

KAO Denmark A/S

Lyngbyvej 2, 2100 København Ø

Company reg. no. 19 73 30 33

Annual report

1 January - 31 December 2018

The annual report was submitted and approved by the general meeting on the 18 June 2019.

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 2018.

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 at 31 December 2018 and of the company's results of its activities in the financial year 1 January to 31 December 2018.

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, 3 June 2019

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 financial statements of for the financial year - , which comprise the income statement, balance sheet and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at and of the results of its operations for the financial year - in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, 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.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines 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, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has 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 and the additional requirements applicable in Denmark 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.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 financial statements 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent 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 internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and 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 management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 3 June 2019

Deloitte

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

Jan Larsen

State Authorised Public Accountant
mne16541

Company data

The company

KAO Denmark A/S
Lyngbyvej 2
2100 København Ø

Company reg. no. 19 73 30 33
Established: 19 December 1996
Domicile: Copenhagen
Financial year: 1 January 2018 - 31 December 2018

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 gross profit for the year is DKK 21.117.000 against DKK 18.501.000 last year. The results from ordinary activities after tax are DKK 744.000 against DKK 808.000 last year. The management consider the results satisfactory.

The company's cash and cash equivalents have increased by DKK 3.114.000, i.e. from DKK 990.000 to DKK 4.104.000.

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

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.

Leasing contracts

At the first recognition in the balance sheet, leasing contracts concerning tangible fixed assets by which the company holds all essential risks and advantages attached to the proprietary right (financial leasing) are measured either at fair value or at the present value of the future leasing services, whichever value is lower. When calculating the present value, the internal interest rate of the leasing contract or alternatively the borrowing rate of the enterprise is used as discount rate. Afterwards, financially leased assets are treated in the same way as other similar tangible assets.

The capitalised residual leasing liability is recognised in the balance sheet as a liability, and the interest part of the leasing contract is recognised in the profit and loss account over the term of the contract.

All other leasing contracts are considered operational leasing. Payments in connection with operational leasing and other rental agreements are recognised in the profit and loss account over the term of the contract. The company's total liabilities concerning operational leasing and rental agreements are recognised under contingencies etc.

Writedown of fixed assets

The book values of both intangible and tangible fixed assets as well as equity investments in subsidiaries and associated enterprises are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

Accounting policies used

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets respectively. Writedown takes place to the recoverable amount, if this value is lower than the book value.

The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net cash flow deriving from the use of the asset or the group of assets.

Previously recognised writedown is reversed when the condition for the writedown no longer exist. Writedown relating to goodwill is not reversed.

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.

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

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax assets, including the tax value of tax losses eligible for carry?over, are recognised at the value at which they are expected to be realisable, either by settlement against tax of future earnings or by set?off in deferred tax liabilities within the same legal tax unit.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

Accounting policies used

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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>2018</u>	<u>2017</u>
Gross profit	21.117.084	18.501.127
1 Staff costs	-19.948.772	-17.211.007
2 Depreciation and writedown relating to tangible fixed assets	-410.158	-412.353
Operating profit	758.154	877.767
Other financial income	316.593	221.327
3 Other financial costs	-109.370	-47.791
Results before tax	965.377	1.051.303
4 Tax on ordinary results	-221.520	-243.029
Results for the year	743.857	808.274
Proposed distribution of the results:		
Allocated to results brought forward	743.857	808.274
Distribution in total	743.857	808.274

Balance sheet 31 December

All amounts in DKK.

<u>Note</u>	<u>2018</u>	<u>2017</u>
Assets		
Fixed assets		
6 Other plants, operating assets, and fixtures and furniture	952.479	1.049.415
7 Decoration rented premises	1.854.671	694.343
Tangible fixed assets in total	<u>2.807.150</u>	<u>1.743.758</u>
Deposits	913.591	614.293
Financial fixed assets in total	<u>913.591</u>	<u>614.293</u>
Fixed assets in total	<u>3.720.741</u>	<u>2.358.051</u>
Current assets		
Trade debtors	2.220.869	2.365.373
Amounts owed by group enterprises	5.855.250	12.690.438
Receivable corporate tax	0	11.368
Accrued income and deferred expenses	2.449.234	549.380
Debtors in total	<u>10.525.353</u>	<u>15.616.559</u>
Available funds	4.103.601	989.995
Current assets in total	<u>14.628.954</u>	<u>16.606.554</u>
Assets in total	<u>18.349.695</u>	<u>18.964.605</u>

Balance sheet 31 December

All amounts in DKK.

Equity and liabilities			
<u>Note</u>		<u>2018</u>	<u>2017</u>
Equity			
8	Contributed capital	5.000.000	5.000.000
	Results brought forward	4.790.607	4.046.750
	Equity in total	<u>9.790.607</u>	<u>9.046.750</u>
Provisions			
	Provisions for deferred tax	29.000	9.000
	Provisions in total	<u>29.000</u>	<u>9.000</u>
Liabilities			
	Trade creditors	292.301	615.599
	Debt to group enterprises	3.446.913	4.074.570
	Corporate tax	43.520	0
	Other debts	4.747.354	4.925.606
	Accrued expenses and deferred income	0	293.080
	Short-term liabilities in total	<u>8.530.088</u>	<u>9.908.855</u>
	Liabilities in total	<u>8.530.088</u>	<u>9.908.855</u>
	Equity and liabilities in total	<u>18.349.695</u>	<u>18.964.605</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 2017	5.000.000	3.238.476	8.238.476
Profit or loss for the year brought forward	0	808.274	808.274
Equity 1 January 2018	5.000.000	4.046.750	9.046.750
Profit or loss for the year brought forward	0	743.857	743.857
	5.000.000	4.790.607	9.790.607

Notes

All amounts in DKK.

	<u>2018</u>	<u>2017</u>
1. Staff costs		
Salaries and wages	16.013.579	14.124.611
Pension costs	1.355.335	1.074.621
Other costs for social security	65.081	143.090
Other staff costs	2.514.777	1.868.685
	<u>19.948.772</u>	<u>17.211.007</u>
Average number of employees	<u>27</u>	<u>26</u>
2. Depreciation and writedown relating to tangible fixed assets		
Depreciation on decoration of rented premises	132.467	97.439
Depreciation on plants, operating assets, fixtures and furniture	277.691	177.486
Profit/loss on sale of tangible assets	0	137.428
	<u>410.158</u>	<u>412.353</u>
3. Other financial costs		
Other financial costs	<u>109.370</u>	<u>47.791</u>
	<u>109.370</u>	<u>47.791</u>
4. Tax on ordinary results		
Tax of the results for the year, parent company	201.520	181.082
Adjustment for the year of deferred tax	20.000	61.947
	<u>221.520</u>	<u>243.029</u>

Notes

All amounts in DKK.

	<u>31/12 2018</u>	<u>31/12 2017</u>
5. Goodwill		
Cost 1 January 2018	4.696.329	4.696.329
Cost 31 December 2018	<u>4.696.329</u>	<u>4.696.329</u>
Amortisation and writedown 1 January 2018	-4.696.329	-4.696.329
Amortisation and writedown 31 December 2018	<u>-4.696.329</u>	<u>-4.696.329</u>
Book value 31 December 2018	<u>0</u>	<u>0</u>
6. Other plants, operating assets, and fixtures and furniture		
Cost 1 January 2018	2.846.040	1.787.897
Additions during the year	180.755	1.058.143
Disposals during the year	-1.223.562	0
Cost 31 December 2018	<u>1.803.233</u>	<u>2.846.040</u>
Amortisation and writedown 1 January 2018	-1.796.625	-1.619.139
Depreciation for the year	-277.691	-177.486
Reversal of depreciation, amortisation and writedown, assets disposed of	1.223.562	0
Amortisation and writedown 31 December 2018	<u>-850.754</u>	<u>-1.796.625</u>
Book value 31 December 2018	<u>952.479</u>	<u>1.049.415</u>

Notes

All amounts in DKK.

	<u>31/12 2018</u>	<u>31/12 2017</u>
7. Decoration rented premises		
Cost 1 January 2018	694.333	4.298.186
Additions during the year	1.292.805	694.343
Disposals during the year	<u>0</u>	<u>-4.298.186</u>
Cost 31 December 2018	<u>1.987.138</u>	<u>694.343</u>
Depreciation and writedown 1 January 2018	0	-4.063.319
Depreciation for the year	-132.467	-97.439
Depreciation, amortisation and writedown for the year, assets disposed of	<u>0</u>	<u>4.160.758</u>
Depreciation and writedown 31 December 2018	<u>-132.467</u>	<u>0</u>
Book value 31 December 2018	<u>1.854.671</u>	<u>694.343</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	<u>550.000</u>	<u>550.000</u>
	<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

The Entity has entered into a 11-year office rental liabilities agreement in 2016. The rental commitment for the rest 9 years amounts to DKK 7.885 thousand.

The Entity has entered into a 10-year shop rental obligations agreement in 2018. The rental commitment for the rest 10 years amounts to DKK 10.021 thousand.

The Entity's operating lease commitments amounts to DKK 330 thousand.

Notes

All amounts in DKK.

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