling interest	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(0.4)	197.5	0.3	197.4
Dividends	-	-	-	-	(57.3)	-	(57.3)
At 2 February 2019	3.8	264.5	-	(10.7)	0.2	6.5	264.3

The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited

Consolidated Statement of Changes in Equity (Continued) for the period ended 1 February 2020 Equity attributable to the parent company

	Share capital £M	Share premium £M	Other reserves £M	Profit and loss account £M	non-controlling interest £M	Total equity £M
At 3 February 2019	3.8	264.5	(10.7)	0.2	6.5	264.3
Profit for the financial period	-	-	-	130.5	-	130.5
Actuarial gain on pension scheme	-	-	-	5.0	-	5.0
Movement in hedging reserve	-	-	(2.5)	-	-	(2.5)
Prior year adjustment	-	-	-	1.9	-	1.9
Total comprehensive income	-	-	(2.5)	137.4	-	134.9
Movement in non-controlling interest	-	-	-	6.5	(6.5)	-
Dividends	-	-	-	-	-	-
At 1 February 2020	3.8	264.5	(13.2)	144.1	-	399.2

The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited

Company Statement of Changes in Equity for the period ended 01 February 2020

	Share capital £M	Share premium £M	Profit and loss account £M	Total £M
At 4 February 2018	3.8	264.5	32.1	300.4
Profit for the financial period	-	-	54.7	54.7
Dividends	-	-	(56.2)	(56.2)
At 2 February 2019	3.8	264.5	30.6	298.9

	Share capital £M	Share premium £M	Profit and loss account £M	Total £M
At 2 February 2019	3.8	264.5	30.6	298.9
Profit for the financial period	-	-	0.4	0.4
Dividends	-	-	(0.6)	(0.6)
At 1 February 2020	3.8	264.5	30.4	298.7

Harrods Group (Holding) Limited

Consolidated Statement of Cash Flows for the period ended 01 February 2020

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Cash flows from Operating activities		
Profit for the financial period	130.5	130.7
Adjustments to cash flows from non-cash items		
Depreciation and amortisation	72.4	70.1
Loss on disposal of tangible assets	0.3	0.2
Disposal of branch/ subsidiary	0.6	(1.9)
Finance income	(3.3)	(1.0)
Finance costs	84.1	85.8
Income tax expense	45.2	35.3
Asset write offs	1.4	2.0
Fair value movement	1.3	(0.5)
	332.5	320.7
<u>Working capital adjustments</u>		
(Increase)/Decrease in stocks	(2.6)	6.1
(Increase) in debtors	(4.6)	(3.0)
Increase/(Decrease) in creditors	14.9	(21.7)
Defined retirement benefit contributions	(1.6)	(15.5)
Cash generated from operations	338.5	286.6
Income taxes paid	(32.6)	(36.7)
Net cash flows from Operating activities	306.0	249.9
Cash flows from Investing activities		
Interest received	1.1	0.5
Acquisitions of tangible assets	(109.6)	(72.8)
Proceeds from sale of investments	-	2.9
Net cash flows from Investing activities	(108.6)	(69.4)
Cash flows from Financing activities		
Repayment of loans and financial leases	(52.2)	
Interest paid	(85.8)	(84.7)
Dividends paid	(32.3)	(57.3)
Net cash flows from Financing activities	(170.3)	(142.0)
Net increase in cash and cash equivalents	27.1	38.5
Cash and cash equivalents at 3 February 2019	197.7	159.2
Cash and cash equivalents at 1 February 2020	224.8	197.7

The notes on pages 18 to 38 form an integral part of these Financial Statements.

Harrods Group (Holding) Limited
Notes to the Financial Statements
for the period ended 01 February 2020

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is:

87 - 135 Brompton Road
Knightsbridge
London
SW1X 7XL

2 Accounting policies

Basis of preparation

The Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of Financial Statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgment in applying the group's accounting policies.

Going concern

In light of the unprecedented circumstances following Covid-19, management have carried out a reforecast to the end of January 2022. The uncertainty arising from these circumstances creates difficulty in forecasting the performance of the business through the next financial year. However, management has worked hard to obtain a meaningful understanding of the impact the pandemic will have on trade including the effect of overseas and tourist travel.

The Group has adequate cash and available facilities to fund its operations for the foreseeable future. At the balance sheet date the Group had cash of £224.8m and £200m available in the undrawn revolving credit facilities with Qatar National Bank S.A.Q. The business was in compliance with the financial conditions under the facility agreement, including the interest cover and adjusted leverage covenants as at January 2020, April 2020 and July 2020. Management identified that it would be appropriate to reset these covenants with the banks and, as such, have obtained agreement in August 2020 to replace the current covenants through April 2021 with a monthly liquidity test and a quarterly EBITDA covenant. Management expect the Group will be able to meet these liquidity and EBITDA covenants.

Management modelled a base case plan with realistic but cautious assumptions to understand the impact on cash flows and covenant headroom. The principal assumptions include:

- The Knightsbridge store to remain open with significantly lower footfall for the remainder of the year, continuing into 2021.
- The overlay of certain mitigating actions already taken, including a cost savings initiative driving lower payroll costs and a reduction in inventory purchases. It has also been assumed that the Group will not make a dividend payment to shareholders for the next two financial years.

Management stress tested the cash flows with severe but plausible downside scenarios. These scenarios focused on a re-occurrence of lockdown in London, resulting in the closure of the Knightsbridge store for four weeks, and a slower sales recovery from a long-term decline in tourism. Management also carried out a series of stress tests to break either the liquidity or EBITDA covenants and assessed the likelihood of those events occurring.

Going concern (continued)

Management noted in the stress testing scenarios modelled that the liquidity and EBITDA covenants could be breached in April 21. While management believes these scenarios are unlikely to occur, in the event that a potential covenant breach scenario is identified, there are still a number of mitigating actions that could be taken. These include, and are not limited to, additional cost savings initiatives including employee redundancies of up to 14% of the workforce, and agreement with the banks to reset covenant requirements. The Group also has a clear remedy in the formally pledged support from the ultimate parent, Qatar Investment Authority, who have confirmed that they have the means and intention to provide financial support in the event that the Group is not able to meet their liabilities when they fall due. Management does not expect the Group will need to rely on this parental support.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The Consolidated Financial Statements consolidate the Financial Statements of the company and its subsidiary undertakings drawn up to 1 February 2020.

The Consolidated Financial Statements present the results of group and its own subsidiaries ("the group") as they formed a single entity.

A subsidiary is an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in total comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate using accounting policies consistent with those of the parent.

Inter-company transactions, balances and unrealised gains on transactions between the company and its subsidiaries, which are related parties, are eliminated in full.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the group's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The group recognised turnover when:

- the amount of turnover can be reliably measured;
- it is probable that future economic benefits will flow to the entity; and
- specific criteria have been met for each of the group's activities.

E-commerce sales are treated consistent with the Groups revenue recognition policy and relevant accounting standards.

Concession sales

In calculating turnover a distinction is made between transactions where the seller is deemed to act as principal and those where it is agent. Where concessionaires sell their goods through the group's retail operations, the group is considered to act as an agent. Accordingly, only commission and other income receivable from the concessionaires are presented within turnover.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

2 Accounting policies (continued)

Estimated sales returns

Turnover excludes the sales value of estimated returns. The group has recognised a provision for estimated refunds, representing an estimate of the value of the goods sold during the year which will be returned and refunded after the year end date.

Investments

The group and the company account for their fixed asset investments at the lower of cost or directors' valuation less any provision required for permanent diminution in value.

Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Profit and Loss Account over its useful economic life, with current goodwill being amortised over a period of fifty years.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

Tangible assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method. The estimated useful lives range as follows:

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Freehold property	25 - 50 years
Long-term leasehold property	25 - 50 years
Short-term leasehold property	Remaining period of lease
Plant and machinery	5 - 25 years
Vehicles and equipment	4 - 7 years
Fixtures and fittings	3 - 20 years
Office equipment	3 - 5 years

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

2 Accounting policies (continued)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

It is the practice of the company to maintain its properties to a high standard. Accordingly, for the Harrods Department store in Knightsbridge, the directors consider that the life of this asset is so long, and the residual value (based upon prices prevailing at the time of the acquisition or subsequent valuation) is so high, that the depreciation is immaterial. Any permanent diminution in the value of this property is charged to the Profit and Loss Account as appropriate.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Consolidated Statement of Comprehensive Income.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the Profit and Loss Account and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Where the group transfers substantially all the risks and rewards of ownership, the arrangement is classified as a finance lease and a receivable is recognised at an amount equal to the net investment in the lease. Recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Leased assets: Lessee

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in Profit or Loss Account.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in Profit or Loss Account, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in Statement of Other Comprehensive Income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements and on unused tax losses or tax credits in the group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

Cash at bank and in hand

Cash at bank and in hand comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Dividends

Final equity dividends are recognised when they become legally payable. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

2 Accounting policies (continued)

Defined contribution pension obligation

Pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Defined benefit pension obligation

Certain group employees are members of the Harrods Group Pension Plan under which retirement benefits are funded by contributions from the group. Payment is made to the pension trust, which is separate from the group, in accordance with calculations made periodically by consulting actuaries.

The group's defined benefit pension scheme is assessed annually in accordance with FRS 102. Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, adjusted for deferred tax, is presented separately from other net assets on the Balance Sheet.

A net surplus is recognised only to the extent that it is recoverable by the group. The amount charged to the Profit and Loss Account in respect of pension costs and other post-retirement benefits includes the interest cost on the scheme liabilities for the period and the interest income on the scheme assets and are included in finance costs. In addition, administrative expenses which are funded by the group are also charged to the Profit and Loss Account under operating costs.

Actuarial gains and losses including return on assets in excess or short of the interest income as well as movement in the liabilities due to changes in assumptions net of the interest costs as well as experience adjustments are recorded in Statement of Other Comprehensive Income.

Disclosure has been made of the assets and liabilities under FRS102 sections 28.41 and 28.41A.

Further details are included in note 24.

Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

Foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currency are translated at exchange rates ruling at the transaction date. Realised gains and losses are dealt with in the Profit and Loss Account.

Loyalty points

Loyalty points are treated as a deduction in sales. Part of the fair value of consideration received is deferred and subsequently recognised when the award is redeemed. The fair value of the points awarded is determined with reference to the fair value of the customer redemption rate.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

2 Accounting policies (continued)

Financial instruments

The group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives include foreign exchange forward contracts and are initially recognised at fair value on the date the derivative contract is entered into. Derivatives are subsequently remeasured at their fair value. Changes in the fair value of derivatives are recognised in Profit or Loss Account.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

3 Revenue

Analysis of turnover by country of destination is given below:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
UK	1,036.9	1,020.4
Europe	-	0.1
Rest of world	3.6	3.3
	1,040.5	1,023.8

4 Other operating income

The analysis of the group's other operating income for the period is as follows:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Advertising, royalties and similar income	34.2	32.2

5 Operating profit

Arrived after charging:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Depreciation, amortisation and impairment of assets	72.4	70.1

6 Loss on closure of branch

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Loss on closure of Harrods Estates branch	0.6	-
	0.6	-

Harrods Group (Holding) Limited
Notes to the Financial Statements (Continued)
for the period ended 01 February 2020

7 Auditor remuneration

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Fees payable to the group's Auditor and its associates for the audit of the group's annual accounts	0.3	0.3

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Wages and salaries	158.4	152.4
Social security costs	15.2	14.9
Pension costs, defined contribution scheme	6.6	5.7
	<u>180.2</u>	<u>173.0</u>

The average number of persons employed by the group (including directors) during the period, analysed by category was as follows:

	2020 No.	2019 No.
Production	713	674
Administration and support	98	99
Sales, marketing and distribution	3,802	3,746
	<u>4,613</u>	<u>4,519</u>

9 Directors' remuneration

The directors' remuneration for the period was as follows:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Directors' emoluments	1.8	1.6

The value of emoluments incurred directly by the company was £0.1m (2019: £0.1m). Emoluments incurred by the group's subsidiary undertakings were £1.7m (2019: £1.5m). Included in emoluments for the period ended 1 February 2020 are pension contributions of £nil (2019: £nil). There are no directors to whom retirement benefits are accruing under a defined contribution scheme (2019: none).

There are no directors to whom retirement benefits are accruing under a defined benefit pension scheme (2019: none).

The aggregate remuneration of the highest paid director in respect of qualifying services was £1.7m (2019: £1.5m).

Harrods Group (Holding) Limited
Notes to the Financial Statements (Continued)
for the period ended 01 February 2020

10 Interest receivable and similar income

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Bank interest receivable	1.1	0.7
Other interest receivable	2.2	0.3
	<u>3.3</u>	<u>1.0</u>

11 Interest payable and similar charges

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Bank interest payable	16.2	16.1
Other interest payable	67.9	69.7
	<u>84.1</u>	<u>85.8</u>

12 Taxation

Tax charged in the Income Statement:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Current taxation		
UK Corporation tax	35.7	30.7
Adjustment in respect of prior years - corporation tax	7.6	(0.3)
	<u>43.3</u>	<u>30.4</u>
Deferred taxation		
Arising from origination and reversal of timing differences	2.0	4.2
Adjustment in respect of prior period	(0.1)	0.7
Total deferred taxation	<u>1.9</u>	<u>4.9</u>
Total tax on profit on ordinary activities	45.2	35.3
Tax included in the other comprehensive income		
Deferred tax on pension scheme	1.1	13.8
Tax on total comprehensive income	<u>46.3</u>	<u>49.1</u>

The tax on profit before tax for the period is higher than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

Harrods Group (Holding) Limited
Notes to the Financial Statements (Continued)
for the period ended 01 February 2020

12 Taxation (continued)

The differences are reconciled below:

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Profit before tax	175.7	166.0
Corporation tax at standard rate	33.4	31.5
Tax rate changes	(0.2)	(0.1)
Effect of income/expenses not deductible	4.6	2.4
Adjustment in respect of prior periods	7.4	1.5
Total tax charge	45.2	35.3

The standard rate of tax applied to profit on ordinary activities is 19% (2019: 19%). The Finance (No 2) Act 2015 introduced a reduction in the corporation tax rate to 19% for financial years 2017, 2018 and 2019. The Finance Act 2016 further reduced the corporation tax rate to 17% from 1 April 2020, however in the 2020 budget, it was announced that corporation tax will remain at 19%. However, this rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

Deferred tax

	Group		Company	
	1 February 2020 £M	2 February 2019 £M	1 February 2020 £M	2 February 2019 £M
Fixed asset timing differences	3.6	3.8	-	-
Losses (Derivatives)	0.8	0.9	-	-
Short term timing differences	(14.5)	(12.5)	-	-
Non trading timing differences	(3.3)	(2.9)	-	-
Pensions timing differences	(0.5)	-	-	-
Deferred tax (liability)	(13.9)	(10.7)	-	-

Deferred tax reconciliation

	Group £M	Company £M
At 2 February 2019	(10.7)	-
Deferred tax charged to profit and loss	(2.3)	-
Deferred tax on defined benefit pensions scheme	(1.0)	-
Adjustment in respect of prior periods	0.2	-
At 1 February 2020	(13.8)	-

The deferred tax balance consists of the following deferred tax assets/(liabilities):

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

12 Taxation (continued)

	Group £M	Company £M
Deferred tax due within 12 months		
Deferred tax assets	4.1	-
Deferred tax liabilities	1.6	-
	<u>5.7</u>	<u>-</u>
Deferred tax due after more than 12 months		
Deferred tax assets	0.9	-
Deferred tax liabilities	(20.4)	-
	<u>(19.5)</u>	<u>-</u>
Deferred tax liability	<u>(13.8)</u>	<u>-</u>

13 Parent company profit for the year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these Financial Statements. The profit after tax of the parent company for the period was £0.4m (2019: £54.7m)

14 Intangible assets

Group

	Software £M	Goodwill £M	Total £M
Cost			
At 3 February 2019	32.6	516.2	548.8
Additions	5.3	-	5.3
Disposals	(1.9)	-	(1.9)
At 1 February 2020	<u>36.0</u>	<u>516.2</u>	<u>552.2</u>
Amortisation			
At 3 February 2019	19.5	111.8	131.3
Amortisation charge	10.5	10.3	20.8
Amortisation eliminated on disposal	(1.9)	-	(1.9)
At 1 February 2020	<u>28.1</u>	<u>122.1</u>	<u>150.2</u>
Carrying amount			
At 1 February 2020	<u>7.9</u>	<u>394.1</u>	<u>402.0</u>
At 2 February 2019	<u>13.1</u>	<u>404.4</u>	<u>417.5</u>

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

15 Tangible assets

Group

	Freehold property £M	Fixtures and fittings £M	Plant and machinery £M	Other tangibles £M	Total £M
Cost					
At 3 February 2019	1,074.4	279.3	187.8	40.0	1,581.5
Additions	0.8	53.3	8.4	48.8	111.3
Disposals	(0.1)	(41.1)	(7.2)	-	(48.4)
At 1 February 2020	1,075.1	291.5	189.0	88.8	1,644.4
Depreciation					
At 3 February 2019	27.4	165.5	90.6	0.1	283.6
Charge for the year	5.0	35.4	11.2	-	51.6
Adjustment through OCI	(1.7)	-	-	-	(1.7)
Eliminated on disposal	-	(40.8)	(7.0)	-	(47.8)
At 1 February 2020	30.7	160.1	94.8	0.1	285.7
Carrying amount					
At 1 February 2020	1,044.4	131.4	94.2	88.7	1,358.7
At 2 February 2019	1,047.0	113.8	97.2	39.9	1,297.9

16 Investments

Group

Details of undertaking

Details of the investments (including principal place of business of unincorporated entities) in which the group holds 20% or more of the nominal value of any class of share capital are as follows:

Subsidiary undertakings	Registered office	Class of shares	Holding	Principal activity
QH Participations Limited	England and Wales	Ordinary	100%	Holding company
QH Partners Limited	England and Wales	Ordinary	100%	Holding company
QH Enterprises Holdings Limited	England and Wales	Ordinary	100%	Holding company
QH Enterprises Limited	England and Wales	Ordinary	100%	Holding company
Harrods Holdings Limited	England and Wales	Ordinary	100%	Holding company
Harrods (UK) Limited	England and Wales	Ordinary	100%	Holding company
Harrods Limited	England and Wales	Ordinary	100%	Department store
Harrods International Limited	England and Wales	Ordinary	100%	Tax free retailers and wholesaler
Harrods (Continental) Limited	England and Wales	Ordinary	100%	Exporter
Harrods Estates Limited	England and Wales	Ordinary	100%	Estate agents
Harrods Commercial property Limited	England and Wales	Ordinary	100%	Property holding company
Harrods Group Trustees Limited	England and Wales	Ordinary	100%	Dormant company

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

16 Investments (continued)

5A Holdings Limited	England and Wales	Ordinary	100%	Holding company
Genavco Insurance Limited	England and Wales	Ordinary	100%	Insurance broker
Air Harrods Limited	England and Wales	Ordinary	100%	Non-scheduled air transport
Harrods Aviation Holdings Limited	England and Wales	Ordinary	100%	Holding company
Harrods Aviation Limited	England and Wales	Ordinary	100%	Aircraft handling and maintenance service
Harrods Corporate Management Limited	England and Wales	Ordinary	100%	Licensing of trademarks
5A Property Holdings Limited	England and Wales	Ordinary	100%	Holding company
Harrods Property Limited	England and Wales	Ordinary	100%	Property holding company
Harrods Management Limited	England and Wales	Ordinary	100%	Dormant company
5A Leisure Limited	England and Wales	Ordinary	100%	Dormant company
Harrods Beauty Limited (formerly Wylie & Company Limited)	England and Wales	Ordinary	100%	Retail services
Harrods Nominees Limited	England and Wales	Ordinary	100%	Dormant company
Harrods Department Store (Shanghai) Co. Limited	China	Ordinary	100%	Personal Shopping services

The registered address of each entity listed above is 87-135 Brompton Road, Knightsbridge, London, SW1X 7XL, England and Wales except for Harrods Department Store (Shanghai) Co. Limited, whose registered address is 4801 Beijing Avenue, China (Shanghai) Free Trade Zone.

Company

	1 February 2020 £M	2 February 2019 £M
Investment in subsidiaries	262.6	262.6
Subsidiaries		£M
Cost		
At 3 February 2019		513.5
Additions		-
Disposals		-
At 1 February 2020		513.5
Provision		
At 3 February 2019		(250.9)
Impairment		-
At 1 February 2020		(250.9)
Carrying amount		
At 3 February 2019		262.6
At 1 February 2020		262.6

Investments in subsidiaries are held at their carrying value.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

17 Audit exemptions

The company has guaranteed the outstanding liabilities of all subsidiaries within the group and has fulfilled all requirements under s479A of the Companies Act 2006 ('The Act'), the enabling those subsidiaries to apply for audit exemption; provided their financial statements are not subject to audit under any other provisions of The Act.

The following subsidiary companies have applied for audit exemption:

Undertaking	Registered office	Holding	Principal activity
Subsidiary undertakings			
QH Partners Limited	England and Wales	100%	Holding company
QH Enterprises Holdings Limited	England and Wales	100%	Holding company
QH Enterprises Limited	England and Wales	100%	Holding company
Harrods (UK) Limited	England and Wales	100%	Holding company
Harrods International Limited	England and Wales	100%	Tax free retailers and wholesaler
Harrods (Continental) Limited	England and Wales	100%	Exporter
Harrods Estates Limited	England and Wales	100%	Estate agents
Harrods Commercial Property Limited	England and Wales	100%	Property holding company
5A Holdings Limited	England and Wales	100%	Holding company
Air Harrods Limited	England and Wales	100%	Non-scheduled air transport
Harrods Aviation Holdings Limited	England and Wales	100%	Holding company
Harrods Aviation Limited	England and Wales	100%	Aircraft handling and maintenance service
5A Property Holdings Limited	England and Wales	100%	Holding company
Harrods Beauty Limited (formerly Wylie & Company Limited)	England and Wales	100%	Dormant company

18 Stocks

	Group		Company	
	1 February 2020	2 February 2019	1 February 2020	2 February 2019
	£M	£M	£M	£M
Raw materials	-	0.1	-	-
Work in progress	0.2	0.5	-	-
Finished goods	111.8	108.8	-	-
	<u>112.0</u>	<u>109.4</u>	<u>-</u>	<u>-</u>

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

19 Debtors

Amounts due within one year

	Group		Company	
	1 February 2020	2 February 2019	1 February 2020	2 February 2019
	£M	£M	£M	£M
Trade debtors	52.1	46.3	-	-
Other debtors	1.1	1.8	0.1	-
Prepayments and accrued income	17.0	14.7	-	0.5
Amounts owed by related parties	-	-	35.0	67.7
	<u>70.2</u>	<u>62.8</u>	<u>35.1</u>	<u>68.2</u>

20 Creditors

Amounts due within one year

	Group		Company	
	1 February 2020	2 February 2019	1 February 2020	2 February 2019
	£M	£M	£M	£M
Trade creditors	166.8	152.6	-	-
Amounts due to related parties	-	934.6	-	31.7
Group tax liability	25.5	15.1	-	-
Social security and other taxes	8.1	8.5	-	-
Other payables	69.0	64.8	-	-
Accruals and deferred income	94.2	88.1	0.2	0.5
	<u>363.6</u>	<u>1,263.7</u>	<u>0.2</u>	<u>32.2</u>

Amounts due after more than one year

Bank loans	617.3	616.0	-	-
Amounts owed to group undertakings	874.6	24.6	-	-
Accruals and deferred income	3.1	3.0	-	-
Financial instruments	13.2	10.7	-	-
Deferred Tax	13.8	10.7	-	-
	<u>1,522.0</u>	<u>665.0</u>	<u>-</u>	<u>-</u>

An interest rate swap was entered into by Harrods Holdings Limited on 30th April 2015 to hedge future expected cash outflows on the new loan facility of £650.0m entered into on 29th April 2015. The interest rate swaps have a total notional value of £545.0m and terminate on 29 April 2022. The change in fair value for the period was a loss of £2.5m and has been fully recognised in the Statement of Comprehensive Income (2019: £0.4m loss).

The related party loan facility was repayable on 30 January 2020. This was refinanced during the period and the new loan facility of £850m is repayable on 31 January 2025 and therefore is due after more than one year. Refer to note 28, Related Party Transactions, for more detail on this transaction.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

21 Dividends

	52 weeks ended 1 February 2020 £M	52 weeks ended 2 February 2019 £M
Interim dividend declared	-	57.3
	-	57.3

22 Share capital

Allotted, called up and fully paid shares

	1 February 2020 No. M	£M	2 February 2019 No. M	£M
Ordinary shares of £0.01 each	376	3.8	376	3.8

Share Premium

	1 February 2020 £M	2 February 2019 £M
Share premium	264.5	264.5
	264.5	264.5

Each ordinary share represents one vote. There are no restrictions or preferences placed on the shares.

Dividends are declared and paid at the discretion of the directors.

23 Financial instruments

	Group 1 February 2020 £M	2 February 2019 £M	Company 1 February 2020 £M	2 February 2019 £M
Financial assets				
Financial assets measured at amortised cost	412.1	368.2	36.3	68.5
	412.1	368.2	36.3	68.5

Financial assets measured at amortised costs include cash and debtors.

	Group 1 February 2020 £M	2 February 2019 £M	Company 1 February 2020 £M	2 February 2019 £M
Financial liabilities				
Financial liabilities measured at fair value through profit or loss	1.7	-	-	-
Financial liabilities measured at fair value through OCI	13.2	-	-	-
Financial liabilities measured at amortised cost	1,870.7	1,928.7	0.2	32.2
	1,885.6	1,928.7	0.2	32.2

Financial liabilities measured at fair value through profit or loss is comprised of foreign currency forward contracts. Financial liabilities measured at fair value through other comprehensive income are comprised of interest rate swaps.

Financial liabilities measured at amortised cost include both short and long term creditors.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

24 Pension and other schemes

The group operates a defined contribution pension scheme and a defined benefit pension scheme.

Defined contribution pension scheme

The pension charge for the period represents contributions payable by the group to the scheme and amounted to £6.6m (2019: £5.7m). Contributions totalling £1.1m (2019: £0.9m) were payable to the scheme at the end of the period and are included in creditors.

Defined benefit pension schemes

During the period the group operated the Harrods Group Pension Plan ("the Plan"), an approved defined benefit scheme. This scheme was closed to new membership and new accruals in April 2006.

The funding position of the Plan is monitored by the Trustee and the Harrods Group on a quarterly basis and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

An actuarial valuation of the Plan as at 5 April 2018 on a technical provision basis was carried out by the Scheme Actuary, with a surplus of £11m being calculated on that basis, a funding level of 102%. At the previous valuation at 5 April 2015, there was a deficit of £45m equating to a funding level of 93%.

Following the results of the April 2018 valuation, given that the scheme was now in surplus, the Group and the Pension Trustee agreed the following:

- Annual contributions reduced to nil.
- Plan expenses (including any insurance premiums and PPF levies) estimated at £1.0m per annum to continue to be met by the Employers.
- To bring forward the implementation of the Cashflow Driven Investment strategy involving de-risking the plan's assets.
- Recognising the risks that – albeit reduced – remain in the valuation of the plan, the principal employer has also agreed to fund any deficits outside an agreed tolerance band during this period.

In aggregate, during the period ended 1st February 2020, the participating employers made total contributions to the plan of £1.6m (2019: £15.5m).

The next triennial valuation is scheduled for April 2021.

Defined benefit pension schemes

Reconciliation of scheme assets and liabilities recognised

The amounts recognised in the Balance Sheet are as follows:

	1 February 2020 £M	2 February 2019 £M
Fair value of scheme assets	704.0	631.0
Present value of defined benefit obligation	(586.9)	(523.3)
Defined benefit pension scheme surplus	<u>117.1</u>	<u>107.7</u>

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

24 Pension and other schemes (continued)

Reconciliation of present value of plan liabilities

Changes in the defined benefit obligation are as follows:

	1 February 2020 £M
Present value at start of period	(523.3)
Interest cost	(13.6)
Actuarial gains and losses	(66.7)
Benefits paid	16.7
Present value at end of period	<u>(586.9)</u>

Reconciliation of present value of plan assets

Changes in the defined benefit obligation are as follows:

	1 February 2020 £M
Fair value at start of period	631.0
Interest income	16.5
Actuarial gains and losses	72.8
Employer contributions	1.6
Benefits paid	(16.7)
Administrative expenses	(1.2)
Fair value at end of period	<u>704.0</u>

Analysis of assets:

Composition of plan assets:

	1 February 2020 £M	2 February 2019 £M
Cash and cash equivalents	24.0	82.7
Debt instruments	533.6	412.0
Other assets	146.4	136.3
	<u>704.0</u>	<u>631.0</u>

Principal actuarial assumptions

The principal actuarial assumptions at the Balance Sheet date are as follows:

	1 February 2020 %	2 February 2019 %
Discount rate	1.70	2.65
Future pension increases	1.95	2.15
Inflation	<u>2.85</u>	<u>3.15</u>

Harrods Group (Holding) Limited
Notes to the Financial Statements (Continued)
for the period ended 01 February 2020

24 Pension and other schemes (continued)

Post retirement (at age 60) mortality assumptions

	1 February 2020 Years	2 February 2019 Years
Current UK pensioners at retirement age - male	27.4	27.6
Current UK pensioners at retirement age - Female	29.1	29.3
Future UK pensioners at retirement age - male	29.3	29.5
Future UK pensioners at retirement age - female	31.0	31.2

25 Commitments

Group

Capital commitments

Amounts contracted for but not provided in the Financial Statements amounted to £40.0m (2019: £45.5m).

Other commitments

At 1 February 2020 the group had commitments under concession agreements with Heathrow Airport Limited and Gatwick Airport Limited which were contracted for but not provided for in these Financial Statements of £9.2m as at the period end (2019: £9.1m).

26 Commitments under operating leases

	1 February 2020 £M	2 February 2019 £M
Land and buildings		
Within one year	5.3	2.0
Within two and five years	22.7	6.8
Over five years	109.4	5.6
	<u>137.4</u>	<u>14.4</u>
Other		
Within one year	0.6	0.8
Within two and five years	0.3	1.0
	<u>0.8</u>	<u>1.8</u>

27 Contingent liabilities

The Harrods Group (Holding) Limited cash netting facility is guaranteed by Harrods Limited and other group companies.

There were no other contingent liabilities at 1 February 2020.

Harrods Group (Holding) Limited

Notes to the Financial Statements (Continued) for the period ended 01 February 2020

28 Related party transactions

At the start of financial year ended 1 February 2020, QH Participations Limited had a loan facility agreement with Qatar Holding LLC, the ultimate controlling party, which was fully drawn down. The loan of £902.2m was interest bearing at a fixed rate of 7.5%. The loan was repayable on 31 January 2020.

During the year ended 1 February 2020, £67.7m of interest was paid (2019: £67.7m). Repayment of £52.2m of the loan was also made in two tranches, in December 2019 and January 2020, and a new facility agreement for £850m was signed between the same parties on 30 January 2020.

The new facility is repayable on 31 January 2025. The loan is split equally into Senior Debt which bears an interest rate of 3.7% per annum and Junior Debt which bears an interest rate of 5.4% per annum. The outstanding balance on the loan at 1st February 2020 is £850m (2019: £902.2m), and there was interest payable of £37.0m (2019: £37.3m).

QH Enterprises Holding Limited has a loan from QH Property Holdings Limited, which is under the common control of the company's ultimate parent undertaking. The debt is non-interest bearing and is repayable with not less than 13 months' notice in writing by the lender. The balance as at 1 February 2020 was £24.6m (2019: £24.6m).

On 26th February 2019 Harrods Group (Holding) Limited acquired 2% of the shares of QH Participations Limited from Beauchamp Company No 2 Limited, a related party, for a nominal value. This resulted in an increase of its ownership of the subsidiary to 100%.

There were no other material related party transactions.

29 Parent and ultimate parent undertaking

The Harrods Group (Holding) Limited Financial Statements will be filed with the Registrar of Companies.

The company's immediate parent undertaking is QH Property Holdings Limited, a company incorporated in Bermuda.

The company is an indirect 100% subsidiary of Qatar Holding LLC which is the strategic investment arm of Qatar Investment Authority, the ultimate controlling party, incorporated in Qatar.

30 Non-adjusting post balance sheet events

The Group has considered the need for any adjustments to be made following the outbreak of Covid-19 for the 52-week period ended 1st February 2020. At the balance sheet date, the World Health Organisation had not yet declared the outbreak a pandemic. There was not yet a significant outbreak in the UK and government restrictions were not in place. As such the information available at the time could not have predicted the extent of the crisis nor the impact on the business. Therefore, these events have been deemed non-adjusting post balance sheet events in the financial statements.

Management expect that the closure of the Knightsbridge store and subsequent changes in customer buying behaviours as a result of COVID-19 will impact on the sell through of stock. This may impact on post year end provisioning for net realisable value. However, management expect to substantially mitigate this risk through initiatives to clear stock including the opening of Harrods Outlet Store at Westfield Shopping Centre, continuing to sell out of season stock on the Knightsbridge shop floor into Autumn and through returns to suppliers. The residual impact is therefore difficult to quantify at present. At this stage, there is no long term impact on the key assets on the balance sheet.