

# **ELIS**

## Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2019

## **PRICewaterhouseCOOPERS AUDIT**

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SOCIETE PAR ACTIONS SIMPLIFIEE D'EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES

CAPITAL DE 2 510 460 € EUROS - RCS Nanterre RCS B 672 006 483

## **MAZARS**

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SOCIETE ANONYME D'EXPERTISE COMPTABLE ET DE COMMISSARIAT AUX COMPTES A DIRECTOIRE ET  
CONSEIL DE SURVEILLANCE

CAPITAL DE 8 320 000 EUROS - RCS NANTERRE 784 824 153

# **ELIS**

French joint stock corporation (*société anonyme*)  
with share capital of €221,297,797  
Registered office: 5, boulevard Louis Loucheur, 92210 Saint-Cloud  
RCS: Nanterre 499 668 440

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PRICEWATERHOUSECOOPERS AUDIT

MAZARS

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## **Statutory Auditors' report on the consolidated financial statements**

*This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders,

### **Opinion**

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Elis for the year ended December 31, 2019.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2019 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

### **Basis for opinion**

#### Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

#### Independence

We conducted our audit engagement in compliance with the independence rules applicable to us, for the period from January 1, 2019 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of

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Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

**Emphasis of matter**

Without qualifying our opinion, we draw your attention to Note 1.2 “Accounting standards applied” to the consolidated financial statements, which describes the impact of the entry into force on January 1, 2019 of IFRS 16 “Leases” and IFRIC 23 “Uncertainty over Income Tax Treatments” and their application by Elis.

**Justification of assessments – Key audit matters**

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgment, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

**Measurement of goodwill**

*Notes 6.1 “Goodwill” and 6.5 “Impairment losses on non-current assets” to the consolidated financial statements*

***Description of risk***

At December 31, 2019, goodwill totaled a net amount of €3,801 million, representing the largest item on the consolidated statement of financial position. Goodwill corresponds to the difference at the acquisition date between the acquisition price paid and the fair value of the assets acquired and liabilities assumed. Goodwill is allocated by geographic area to the cash-generating units (CGUs) of the activities into which the various entities acquired have been incorporated.

An impairment charge for this goodwill is recognized on the statement of financial position when the recoverable amount of the CGUs, determined as part of compulsory annual impairment testing, is less than their carrying amount, in accordance with IAS 36.

The recoverable amount is determined using an approach based on multiple criteria (calculation of discounted future cash flows and on market values based on the EBITDA and EBIT multiples of the Group and of listed comparable companies) and requires a significant degree of judgment from management, particularly in relation to business plans, future cash flows based on perpetual growth rate assumptions, and the discounting of these flows based on the weighted average cost of capital. The

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methods used to measure goodwill are described in Note 6.5 to the consolidated financial statements.

Accordingly, we deemed the measurement of goodwill to be a key audit matter.

***How our audit addressed this risk***

We assessed the consistency of the methodology applied by the Finance Department. We also conducted a critical assessment of the procedure for implementing this methodology, and assessed the following:

- that all of the components of the carrying amount of the CGUs tested were taken into account and are consistent with the EBITDA and EBIT projections integrated in the business plans and the sector multiples used to determine the recoverable amount;
- the reasonableness of the EBITDA and EBIT projections for the CGUs in light of the CGUs' economic and financial environments and, by assessing the reasons for the differences between projected and actual historical performances, the reliability of the process by which the estimates were calculated;
- the consistency of these EBITDA and EBIT projections with management's most recent estimates as validated by the Management Board and approved by the Supervisory Board;
- the reasonableness of the discount rates and the long-term growth rates used to calculate discounted future cash flows, based on our valuation experts' reports;
- the consistency of the 2020 EBITDA and EBIT multiples used with market analyses and the consensus of the main stakeholders;
- the sensitivity analyses of the impairment tests conducted by management to a change in the perpetual growth rate, discount rates or the 2020 EBITDA and EBIT rates budgeted for the CGUs whose value in use is based on multiples.

Lastly, we obtained assurance that Notes 6.1 and 6.5 to the consolidated financial statements provide appropriate disclosures.

**Litigation and contingent liabilities**

*Note 7.2 "Contingent liabilities" to the consolidated financial statements*

***Description of risk***

Note 7.2 "Contingent liabilities" to the consolidated financial statements summarizes the legal or arbitration proceedings arising in the normal course of business of the Group.

They notably include ongoing proceedings in Brazil and France, where contingent liabilities include in particular an ongoing anti-trust investigation.

Provisions are recorded with respect to these if the Group believes that it has a contractual, legal or constructive obligation, and that the future outflows of resources to cover the risk can be estimated accurately.

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Given the uncertain outcome of these proceedings and ongoing investigations, and their potential negative and material effect on the Group owing to the financial penalties that may be incurred, as well as any impact they could have on its businesses and their commercial prospects, we deemed litigation and contingent liabilities to be a key audit matter.

### ***How our audit addressed this risk***

To assess whether or not the risks associated with these proceedings and ongoing investigations have been properly assessed, and to verify their non-quantifiable nature, where appropriate, we:

- performed a critical review of the positions adopted by the Company's lawyers and legal advisers involved in these matters;
- examined the analyses of the proceedings/investigations prepared by the Group's Finance and Legal Departments.

We also verified that the disclosures provided in Note 7.2 to the consolidated financial statements were appropriate.

### **Specific verifications**

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Executive Board's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the Group management report includes the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code is included in the Group management report. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

### **Report on other legal and regulatory requirements**

#### Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Elis by the Annual General Meeting held on June 29, 2011 for Mazars and by the bylaws at the time of the Company's incorporation in 2007 for PricewaterhouseCoopers Audit.

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At December 31, 2019, Mazars and PricewaterhouseCoopers Audit were in the ninth and thirteenth consecutive year of their engagement, respectively, and the fifth year since the Company's securities were admitted to trading on a regulated market.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems, relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Management Board.

**Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements****Objective and audit approach**

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 taken by users on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgment throughout the audit. They also:



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- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

### Report to the Audit Committee

We submit a report to the Audit Committee, which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

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*Neuilly-sur-Seine and Courbevoie, March 3, 2020*

The Statutory Auditors

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**PRICEWATERHOUSECOOPERS  
AUDIT**

**BRUNO TESNIERE**

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**MAZARS**

**ISABELLE MASSA**

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