

KAO Denmark A/S

Lyngbyvej 2, 2100 København Ø

Company reg. no. 19 73 30 33

Annual report

1 January - 31 December 2017

The annual report have been submitted and approved by the general meeting on the 31 May 2018.

Birger von Holdt
Chairman of the meeting

Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points remain unchanged from the Danish version of the document. This means that for instance DKK 146.940 is the same as the English amount of DKK 146,940, and that 23,5 % is the same as the English 23.5 %.

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Management's report

The board of directors and the managing director have today presented the annual report of KAO Denmark A/S for the financial year 1 January to 31 December 2017.

The annual report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position as on 31 December 2017 and of the company's results of its activities in the financial year 1 January to 31 December 2017.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Copenhagen, 30 May 2018

Managing Director

Birger von Holdt
Chief Executive Officer

Board of directors

Frank Henkel
Chairman

Michael Cramer

Eric Brockhus

Birger von Holdt

Independent auditor's report

To the shareholder of KAO Denmark A/S

Opinion

We have audited the annual accounts of KAO Denmark A/S for the financial year 1 January to 31 December 2017, which comprise accounting policies used, profit and loss account, balance sheet, statement of changes in equity and notes. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2017 and of the results of the company's operations for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the annual accounts

The management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the annual accounts.

Independent auditor's report

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement 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 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 company's internal control.
- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the annual accounts, including the disclosures in the notes, and whether the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

Independent auditor's report

In connection with our audit of the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not find any material misstatement in the management's review.

Copenhagen, 30 May 2018

Deloitte

State Authorised Public Accountants
Company reg. no. 33 96 35 56

Jan Larsen

State Authorised Public Accountant
MNE-nr. 16541

Company data

The company

KAO Denmark A/S
Lyngbyvej 2
2100 København Ø

Company reg. no. 19 73 30 33
Established: 19 December 1996
Registered in: Copenhagen
Financial year: 1 January 2017 - 31 December 2017

Board of directors

Frank Henkel, Chairman
Michael Cramer
Eric Brockhus
Birger von Holdt

Managing Director

Birger von Holdt, Chief Executive Officer

Auditors

Deloitte, Statsautoriserede revisorer

Management's review

The principal activities of the company

The main object of the Entity is to sell and distribute hair and skin products, accessories and appliances of any kind to hairdressers as well as any related business.

Development in activities and financial matters

The Entity's gross profit amounted to DKK 18.501 thousand in 2017. Profit for the year after tax amounted to DKK 808 thousand.

The performance for the year is considered satisfactory.

The Entity expects a profit in 2018.

Events subsequent to the financial year

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Accounting policies used

The annual report for KAO Denmark A/S is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class B enterprises. Furthermore, the company has chosen to comply with some of the rules applying for class C enterprises.

The accounting policies used are unchanged compared to last year, and the annual accounts are presented in Danish kroner (DKK).

Recognition and measurement in general

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Translation of foreign currency

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange rate differences that arise between the rate at the transaction date and the one in effect at the payment date, or the balance sheet date, are recognised in the income statement as financial income or financial expenses.

The profit and loss account

Gross profit or loss

Referring to special competitive considerations only gross profit or loss is shown in the income statement as an aggregation of revenue, cost of raw materials and consumables and other external expenses, see section 32 of the Danish financial Statements Act.

Accounting policies used

Revenue

Revenue from sale of goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, regional KAO service agreements and marketing costs e bad debts, etc.

Staff costs

Staff costs comprise salaries and wages as well as social security costs, pension contributions, etc. for the entity staff.

Depreciation, amortisation and writedown

Depreciation, amortisation and writedown comprise depreciation on, amortisation of and writedown relating to intangible and tangible fixed assets respectively.

Financial income and expenses

These items comprise interest income and interest expenses, net capital gains on foreign currency transactions etc. as well as tax surcharge and tax relief under the Danish Tax Prepayment Scheme.

Interest expenses and other financial expenses for manufacturing assets are not included in the cost of assets, but are recognised in the income statement as incurred.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit/loss for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities.

Accounting policies used

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

The balance sheet

Intangible fixed assets

Development projects, patents, and licences

Development costs and internally generated rights are recognised in the profit and loss account as costs in the acquisition year.

Patents and licenses are measured at cost with deduction of accrued amortisation. Patents are amortised on a straight-line basis over the remaining patent period, and licenses are amortised over the contract period, however, for a maximum of 10 years.

Gain and loss from the sale of development projects, patents, and licenses are measured as the difference between the sales price with deduction of sales costs and the book value at the time of the sale. Gain or loss are recognised in the profit and loss account as other operating income or other operating expenses respectively.

Goodwill

Acquired goodwill is measured at cost with deduction of accumulated amortisation. As it is not possible to determine a reliable estimate of the useful life, the amortisation period is set at 10 years.

Property, plant and equipment

Other fixtures and fittings, tools and equipment as well as leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when the asset is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

| | Useful life |
|--|-------------|
| Other fixtures and fittings, tools and equipment | 5 years |
| Leasehold improvements | 6 years |

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Decoration of rented premises

Decoration of rented premises are measured at cost with deduction of accrued depreciation. Depreciation takes place on a straight-line basis over the estimated useful life of the asset, which is set at 5 years.

Accounting policies used

Receivables

Receivables are measured at amortised cost usually equalling nominal value less provisions for bad debts.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits

Liabilities

Other finance liabilities are measured at amortised cost, which usually corresponds to nominal value.

Accrued expenses and deferred income

Received payments concerning income during the following years are recognised under accrued expenses and deferred income.

Profit and loss account 1 January - 31 December

All amounts in DKK.

| <u>Note</u> | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Gross profit | 18.501.127 | 17.885.702 |
| 1 Staff costs | -17.211.007 | -16.274.412 |
| 2 Depreciation and writedown relating to tangible fixed assets | -412.353 | -282.456 |
| Operating profit | 877.767 | 1.328.834 |
| Other financial income | 221.327 | 212.260 |
| 3 Other financial costs | -47.791 | -92.350 |
| Results before tax | 1.051.303 | 1.448.744 |
| 4 Tax on ordinary results | -243.029 | -319.190 |
| Results for the year | 808.274 | 1.129.554 |
| Proposed distribution of the results: | | |
| Allocated to results brought forward | 808.274 | 1.129.554 |
| Distribution in total | 808.274 | 1.129.554 |

Balance sheet 31 December

All amounts in DKK.

| <u>Note</u> | <u>2017</u> | <u>2016</u> |
|--|--------------------------|--------------------------|
| Assets | | |
| Fixed assets | | |
| 5 Goodwill | 0 | 0 |
| Intangible fixed assets in total | <u>0</u> | <u>0</u> |
| 6 Other plants, operating assets, and fixtures and furniture | 1.049.415 | 168.758 |
| 7 Leasehold improvements | 694.343 | 234.867 |
| Tangible fixed assets in total | <u>1.743.758</u> | <u>403.625</u> |
| Deposits | 614.293 | 1.066.203 |
| Financial fixed assets in total | <u>614.293</u> | <u>1.066.203</u> |
| Fixed assets in total | <u>2.358.051</u> | <u>1.469.828</u> |
| Current assets | | |
| Trade debtors | 2.365.373 | 2.909.589 |
| Amounts owed by group enterprises | 12.690.438 | 6.048.348 |
| Deferred tax assets | 0 | 52.947 |
| Receivable corporate tax | 11.368 | 0 |
| Accrued income and deferred expenses | 549.380 | 102.371 |
| Debtors in total | <u>15.616.559</u> | <u>9.113.255</u> |
| Available funds | 989.995 | 5.123.218 |
| Current assets in total | <u>16.606.554</u> | <u>14.236.473</u> |
| Assets in total | <u>18.964.605</u> | <u>15.706.301</u> |

Balance sheet 31 December

All amounts in DKK.

| Equity and liabilities | | | |
|-------------------------------|--|--------------------------|--------------------------|
| <u>Note</u> | | <u>2017</u> | <u>2016</u> |
| Equity | | | |
| 8 | Contributed capital | 5.000.000 | 5.000.000 |
| | Results brought forward | 4.046.750 | 3.238.476 |
| | Equity in total | <u>9.046.750</u> | <u>8.238.476</u> |
| Provisions | | | |
| | Provisions for deferred tax | 9.000 | 0 |
| | Provisions in total | <u>9.000</u> | <u>0</u> |
| Liabilities | | | |
| | Trade creditors | 615.599 | 112.887 |
| | Debt to group enterprises | 4.074.570 | 1.589.768 |
| | Corporate tax | 0 | 131.250 |
| | Other debts | 4.925.606 | 5.633.920 |
| | Accrued expenses and deferred income | 293.080 | 0 |
| | Short-term liabilities in total | <u>9.908.855</u> | <u>7.467.825</u> |
| | Liabilities in total | <u>9.908.855</u> | <u>7.467.825</u> |
| | Equity and liabilities in total | <u>18.964.605</u> | <u>15.706.301</u> |

9 Contingencies

10 Related parties

Statement of changes in equity

All amounts in DKK.

| | <u>Contributed capital</u> | <u>Results brought forward</u> | <u>In total</u> |
|---|--------------------------------|------------------------------------|-------------------------|
| Equity 1 January 2016 | 5.000.000 | 2.108.922 | 7.108.922 |
| Profit or loss for the year brought forward | 0 | 1.129.554 | 1.129.554 |
| Equity 1 January 2017 | 5.000.000 | 3.238.476 | 8.238.476 |
| Profit or loss for the year brought forward | 0 | 808.274 | 808.274 |
| | <u>5.000.000</u> | <u>4.046.750</u> | <u>9.046.750</u> |

Notes

All amounts in DKK.

| | <u>2017</u> | <u>2016</u> |
|--|--------------------------|--------------------------|
| 1. Staff costs | | |
| Salaries and wages | 14.124.611 | 14.279.018 |
| Pension costs | 1.074.621 | 869.198 |
| Other costs for social security | 143.090 | 126.145 |
| Other staff costs | 1.868.685 | 1.000.051 |
| | <u>17.211.007</u> | <u>16.274.412</u> |
| | | |
| Average number of employees | <u>26</u> | <u>26</u> |
| | | |
| 2. Depreciation and writedown relating to tangible fixed assets | | |
| Depreciation on decoration of rented premises | 97.439 | 179.316 |
| Depreciation on plants, operating assets, fixtures and furniture | 177.486 | 103.140 |
| Profit/loss on sale of tangible assets | 137.428 | 0 |
| | <u>412.353</u> | <u>282.456</u> |
| | | |
| 3. Other financial costs | | |
| Other financial costs | <u>47.791</u> | <u>92.350</u> |
| | <u>47.791</u> | <u>92.350</u> |
| | | |
| 4. Tax on ordinary results | | |
| Tax of the results for the year, parent company | 181.082 | 297.246 |
| Adjustment for the year of deferred tax | 61.947 | 21.944 |
| | <u>243.029</u> | <u>319.190</u> |

Notes

All amounts in DKK.

5. Goodwill

| | | |
|--|-------------------|-------------------|
| Cost 1 January 2017 | 4.696.329 | 4.696.329 |
| Cost 31 December 2017 | 4.696.329 | 4.696.329 |
| Amortisation and writedown 1 January 2017 | -4.696.329 | -4.696.329 |
| Amortisation and writedown 31 December 2017 | -4.696.329 | -4.696.329 |
| Book value 31 December 2017 | 0 | 0 |

6. Other plants, operating assets, and fixtures and furniture

| | | |
|--|-------------------|-------------------|
| Cost 1 January 2017 | 1.787.897 | 1.755.440 |
| Additions during the year | 1.058.143 | 32.457 |
| Cost 31 December 2017 | 2.846.040 | 1.787.897 |
| Amortisation and writedown 1 January 2017 | -1.619.139 | -1.515.999 |
| Depreciation for the year | -177.486 | -103.140 |
| Amortisation and writedown 31 December 2017 | -1.796.625 | -1.619.139 |
| Book value 31 December 2017 | 1.049.415 | 168.758 |

7. Leasehold improvements

| | | |
|---|----------------|-------------------|
| Cost 1 January 2017 | 4.298.186 | 4.298.186 |
| Additions during the year | 694.343 | 0 |
| Disposals during the year | -4.298.186 | 0 |
| Cost 31 December 2017 | 694.343 | 4.298.186 |
| Depreciation and writedown 1 January 2017 | -4.063.319 | -3.884.003 |
| Depreciation for the year | -97.439 | -179.316 |
| Depreciation, amortisation and writedown for the year, assets disposed of | 4.160.758 | 0 |
| Depreciation and writedown 31 December 2017 | 0 | -4.063.319 |
| Book value 31 December 2017 | 694.343 | 234.867 |

Notes

All amounts in DKK.

| | <u>31/12 2017</u> | <u>31/12 2016</u> |
|-------------------------------|-------------------|-------------------|
| 8. Contributed capital | | |
| Aktie a 1, nominal value | 2.750.000 | 2.750.000 |
| Aktie a 1, nominal value | 1.125.000 | 1.125.000 |
| Aktie a 1, nominal value | 575.000 | 575.000 |
| Aktie a 1, nominal value | 550.000 | 550.000 |
| | <u>5.000.000</u> | <u>5.000.000</u> |

The share capital consist of 4 shares. The shares have not been divided into classes. The share capital remained unchanged in the past five financial years.

9. Contingencies

Contingent liabilities

| | <u>DKK in thousands</u> |
|--|-----------------------------|
| Leasing liabilities | <u>10.166</u> |
| Contingent liabilities in total | <u>10.166</u> |

Leasing liabilities

The Entity has entered into an 11-year lease agreement in 2016. The rental commitment for the rest 10 years amounts to DKK 8.871 thousand.

The Entity's operating lease commitments amounts to DKK 1.295 thousand.

10. Related parties

Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

- KAO Corporation, Japan

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:

- KAO Germany GmbH, Germany