

KAO Denmark A/S

Lyngbyvej 2, 2100 København Ø

Company reg. no. 19 73 30 33

Annual report

1 January - 31 December 2019

The annual report was submitted and approved by the general meeting on the 16 July 2020.

Anders Andreassen
Chairman of the meeting

Notes:

- To ensure the greatest possible applicability of this document, IAS/IFRS English terminology has been used.
- Please note that decimal points have not been used in the usual English way. This means that for instance DKK 146.940 means the amount of DKK 146,940, and that 23,5 % means 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 2019.

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 2019 and of the company's results of its activities in the financial year 1 January to 31 December 2019.

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

We recommend that the annual report be approved by the general meeting.

Copenhagen, 16 July 2020

Managing Director

Anders Andreassen
Chief Executive Officer

Board of directors

Frank Henkel
Chairman

Cory Michael Coutts

Anders Andreassen

Independent auditor's report

To the shareholder of KAO Denmark A/S

Opinion

We have audited the financial statements of for the financial year 1 January - 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity 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 1 January - 31 December 2019 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.

Independent auditor's report

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

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, 16 July 2020

Deloitte

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

Jan Larsen

State Authorised Public Accountant
mne16541

Company information

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 2019 - 31 December 2019

Board of directors

Frank Henkel, Chairman
Cory Michael Coutts
Anders Andreassen

Managing Director

Anders Andreassen, Chief Executive Officer

Auditors

Deloitte, Statsautoriserede revisorer

Management commentary

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 19.553.274 against DKK 21.117.084 last year. The results from ordinary activities after tax are DKK 928.486 against DKK 743.857 last year. The management consider the results satisfactory.

Events subsequent to the financial year

At this moment Europe is suffering from the consequences of the coronavirus (COVID-19). Similar to all European companies KAO Denmark will be impacted in some manner and loss of revenue to a certain amount is expected. The total impact is hard to estimate at this moment and depends, among others, on how long the virus will be active, and has a restrictive effect on society. KAO has put mitigating actions in place to limit or minimize the impact on its business, customers and employees.

Income statement 1 January - 31 December

All amounts in DKK.

<u>Note</u>	<u>2019</u>	<u>2018</u>
Gross profit	19.553.274	21.117.084
1 Staff costs	-17.838.244	-19.948.772
2 Depreciation and writedown relating to tangible fixed assets	-709.435	-410.158
Operating profit	1.005.595	758.154
Other financial income	201.276	316.593
3 Other financial costs	-15.223	-109.370
Pre-tax net profit or loss	1.191.648	965.377
4 Tax on ordinary results	-263.162	-221.520
Net profit or loss for the year	928.486	743.857
Proposed appropriation of net profit:		
Extraordinary dividend adopted during the financial year	700.000	0
Transferred to retained earnings	228.486	743.857
Total allocations and transfers	928.486	743.857

Statement of financial position at 31 December

All amounts in DKK.

Assets			
<u>Note</u>		<u>2019</u>	<u>2018</u>
Non-current assets			
5	Goodwill	<u>0</u>	<u>0</u>
	Total intangible assets	<u>0</u>	<u>0</u>
6	Other fixtures and fittings, tools and equipment	844.951	952.479
7	Leasehold improvements	<u>1.457.244</u>	<u>1.854.671</u>
	Total property, plant, and equipment	<u>2.302.195</u>	<u>2.807.150</u>
8	Deposits	<u>913.591</u>	<u>913.591</u>
	Total investments	<u>913.591</u>	<u>913.591</u>
	Total non-current assets	<u>3.215.786</u>	<u>3.720.741</u>
Current assets			
	Trade debtors	1.794.799	2.220.869
	Amounts owed by group enterprises	6.773.535	5.855.250
	Deferred tax assets	35.000	0
	Accrued income and deferred expenses	<u>172.665</u>	<u>2.449.234</u>
	Total receivables	<u>8.775.999</u>	<u>10.525.353</u>
	Available funds	<u>4.930.965</u>	<u>4.103.601</u>
	Total current assets	<u>13.706.964</u>	<u>14.628.954</u>
	Total assets	<u>16.922.750</u>	<u>18.349.695</u>

Statement of financial position at 31 December

All amounts in DKK.

Equity and liabilities			
<u>Note</u>		<u>2019</u>	<u>2018</u>
Equity			
9	Contributed capital	5.000.000	5.000.000
	Results brought forward	5.019.093	4.790.607
	Total equity	<u>10.019.093</u>	<u>9.790.607</u>
Provisions			
	Provisions for deferred tax	0	29.000
	Total provisions	<u>0</u>	<u>29.000</u>
Liabilities other than provisions			
	Trade creditors	330.361	292.301
	Debt to group enterprises	1.913.232	3.446.913
	Corporate tax	182.097	43.520
	Other debts	4.477.967	4.747.354
	Total short term liabilities other than provisions	<u>6.903.657</u>	<u>8.530.088</u>
	Total liabilities other than provisions	<u>6.903.657</u>	<u>8.530.088</u>
	Total equity and liabilities	<u>16.922.750</u>	<u>18.349.695</u>

10 Contingencies

11 Related parties

Statement of changes in equity

All amounts in DKK.

	<u>Contributed capital</u>	<u>Retained earnings</u>	<u>Total</u>
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
Equity 1 January 2019	5.000.000	4.790.607	9.790.607
Profit or loss for the year brought forward	0	228.486	228.486
Extraordinary dividend adopted during the financial year	0	700.000	700.000
Distributed extraordinary dividend adopted during the financial year.	0	-700.000	-700.000
	<u>5.000.000</u>	<u>5.019.093</u>	<u>10.019.093</u>

Notes

All amounts in DKK.

	<u>2019</u>	<u>2018</u>
1. Staff costs		
Salaries and wages	14.610.842	16.013.579
Pension costs	1.417.013	1.355.335
Other costs for social security	73.704	65.081
Other staff costs	1.736.685	2.514.777
	<u>17.838.244</u>	<u>19.948.772</u>
Average number of employees	<u>22</u>	<u>27</u>
2. Depreciation and writedown relating to tangible fixed assets		
Depreciation on decoration of rented premises	397.427	132.467
Depreciation on plants, operating assets, fixtures and furniture	310.367	277.691
Profit/loss on sale of tangible assets	1.641	0
	<u>709.435</u>	<u>410.158</u>
3. Other financial costs		
Other financial costs	<u>15.223</u>	<u>109.370</u>
	<u>15.223</u>	<u>109.370</u>
4. Tax on ordinary results		
Tax of the results for the year, parent company	327.162	201.520
Adjustment for the year of deferred tax	<u>-64.000</u>	<u>20.000</u>
	<u>263.162</u>	<u>221.520</u>

Notes

All amounts in DKK.

	<u>31/12 2019</u>	<u>31/12 2018</u>
5. Goodwill		
Cost 1 January 2019	4.696.329	4.696.329
Cost 31 December 2019	<u>4.696.329</u>	<u>4.696.329</u>
Amortisation and writedown 1 January 2019	-4.696.329	-4.696.329
Amortisation and writedown 31 December 2019	<u>-4.696.329</u>	<u>-4.696.329</u>
Book value 31 December 2019	<u>0</u>	<u>0</u>
6. Other fixtures and fittings, tools and equipment		
Cost 1 January 2019	1.803.233	2.846.040
Additions during the year	229.140	180.755
Disposals during the year	-178.199	-1.223.562
Cost 31 December 2019	<u>1.854.174</u>	<u>1.803.233</u>
Amortisation and writedown 1 January 2019	-850.754	-1.796.625
Depreciation for the year	-310.367	-277.691
Reversal of depreciation, amortisation and writedown, assets disposed of	151.898	1.223.562
Amortisation and writedown 31 December 2019	<u>-1.009.223</u>	<u>-850.754</u>
Carrying amount, 31 December 2019	<u>844.951</u>	<u>952.479</u>
7. Leasehold improvements		
Cost 1 January 2019	1.987.138	694.333
Additions during the year	0	1.292.805
Cost 31 December 2019	<u>1.987.138</u>	<u>1.987.138</u>
Depreciation and writedown 1 January 2019	-132.467	0
Depreciation for the year	-397.427	-132.467
Depreciation and writedown 31 December 2019	<u>-529.894</u>	<u>-132.467</u>
Carrying amount, 31 December 2019	<u>1.457.244</u>	<u>1.854.671</u>

Notes

All amounts in DKK.

	<u>31/12 2019</u>	<u>31/12 2018</u>
8. Deposits		
Cost 1 January 2019	913.591	614.293
Additions during the year	<u>0</u>	<u>299.298</u>
Cost 31 December 2019	<u>913.591</u>	<u>913.591</u>
Book value 31 December 2019	<u>913.591</u>	<u>913.591</u>
9. 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.

10. Contingencies

Contingent liabilities

The Entity has entered into a 11-year office rental liabilities agreement in 2016. The rental commitment for the rest 8 years amounts to DKK 7.696 thousand.

The Entity has entered into a 10-year shop rental obligations agreement in 2018. The rental commitment for the rest 9 years amounts to DKK 9.833 thousand.

The Entity's operating lease commitments amounts to DKK 785 thousand.

Joint taxation

The company is the administration company of the group of companies subject to the Danish scheme of joint taxation and unlimited jointly and severally liable with the other jointly taxed companies for the total corporation tax.

The company is unlimited jointly and severally liable with the other jointly taxed companies for any obligation to withhold tax on interest, royalties and dividends.

Notes

All amounts in DKK.

10. Contingencies (continued)

Joint taxation (continued)

The liability relating to obligations in connection with withholding tax on dividends, interest and royalties represents an estimated maximum of DKK 0 thousand.

Any subsequent adjustments of corporate taxes or withheld taxes etc. may cause changes in the company's liabilities.

11. 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

Accounting policies

The annual report for KAO Denmark A/S has been presented in accordance with the Danish Financial Statements Act regulations concerning reporting class B enterprises. Furthermore, the company has decided to comply with certain rules applying to reporting class C enterprises.

The accounting policies are unchanged from last year, and the annual report is presented in 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.

Income statement

Gross profit

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.

Revenue

Revenue is recognised in the income statement if delivery and passing of risk to the buyer have taken place before the end of the year and if the income can be determined reliably and inflow is anticipated. Recognition of revenue is exclusive of VAT and taxes and less any discounts relating directly to sales.

Accounting policies

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 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.

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 company is subject to the Danish legislation concerning compulsory joint taxation with the Danish group enterprises. The company acts as an administration company in relation to the joint taxation. This means that the total Danish tax payable of the income of the Danish consolidated companies is paid to the tax authorities by the company.

Accounting policies

The current Danish corporate tax is allocated among the jointly taxed companies in proportion to their respective taxable income (full allocation with reimbursement of tax losses).

The balance sheet

Intangible fixed assets

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	Residual value
Other fixtures and fittings, tools and equipment	5 years	0%
Leasehold improvements	6 years	0%

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

Leasing contracts

At their initial recognition in the statement of financial position, leases concerning property, plant, and equipment where the company holds all essential risks and advantages associated with the proprietary right (finance lease) are measured either at fair value or at the present value of the future lease payments, whichever value is lower. When calculating the present value, the discount rate used is the internal rate of return of the lease or, alternatively, the borrowing rate of the enterprise. Hereafter, assets held under a finance lease are treated in the same way as other similar property, plant, and equipment.

The capitalised residual lease commitment is recognised in the statement of financial position as a liability other than provisions, and the interest part of the lease is recognised in the income statement for 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.

Accounting policies

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.

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.

Financial fixed assets

Deposits

Deposits are measured at amortised cost and represent rent deposits, etc.

Receivables

Receivables are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, they are written down for impairment to the net realisable value.

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.

KAO Denmark A/S is jointly taxed with the Danish group companies and acts in this respect as the administration company. According to the rules of joint taxation, KAO Denmark A/S is unlimited, jointly and severally liable towards the Danish tax authorities for the total corporation tax, including withholding tax on interest, royalties and dividends, arising within the jointly taxed group of companies.

Accounting policies

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.

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.