



LAGARDÈRE SCA

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CONTRACTUAL AUDIT REPORT ON THE APPLICATION OF THE SERVICE AGREEMENT BETWEEN LAGARDÈRE CAPITAL & MANAGEMENT AND LAGARDÈRE RESSOURCES

FISCAL YEARS 2017 TO 2019

This English version has been prepared by Lagardère for the convenience of English-speaking readers.
It is a courtesy translation of the original French *Rapport d'Audit Contractuel* issued by Ledouble.
It is intended for general information only and in case of discrepancies the French original shall prevail.

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1. General presentation

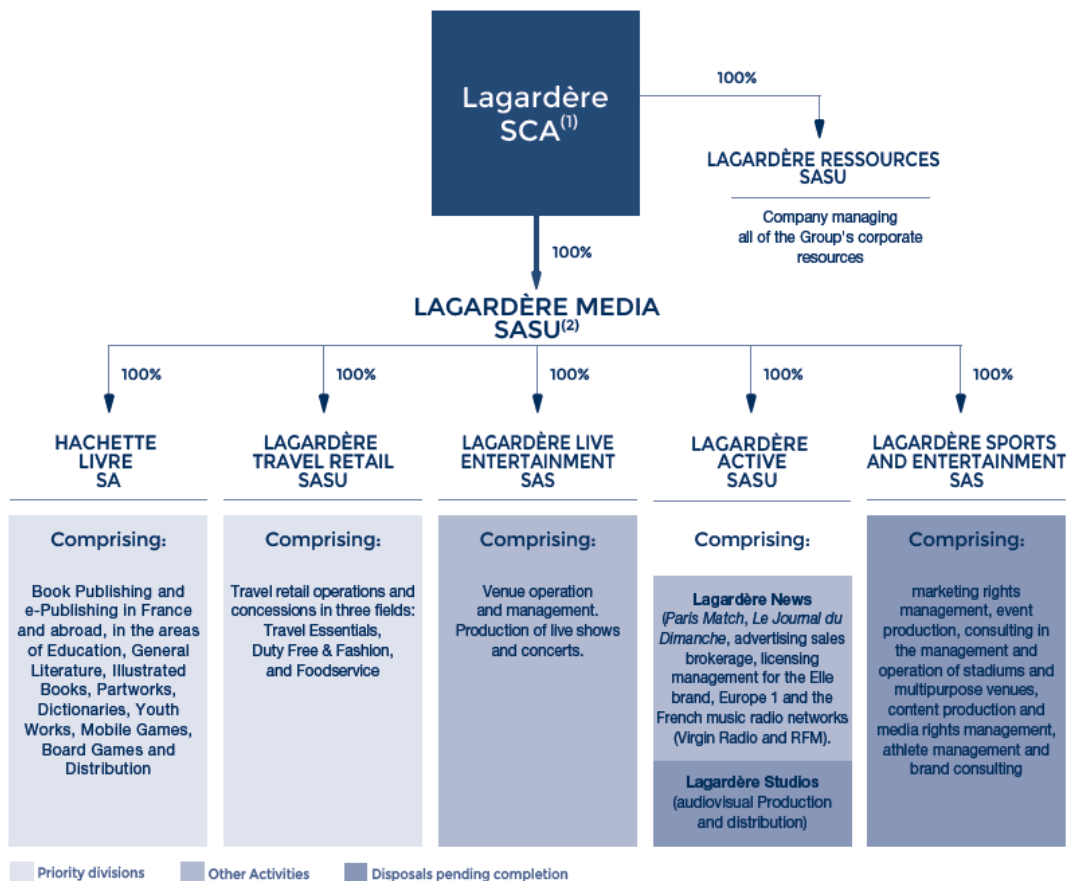
1.1. Background

1.1.1. Lagardère SCA

Lagardère SCA is the holding company that controls all of the subsidiaries and investments comprising the Lagardère group (the “Group”).

Lagardère SCA draws up the Group’s strategy, guides and finances its development, makes the main management decisions to this end, and ensures those decisions are implemented both at the level of the Group’s parent company and of its divisions.¹

The Group’s simplified organisation chart, as presented in section 1.3 of Lagardère SCA’s 2019 Universal Registration Document (the “URD²”) is shown below:



(1) Organisation chart at 31 December 2019.

(2) Lagardère Media is the holding company for all Group operations. Percentages are expressed in share capital and voting rights.

¹ Source:

https://www.LAGARDÈRE.com/relation-investisseurs/gouvernement-d-entreprise-207.html&coe_i_id=207&ref=LAGARDÈRE

² Formerly entitled “Reference document” (Document de référence) (“RD”).

In particular, Lagardère SCA holds the entire share capital of Lagardère Ressources, which is responsible for managing all of the Group’s corporate resources and is chaired by the Group Secretary General.

Lagardère SCA’s Executive Committee comprises the heads of the major corporate functions that manage and coordinate the Group and is chaired by Arnaud Lagardère in his capacity as Managing Partner of Lagardère SCA.

The membership structure of the Executive Committee is as follows³:

Lagardère group Executive Committee	
	Function
Arnaud Lagardère	General and Managing Partner, Committee Chairman
Pierre Leroy	Co-Managing Partner Secretary General
Thierry Funck-Brentano	Co-Managing Partner Chief Human Relations, Communications and Sustainable Development Officer
Ramzi Khiroun	Spokesman for the Managing Partners, Chief External Relations Officer
Gérard Adsuar	Group Chief Financial Officer

1.1.2. Lagardère Capital & Management

Lagardère Capital & Management (“**LC&M**”):

- holds a 7.26% stake in the share capital of Lagardère SCA;
- has five employees, comprising the members of Lagardère SCA’s Executive Committee⁴ (section 1.1.1).

1.1.3. Agreements between LC&M and the Group

Two agreements have been signed between LC&M and Lagardère Ressources:

- **A service agreement** (*convention d’assistance*) signed in 1988, and now between LC&M and Lagardère Ressources. Pursuant to this agreement, LC&M provides Lagardère Ressources with a range of resources and management skills specific to general strategy, international development, Group company operations, and management of financing capacity, human potential and corporate image⁵.

Since an amendment dated 12 March 2004 and approved by the Supervisory Board of Lagardère SCA, the remuneration payable to LC&M for any given year is equal to the total expenses incurred by LC&M during that year in execution of the services set out in the service agreement, plus a margin of 10%, subject to an absolute upper limit of €1 million.

³ Source: 2019 URD, section 3.2.1

⁴ Source: 2019 URD, section 3.2.1.2.2.

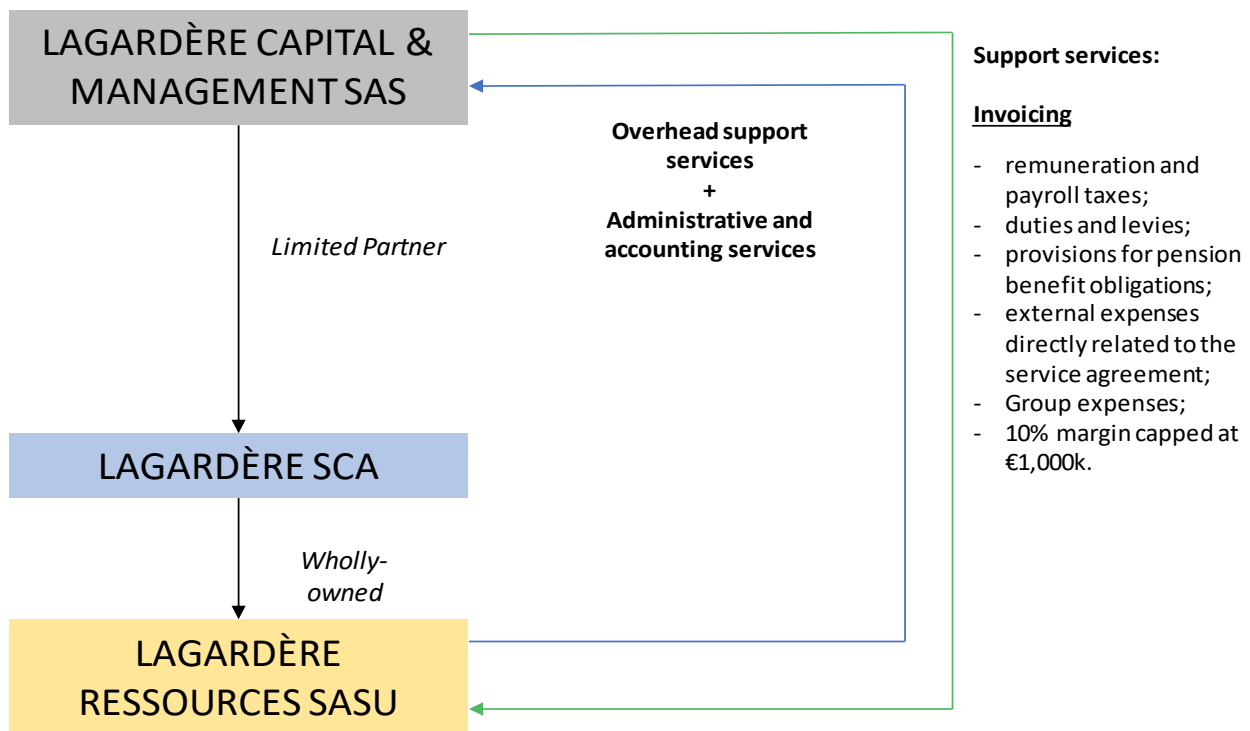
⁵ Source: Statutory Auditor’s special report on related-party agreements for the year ended 31 December 2019.

At its meeting on 14 September 2005, Lagardère SCA’s Supervisory Board also authorized LC&M to set up a **supplementary pension plan**, in addition to the statutory pension plan, for members of Lagardère SCA’s Executive Committee.

The service agreement and supplementary pension plan are disclosed in the special report of the Statutory Auditors of Lagardère SCA on related-party agreements and commitments⁶.

- > **A service provision agreement** (*convention de prestations de services*) between Lagardère Ressources and LC&M provides for:
 - overhead support services, pursuant to which Lagardère Ressources makes available offices, equipment, furniture and other items, along with executive secretarial and logistics services for the Executive Committee comprising LC&M employees;
 - accounting, payroll and administrative supervision of LC&M by Lagardère Ressources.

The service and financial flows between LC&M and Lagardère Ressources are illustrated in the following chart:



⁶ Source: Statutory Auditor’s special report on related-party agreements for the year ended 31 December 2019.

Each year, the Group Secretary General presents Lagardère SCA's Audit Committee with a detailed description of:

- the invoices drawn up by LC&M and addressed to Lagardère Ressources pursuant to the service agreement;
- the expenses incurred by LC&M, comprising its basic fees as well as the breakdown of (i) Executive Committee remuneration, including the calculation of any variable remuneration awarded, and (ii) the provision for pension benefits.

This presentation is made in accordance with the powers conferred on the Audit Committee, as described in Lagardère SCA's URD⁷.

The Audit Committee, all five members of which are independent⁸, reviews the breakdown of expenses included in the basic fees invoiced by LC&M, along with any changes in those expenses, before the service agreement is submitted to Lagardère SCA's Supervisory Board for review.

1.2. Description of the assignment entrusted to Ledouble

The Chairman of the Supervisory Board and the Group Strategy Committee appointed Ledouble SAS ("**Ledouble**") as an independent expert to review the expenses billed over the past three financial years by LC&M to Lagardère Ressources pursuant to the service agreement.

The purpose of our assignment⁹, in accordance with professional standards applicable to chartered accountants in France, is to:

- review the expenses invoiced by LC&M to Lagardère Ressources and analyse the changes in those expenses;
- reconcile the amount of expenses billed by LC&M to Lagardère Ressources for fiscal years 2017 to 2019 with (i) the expenses recognised in the books of LC&M and (ii) LC&M's supporting accounting documents;
- ensure that the amounts of remuneration set out in Lagardère SCA's annual report for fiscal years 2017 to 2019 match the amounts effectively billed by LC&M to Lagardère Ressources.

⁷ Source: 2019 URD, chapter 2.4.

⁸ Source: 2019 URD, chapter 2.4.

⁹ French audit standard NP 4400 concerning engagements to perform agreed-upon procedures regarding financial information.

1.3. Independence of the expert

Prior to accepting our assignment (see section 1.2), we ensured that we were entirely independent with regard to LC&M, Lagardère SCA¹⁰, and the Managing Partners, General Partners, and members of the Audit Committee and Executive Committee of Lagardère SCA.

We have no financial or legal links with the companies or persons cited above.

More broadly, we are not aware of any reason or conflict of interest that could compromise our independence.

We performed our assignment according to the same rules of impartiality and objectivity that would have applied had we been mandated by a court.

We also observed the code of ethical conduct applicable to members of the French Association of Chartered Accountants (*Ordre des Experts Comptables*).

1.4. Procedures and limitations

We reviewed the following documents in the course of our assignment:

> Lagardère SCA

- an organisation chart presenting LC&M and Lagardère SCA, as well as its General Partners;
- the 2017 RD, 2018 RD and 2019 URD of Lagardère SCA;
- the Statutory Auditor's reports, in particular the special report on related-party agreements for the years ended 31 December 2015 to 2019;
- the presentations given to the Audit Committee pursuant to the service agreement for fiscal years 2017 to 2019;
- the invoices for services drawn up by Lagardère Ressources and addressed to LC&M in respect of fiscal years 2017 to 2019;
- the service agreement between LC&M and Lagardère Ressources and its various amendments.

> LC&M

- the service provision agreement between Lagardère Ressources and LC&M;
- the invoices drawn up by LC&M and addressed to Lagardère Ressources in respect of fiscal years 2017 to 2019;
- the Statutory Auditor's reports on the financial statements for fiscal years 2015 to 2018;
- the financial statements for fiscal years 2015 to 2019;
- the trial balances for fiscal years 2017 to 2019;
- the general ledger for fiscal years 2017 to 2019;
- the payroll ledgers broken down by employee for fiscal years 2017 to 2019;
- the actuarial report on the valuation of pension benefits for fiscal years 2017 to 2019.

¹⁰Including all of its subsidiaries, notably Lagardère Ressources.

The abovementioned accounting records are referenced in the footnotes on each page.

To the extent that LC&M's financial statements for fiscal years 2017 and 2018 have been audited and received unqualified opinions with no emphasis of matter from its Statutory Auditor, who has confirmed to us that no errors or omissions have been identified in the records used in the course of our work that are likely to cast doubt on the audit of the 2019 financial statements, which is currently in progress, **our assignment did not include:**

- auditing the financial statements of LC&M;
- verifying the setting of supporting documentation used to produce the payroll documentation of LC&M employees¹¹;
- verifying the calculations of the actuaries engaged to value pension benefits;
- validating the calculation of the social security and tax forms shown to us;
- comparing the accounting documents with the underlying contracts.

1.5. Presentation format

The figures presented hereafter are expressed in millions of euros; rounding may give rise to discrepancies in the totals.

References to chapters and sections are set out in parentheses, where appropriate.

2. Breakdown of expenses invoiced

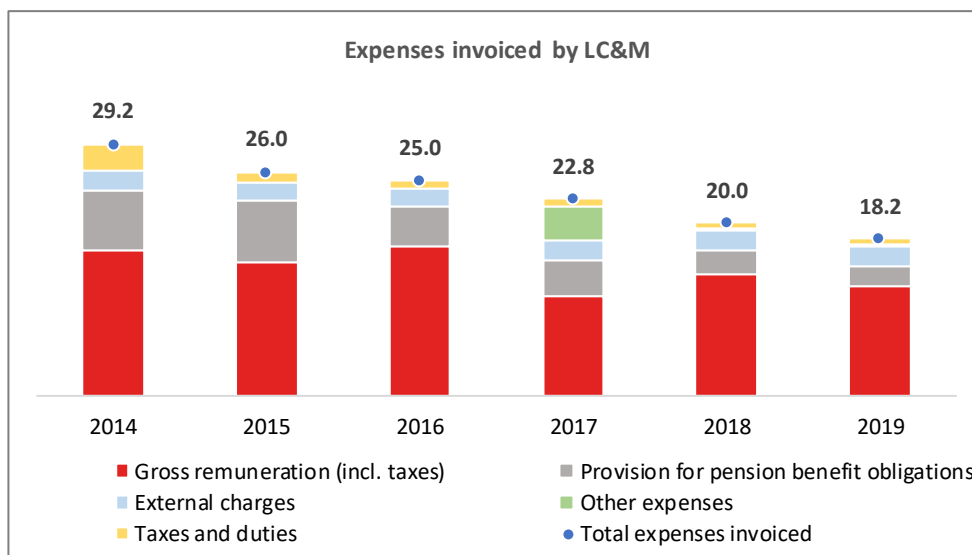
2.1. Changes over the past six fiscal years

Over the past six years, LC&M has invoiced Lagardère Ressources for services including:

- gross remuneration (Payroll taxes);
- pension benefits;
- external charges;
- taxes and other duties;
- other expenses¹².

¹¹ In particular, we did not verify the settings applied to the LC&M payroll software, the reconciliation of payroll with employment contracts, the provisions of employment contracts, the calculation of variable remuneration paid or provided for, and the calculation methods applied to fixed and variable remuneration.

¹² Source: Information taken from LC&M's trial balance and general ledger, and from presentations given to Lagardère SCA's Audit Committee for the fiscal years in question. Appendix 2 – table presentation.



Over the past six financial years, based on our observations, the amount invoiced by LC&M to Lagardère Ressources decreased by €11 million, or almost 37%.

This decrease reflects:

- a decrease in remuneration including related charges and provisions for pension benefits;
- taxes and levies impacted by the elimination of the tax on high earnings from 2015;
- a stable level of external expenses, mainly comprising overhead support, administrative and accounting services invoiced by Lagardère Ressources;
- non-recurring “other expenses” whose amounts vary depending on specific events, as examined hereafter (see section 2.2.4), for fiscal years 2017 to 2019.

2.2. Breakdown of expenses invoiced by LC&M in respect of fiscal years 2017 to 2019

2.2.1. Approach

Our audit procedures consisted in:

- reconciling the amount of expenses billed by LC&M to Lagardère Ressources with (i) the expenses recognised in the books of LC&M and (ii) LC&M’s supporting accounting documents, for fiscal years 2017 to 2019¹³;
- verifying that LC&M’s financial statements for 2017 and 2018 have been audited and received unqualified opinions and with no emphasis of matter from the Statutory Auditor;
- obtaining confirmation from LC&M’s Statutory Auditor that no errors or omissions had been identified in the records used in the course of our work likely to cast doubt on the audit of the 2019 financial statements, which is in progress;

¹³ Source: Payroll statements provided by the Human Resources department of Lagardère Ressources (in addition to testing, on a sample basis, pay slips), actuarial reports, professional fee and service invoices and tax slips.

- > reconciling the breakdown of expenses billed by LC&M in respect of fiscal years 2017 to 2019 presented to Lagardère SCA's Audit Committee with the expenses recognised in the books of LC&M;
- > ensuring that the remuneration amounts detailed in Lagardère SCA's annual report for financial years 2017 to 2019 match the amounts effectively billed by LC&M to Lagardère Ressources.

The amounts billed by LC&M pursuant to the service agreement over the last three years, taking into account a contractual margin capped at €1 million, are as follows:

Reinvoicings			
€m	2017	2018	2019
Gross remuneration (incl. taxes)	11.5	14.0	12.6
Provision for pension benefit obligations	4.2	2.9	2.4
External charges	2.3	2.2	2.3
Other expenses	4.0	0.3	0.3
Taxes and duties	0.8	0.6	0.5
Total expenses invoiced	22.8	20.0	18.2
Fixed margin (%)	10%	10%	10%
Theoretical fixed margin	2.3	2.0	1.8
Cap adjustment	(1.3)	(1.0)	(0.8)
Margin reinvoiced	1.0	1.0	1.0
% effective margin	4.4%	5.0%	5.5%
Invoiced to Lagardère Ressources	23.8	21.0	19.2

2.2.2. Personnel expenses

We have broken down personnel expenses into three categories: remuneration, payroll taxes and provisions for pension benefits.

Personnel expenses			
€m	2017	2018	2019
Remuneration	8.9	11.0	9.6
Payroll taxes	2.6	3.1	3.1
Provision for pension benefit obligations	4.2	2.9	2.4
Total	15.7	16.9	15.0

2.2.2.1. Remuneration

The first concerns the remuneration of LC&M's personnel, all of whom are members of Lagardère SCA's Executive Committee.

This breaks down into a fixed portion and a variable portion¹⁴ for each employee.

¹⁴ Based on quantitative and qualitative criteria for four of them. For Arnaud Lagardère, this ratio is entirely quantitative. An additional exceptional bonus may be granted.

The following table¹⁵ shows the amount of remuneration recognised by LC&M in respect of the three fiscal years subject to our review, with the remuneration of employees who are not executive corporate officers aggregated and presented on a single line¹⁶.

Wages and salaries			
€m	2017	2018	2019
Thierry Funck-Brentano	1.2	1.2	1.2
Arnaud Lagardère	1.1	1.1	1.1
Pierre Leroy	1.5	1.5	1.5
Employees (non-corporate officers)	1.5	1.9	1.8
Fixed	5.3	5.7	5.7
Thierry Funck-Brentano	0.8	0.6	0.7
Arnaud Lagardère	1.7	1.3	1.6
Pierre Leroy	0.8	0.6	0.7
Employees (non-corporate officers)	0.5	0.8	1.0
Variable remuneration paid in the year (base: prior year)	3.7	3.4	4.0
Change in provision for variable remuneration (year vs. prior year)	(0.3)	0.6	(0.1)
Exceptional bonus	-	1.2	-
Remuneration disclosed in the RD/URDs	8.7	10.9	9.6
Provisions for paid leave	0.0	0.0	-
Final pay for terminated employees	0.2	-	-
Other payroll expenses	0.2	0.0	-
Remuneration recognised	8.9	11.0	9.6

Variable remuneration paid for each fiscal year is the amount “due” at the end of the previous fiscal year.

The fixed remuneration of executive corporate officers was identical for each of the three fiscal years concerned.

The only changes observed concern employees who are not executive corporate officers. These correspond to (i) a pay increase between 2017 and 2018, and (ii) the full-year effect of an employee recruited during the year. These two effects impacted the same fiscal year.

The amount of variable remuneration has remained relatively stable for the past three fiscal years.

An exceptional bonus was granted to one member of the Executive Committee who is not an executive corporate officer in fiscal year 2018¹⁸.

¹⁵ The table sets out (i) the amount of the variable remuneration paid during the year in question (in respect of the prior year), and (ii) the year-on-year change in the provision.

¹⁶ Data taken from the trial balances and general ledgers for the fiscal years concerned.

¹⁷ The following table specifies (i) the amount of the remuneration paid during the year in question (in respect of the prior year), and (ii) the year-on-year change in the provision.

¹⁸ As indicated above, our assignment did not include assessing the basis and calculation of the fixed and variable components of remuneration.

We reconciled the fixed and variable remuneration with LC&M's accounting and payroll ledgers:

Fixed and variable remuneration			
€m	Amounts in pay ledgers		
	2017	2018	2019
Arnaud Lagardère	1.1	1.1	1.1
Thierry Funck-Brentano	1.2	1.2	1.2
Pierre Leroy	1.5	1.5	1.5
Members of the Executive Committee (non-corporate officers)	1.5	1.9	1.8
Fixed remuneration paid	5.3	5.7	5.7
Arnaud Lagardère	1.7	1.3	1.6
Thierry Funck-Brentano	0.8	0.6	0.7
Pierre Leroy	0.8	0.6	0.7
Members of the Executive Committee (non-corporate officers)	0.5	0.8	1.0
Variable remuneration due	3.7	3.4	4.0
Exceptional bonus paid to an employee (non-corporate officer)	-	1.2	-
Total	9.1	10.3	9.7
Reconciliation with accounting records	(0.3)	0.6	(0.1)

The differences observed with the accounting records correspond to changes in the provision for variable remuneration from one fiscal year to the next, since payroll ledgers only include the amounts effectively paid. As these differences are self-explanatory, we do not have any observations to make on them.

The remuneration recognised by LC&M and rebilled to Lagardère Ressources for the last three fiscal years is in line with the amounts reported in the schedules used to prepare payroll for the persons concerned¹⁹.

As set out above (see section 1.1.3), Lagardère SCA's Audit Committee reviews LC&M's invoices. Accordingly, each year the Group Secretary General presents all of the expenses recorded pursuant to the service agreement, as well as the breakdown of the calculation of variable remuneration granted by LC&M to its employees.

The fixed and variable remuneration of the executive corporate officers of Lagardère SCA²⁰ are set out in the company's annual reports, in accordance with the presentation recommended by the Afep-Medef Code and by the French financial markets authority (*Autorité des marchés financiers* – AMF²¹). The remuneration of employees who are members of the Executive Committee of Lagardère SCA (and are not therefore corporate officers²²) are not published individually.

Furthermore, notes 34, 35 and 36 to the consolidated financial statements of the Lagardère group for fiscal years 2017, 2018 and 2019, respectively, included in the annual report of Lagardère SCA, disclose the aggregate amount of remuneration paid to Executive Committee members.

¹⁹ We also reviewed the payroll statements on a sample basis, by reconciling them with pay slips.

²⁰ Arnaud Lagardère, Pierre Leroy and Thierry Funck-Brentano.

²¹ AMF recommendations 2012-02 and 2009-16.

²² Ramzi Khiroun and Gérard Adsuar.

Quantitative information relating to remuneration set out in (i) the presentations given to Lagardère SCA's Audit Committee, and (ii) the annual reports is as follows:

Fixed and variable remuneration	Amounts disclosed in the RD/URDs			Amounts in presentations given to Lagardère SCA Audit Committee		
	2017	2018	2019	2017	2018	2019
€m						
Arnaud Lagardère	1.1	1.1	1.1	1.1	1.1	1.1
Thierry Funck-Brentano	1.2	1.2	1.2	1.2	1.2	1.2
Pierre Leroy	1.5	1.5	1.5	1.5	1.5	1.5
Fixed remuneration paid	3.8	3.8	3.8	3.8	3.8	3.8
Arnaud Lagardère	1.3	1.6	1.6	1.3	1.6	1.6
Thierry Funck-Brentano	0.6	0.7	0.7	0.6	0.7	0.7
Pierre Leroy	0.6	0.7	0.7	0.6	0.7	0.7
Variable remuneration due^(*)	2.6	3.1	3.0	2.6	3.1	3.0
Members of the Executive Committee (non-corporate officer)	2.3	2.8	2.8	2.3	2.8	2.8
Exceptional bonus paid to an employee (non-corporate officer)	-	1.2	-	-	1.2	-
Total	8.7	10.9	9.6	8.7	10.9	9.6

(*) Difference between the aggregate amount presented and the amounts paid to corporate officers.

(**) Amount of bonus to be paid in the subsequent fiscal year.

Based on our analysis, the information published in Lagardère SCA's 2017 RD, 2018 RD and 2019 URD and that presented to Lagardère SCA's Audit Committee are entirely consistent with the costs borne by LC&M and the remuneration effectively paid²³ to the members of the Executive Committee of Lagardère SCA.

2.2.2.2. Payroll taxes

Payroll taxes recognised by LC&M in respect of remuneration (see section 2.2.2.1) and invoiced to Lagardère Ressources²⁴ represent between 26% and 28% of the amount of remuneration for the three fiscal years under review:

Payroll taxes			
€m	2017	2018	2019
Payroll taxes on wages and salaries	2.3	2.8	2.5
Remuneration disclosed in the RD/URDs	8.7	10.9	9.6
Payroll taxes (%)	26%	25%	26%

These amounts do not include employer contributions in respect of the award of free shares²⁵.

We verified the consistency between the expenses recognised in the books of LC&M and the payroll ledgers for the past three fiscal years.

The payroll taxes invoiced to Lagardère Ressources effectively correspond to the amounts recognised by LC&M.

²³ Including the payment time lag in respect of variable remuneration.

²⁴ Source: Information taken from LC&M's trial balances for 2017, 2018 and 2019 and from presentations given to Lagardère SCA's Audit Committee.

²⁵ Corresponding to 30% of the value of shares granted in respect of the 2009 to 2015 plans, and to 20% of the value of shares effectively delivered for the 2016 to 2019 plans.

2.2.2.3. Provision for pension benefits

A supplementary pension plan, in addition to the statutory pension plan, has been subscribed for LC&M employees who are members of Lagardère SCA's Executive Committee.

On retirement at age 65, this plan provides a supplementary pension representing a maximum of 35% of a benchmark remuneration, corresponding to the average annual remuneration over the last five years, not exceeding, for each year, 50 times the annual ceiling used to calculate social security contributions. Benefits vest at a rate of 1.75% of the benchmark remuneration per year of seniority on the Lagardère SCA Executive Committee, up to a limit of 20 years. The benefits accrued under this plan are payable on condition that the beneficiary is still with the company at retirement or on early retirement. They also remain payable in the event of termination after the age of 55 or invalidity.

At its meeting on 14 September 2005, Lagardère SCA's Supervisory Board approved the implementation by LC&M of this supplementary pension plan, effective 1 July 2005.

In accordance with French Government Order no. 2019-697 dated 3 July 2019, which reformed the statutory supplementary pension plan regime in France, this plan was closed to new entrants as from 4 July 2019. Benefits accrued under the plan were frozen as at 31 December 2019. No further benefits will be accrued under the plan as from that date.

Pension benefits for vested rights were valued by external actuarial valuation firms Mercer, for the 2017 accounts closing, and Secoia, for 2018 and 2019²⁶.

Pensions			
€m	2017	2018	2019
Provision for pension benefit obligations	4.2	2.9	2.4

The amounts recognised by LC&M and invoiced to Lagardère Ressources effectively correspond to the amounts determined by the two external actuarial firms.

2.2.3. External charges

External charges invoiced by LC&M to Lagardère Ressources break down into four categories:

External charges			
€m	2017	2018	2019
Overhead support services	1.9	1.9	1.9
Administrative and accounting services	0.2	0.2	0.2
Group expenses	2.1	2.1	2.1
Other fees	0.2	0.1	0.1
Miscellaneous	0.0	0.0	0.1
Total	2.3	2.2	2.3

²⁶ Source: Information taken from the annual reports prepared by Mercer and Secoia for the relevant years.

2.2.3.1. Overhead support, administrative and accounting services

Overhead support costs are defined in the service provision agreement between Lagardère Ressources and LC&M (see section 1.1).

Overhead support costs cover the provision by Lagardère Ressources of offices, equipment and furniture, along with executive secretarial and logistics services for the Executive Committee of Lagardère SCA and therefore LC&M employees.

The amount invoiced by Lagardère Ressources to LC&M for these overhead support costs (€1.9 million excluding taxes) did not change over the years subject to our review. We emphasise that this amount is reinvoyed in full by LC&M to Lagardère Ressources.

Lagardère Ressources also supports the accounting, payroll and administrative supervision of LC&M, for an annual amount that remained unchanged for the period subject to our review. Only 80% of this amount is reinvoyed by LC&M to Lagardère Ressources, i.e., €0.2 million before taxes.

Therefore, overhead support and administrative services reinvoyed by LC&M to Lagardère Ressources are billed to it for the same amount at an earlier date, such that the expenses and income offset each other for the same amounts in the accounts of Lagardère Ressources. **This operation therefore has no impact on the earnings of the Group or Lagardère Ressources.** Lagardère Ressources therefore bears these expenses as if the members of the Executive Committee were its own employees.

The final matter is to examine whether LC&M had generated a margin on reinvoying these expenses to Lagardère Ressources for an annual total of €2.1 million.

The margin generated on the service agreement with LC&M, capped at €1 million, does not in any circumstances inflate the Group expenses that are reinvoyed.

As illustrated in the following table, the €1 million cap is already reached through the reinvoying of personnel expenses alone:

Theoretical fixed margin on non-Group expenses			
€m	2017	2018	2019
Total expenses invoiced	22.8	20.0	18.2
Group expenses	(2.1)	(2.1)	(2.1)
Non-Group expenses	20.7	17.9	16.1
Fixed margin (%)	10%	10%	10%
Theoretical fixed margin	2.1	1.8	1.6

The amounts reinvoyed by LC&M in respect of Group expenses do not include any margin and have no impact on the accounts of Lagardère Ressources and of the Group.

2.2.3.2. Other fees and miscellaneous expenses

External fees invoiced by LC&M to the Group cover:

- > work performed by external consultants²⁷;
- > 80% of statutory audit fees.

The “miscellaneous” line includes:

- > health check-ups for the company’s key personnel;
- > business expenses incurred by Arnaud Lagardère and Pierre Leroy.

We have analysed the invoices underlying the expenses incurred and invoiced by LC&M to the Group. These expenses are justified by supporting accounting documents.

2.2.4. Other expenses

Other expenses			
€m	2017	2018	2019
Expenses in respect of employee disputes	3.4	3.7	0.3
Reversal of provision for disputes on settlement	-	(3.4)	-
Settlement indemnity	0.6	-	-
Total	4.0	0.3	0.3

2.2.4.1. Employee disputes

A €3.4 million provision was set aside in 2017 to cover risks related to a dispute with a former LC&M employee and member of Lagardère SCA’s Executive Committee further to a ruling against LC&M handed down in 2017. This amount was invoiced to Lagardère Ressources under the service agreement.

Further to the rejection in 2018 of an appeal by LC&M, this amount was recognised definitively in expenses and the corresponding provision was reversed.

Since the expense corresponding to the provision had already been invoiced in 2017, only the €0.3 million difference between that amount and the amount effectively paid out to the former employee was invoiced in 2018.

As the opposing party considers that the amount due was incorrectly measured, there remains an element of uncertainty in 2019 to the extent of €0.3 million.

2.2.4.2. Settlement indemnities

In 2016, the Chief Financial Officer and member of the Executive Committee of Lagardère SCA, who had been recently recruited, was relieved of his functions²⁸.

²⁷ These include actuarial and legal firms, notably in connection with employee disputes.

²⁸ Source: Lagardère SCA press release dated 27 May 2017.

In 2017, a settlement was agreed in the context of his departure, for an amount of €0.6 million.

2.2.5. Levies

Levies mainly comprise (i) taxes on wages, (ii) the CVAE tax assessed on value added (“CVAE”), (iii) the apprenticeship tax and (iv) the training levy:

Levies			
€m	2017	2018	2019
Duties on wages	-	-	0.3
Training levy	0.1	0.1	0.1
Apprenticeship tax	0.1	0.1	-
VAT	0.0	0.0	0.0
Solidarity contribution (C3S)	0.0	-	-
Land duty (CFE)	0.0	0.0	-
Value added levy (CVAE)	0.3	0.3	0.2
Total	0.4	0.4	0.5

We consulted the official returns for these different levies, which are consistent with the amounts recognised and invoiced by LC&M.

3. Findings

The service agreement entered into between LC&M and Lagardère Ressources is described in the special report of the Statutory Auditors of Lagardère SCA on related-party agreements, including the pension benefits corresponding to the supplementary plan implemented by LC&M for members of the Executive Committee of Lagardère SCA. These correspond to the provision by LC&M of a range of resources and management skills to the Group.

Pursuant to this agreement, LC&M invoices Lagardère Ressources for the expenses incurred in carrying out its mission, plus a margin of 10%, capped in absolute value terms at €1 million.

The assignment entrusted to us consisted in:

- presenting the breakdown and changes in expenses invoiced by LC&M to Lagardère Ressources pursuant to the agreement;
- reconciling the amount of expenses invoiced by LC&M to Lagardère Ressources with (i) the expenses recognised in the books of LC&M and (ii) LC&M’s supporting accounting documents, for fiscal years 2017 to 2019;
- ensuring that the remuneration amounts contained in Lagardère SCA’s annual reports for fiscal years 2017 to 2019 match the amounts effectively billed by LC&M to Lagardère Ressources.

LC&M's Statutory Auditor issued an unqualified opinion on its financial statements for fiscal years 2017 and 2018. As the audit of the 2019 financial statements is in progress, the statutory auditor of LC&M has confirmed to us that no errors or omissions had been identified in the records used in the course of our work.

The amounts invoiced over the past three years have been decreasing:

Reinvoicings			
€m	2017	2018	2019
Remuneration	8.9	11.0	9.6
Payroll taxes	2.6	3.1	3.1
Provision for pension benefit obligations	4.2	2.9	2.4
Personnel expenses	15.7	16.9	15.0
External charges	2.3	2.2	2.3
Other expenses	4.0	0.3	0.3
Levies	0.8	0.6	0.5
Expenses invoiced	7.1	3.1	3.1
Contractual margin	1.0	1.0	1.0
Invoiced to Lagardère Ressources	23.8	21.0	19.2

The total amount invoiced by LC&M to Lagardère Ressources fell by 37% between 2014 and 2019²⁹.

LC&M expenses invoiced to Lagardère Ressources concern:

- Payroll costs for members of Lagardère SCA's Executive Committee (remuneration, payroll taxes, pension benefit obligations and taxes on salaries):
- Invoices prepared by Lagardère Ressources and addressed to LC&M in accordance with the service provision agreement, pursuant to which Lagardère Ressources provides the Executive Committee with overhead support and performs administrative, payroll and accounting services for LC&M. Based on our analysis, overhead support (€1.9 million) and administrative services (€0.2 million)³⁰ reinvoiced by LC&M to Lagardère Ressources are invoiced by Lagardère Ressources to LC&M for the same amount at an earlier date, with no impact on the earnings of the Group or of Lagardère Ressources. For each fiscal year, Lagardère Ressources therefore bears the same expenses for overhead support services as if the members of the Executive Committee were its own employees.
- external fees, miscellaneous costs and other charges;
- a margin capped at €1 million, representing around 5% of the expenses invoiced by LC&M to Lagardère Ressources in 2019.

²⁹ Appendix 2

³⁰ Only 80% of administrative and accounting services is reinvoiced by LC&M to Lagardère Ressources.

Based on our work, we note that:

- > details of all amounts invoiced by LC&M pursuant to the service agreement have been presented to Lagardère SCA's Audit Committee, all of whose members are independent;
- > fees invoiced by LC&M in respect of remuneration correspond to the amounts presented in the annual reports for fiscal years 2017 to 2019. The amounts match (i) the breakdown of remuneration of Lagardère SCA executive corporate officers, and (ii) the aggregate remuneration for the Executive Committee as a whole;
- > the amounts invoiced to Lagardère Ressources pursuant to the service agreement correspond to the expenses effectively incurred by LC&M in carrying out its mission;
- > accounting records of expenses invoiced by LC&M to Lagardère Ressources are justified by appropriate supporting accounting documents. We were able to consult all such documents for fiscal years 2017 to 2019 (payroll ledgers, tax slips, invoices, expense records, staff transaction and court decision);

Paris, 20 April 2020

Ledouble SAS

Agnès Piniot

Chair - Partner

Hervé Gouthier

Partner

APPENDICES

- Quality review Appendix 1
- Breakdown of expenses billed by LC&M over the past six fiscal years Appendix 2

APPENDIX 1: Quality review

I the undersigned, Dominique Ledouble, confirm that I have carried out an independent quality review of the assignment underlying this report.

Paris, 20 April 2020

Dominique Ledouble

APPENDIX 2: Breakdown of expenses billed by LC&M over the past six fiscal years

Reinvoicings						
€m	2014	2015	2016	2017	2018	2019
Gross remuneration (incl. taxes)	16.9	14.6	17.3	11.5	14.0	12.6
Provision for pension benefit obligations	7.0	7.0	4.5	4.2	2.9	2.4
External charges	2.2	2.2	2.3	2.3	2.2	2.3
Other expenses	0.0	0.0	0.0	4.0	0.3	0.3
Levies	3.1	1.3	0.9	0.8	0.6	0.5
Total expenses invoiced	29.2	25.0	25.0	22.8	20.0	18.2
Fixed margin (%)	10%	10%	10%	10%	10%	10%
Theoretical fixed margin	2.9	2.5	2.5	2.3	2.0	1.8
Cap adjustment	(1.9)	(1.5)	(1.5)	(1.3)	(1.0)	(0.8)
Margin reinvoyced	1.0	1.0	1.0	1.0	1.0	1.0
% effective margin	3.4%	4.0%	4.0%	4.4%	5.0%	5.5%
Invoiced to Lagardère Ressources	30.2	26.0	26.0	23.8	21.0	19.2