

Sephora Danmark ApS

Kgs. Nytorv 26, 4. sal

1050 Copenhagen K

CVR No. 33863225

Annual Report 2016

The Annual Report was presented and
adopted at the Annual General Meeting of
the Company on 31 May 2017



Gilles Dougoud
Chairman

Sephora Danmark ApS

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Sephora Danmark ApS

Management's Statement

Today, Management has considered and adopted the Annual Report of Sephora Danmark ApS for the financial year 1 January 2016 - 31 December 2016.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January 2016 - 31 December 2016.

In our opinion, the Management's Review includes a true and fair account of the matters addressed in the review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 31 May 2017

Executive Board

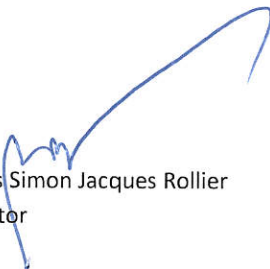


Gilles Dougoud
CEO

Board of Directors



Jenni Österlund
Chairman



Alexis Simon Jacques Rollier
Director



Gilles Dougoud
Director

Independent Auditor's Report

To the shareholders of Sephora Danmark ApS

Opinion

We have audited the financial statements of Sephora Danmark ApS for the financial year 1. januar 2016 - 31. december 2016, which comprise an income statement, balance sheet and notes. 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 Company's financial position at 31. december 2016 and of the results of its operations for the financial year 1. januar 2016 - 31. december 2016 in accordance with the Danish Financial Statements Act.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibility under those standards and requirements are further described in our auditors' report under "Auditors' responsibility for the audit of the financial statements". As required by the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, we are independent of the Company, 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 responsibility 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 considers 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 Company's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting in preparing the financial statements unless Management either intends to either liquidate the Company or suspend operations, or has no realistic alternative but to do so.

The auditor's responsibility for the audit of the financial statements

Our responsibility is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect material misstatements. Misstatements can arise from fraud or error and can be considered material if it would be reasonable to expect that these - either individually or collectively - could influence the economic decisions taken by the users of financial statements on the basis of these financial statements.

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

- * Identify and assess the risk of material misstatements in 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 a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or 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 Company's internal control.

Independent Auditor's Report

- * Evaluate whether the accounting policies used are appropriate and whether the accounting estimates and the related disclosures made by Management are reasonable.
- * Conclude on whether Management's use of the going concern basis of accounting in preparing the financial statements is appropriate and, based on the audit evidence obtained, conclude on whether a material uncertainty exists relating to events or conditions, which could cast significant doubt on 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 auditors' 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 auditors' report. However, future events or conditions may imply that the Company can no longer remain a going concern.
- * Evaluate the overall presentation, structure and contents of the financial statements, including note disclosures, and whether the financial statements 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 internal control which we identify during our audit.

Statement on Management's Review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of opinion providing assurance regarding the Management's review.

Our responsibility in connection with our audit of the financial statements is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or with the knowledge we have gained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review meets the disclosure requirements in the Danish Financial Statements Act.

Based on our procedures, we are of the opinion that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements in the Danish Financial Statements Act. In our opinion, the Management's review is not materially misstated.

København, 31 May 2017

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR-no. 33963556


Lars Andersen
State Authorised Public Accountant

Sephora Danmark ApS

Company details

Company	Sephora Danmark ApS Kgs. Nytorv 26, 4. sal 1050 Copenhagen K
CVR No.	33863225
Financial year	1 January 2016 - 31 December 2016
Board of Directors	Jenni Österlund, Chairman Alexis Simon Jacques Rollier , Director Gilles Dougoud , Director
Executive Board	Gilles Dougoud , CEO
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 Postboks 1600 0900 København K CVR-no.: 33963556

Management's Review

Primary activities

The business activities carried out by the Company comprise retail sale of cosmetics and beauty products.

Development in activities and financial matters

In the 2016 financial year, the Company has realised a loss of DKK 3,402 thousand which is an improvement versus the Company's expectations. The Company expects lower earnings for the 2017 financial year.

The Company received a capital increase of 21.0 million DKK during the year. In addition, the Parent, Sephora S.A.S., has issued a guarantee to continue financing until 30 April 2018. Therefore, in Management's opinion there is no uncertainty about the going concern assumption.

Profit/loss for the year in relation to expected developments

Management expected better results for the financial statements 2016 than for 2015. The loss has decreased in 2016, which primarily is due to gain in market shares and the October 2016 openings of concessions in Magasin du Nord.

Uncertainty relating to recognition and measurement

There is no uncertainty relating to recognition or measurement.

Unusual circumstances affecting recognition and measurement

There are no unusual circumstances affecting recognition and measurement.

Outlook

Management expects the financial statements for 2017 to show a decrease in profitability. The decrease in profitability will mainly be linked to the December 2016 closing of our Danish flagship store, which will not be replaced before June 2017.

The strategy of the Company is to break even in 2020 by opening additional stores in Danish key cities and to gain market share through our existing stores.

Events after the balance sheet date

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

Key Figures and Financial Ratios

The development in the Company's key figures and financial ratios can be described as follows:

Numbers appear in thousands

	2016	2015	2014	2013	2012
Key figures					
Gross profit	23.210	15.129	7.558	10.778	-132
Operating profit/loss	-4.155	-11.662	-15.772	-15.826	-18.871
Net financial income and expenses	-204	-331	-979	-915	-415
Profit/loss for the year	-3.402	-9.114	-12.854	-12.590	-14.494
Total assets	44.180	43.468	42.535	49.379	50.425
Investment in tangible assets	4.310	2.196	1.100	1.874	17.688
Total equity	22.324	4.726	-39.860	-27.004	-14.414
Ratios					
Solvency ratio (%)	50,53	10,90	-93,70	-54,70	-28,60

For definitions of key ratios, see Accounting and Valuation Principles

Accounting Policies

Reporting Class

The Annual Report of Sephora Danmark ApS for 2016 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

In addition, the Company has decided to follow the class C rules on some areas.

The accounting policies applied remain unchanged from last year.

General Information

Recognition and measurement

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 Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the Balance Sheet when the Entity 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 Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

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.

Foreign currency translation

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 differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income Statement

Gross profit/loss

Gross profit or loss comprise revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of manufactured goods and 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 consideration fixed.

Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress comprise decreases or increases for the financial year in inventories of finished goods. This item includes ordinary write-downs of such inventories.

Sephora Danmark ApS

Accounting Policies

Other operating income

Other operating income comprises income of secondary nature as viewed in relation to the Entity's primary activities, including rental income and gains from the sale of intangible assets and property, plant and equipment.

Cost of sales

Cost of sales comprises costs of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

Staff costs

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

Amortisation, depreciation and impairment loss

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies as well as tax relief under the the Danish tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, payables and transactions in foreign currencies as well as tax surcharge under the the Danish tax Prepayment Scheme etc.

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 for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish sister subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with refund concerning tax losses).

Balance Sheet

Intellectual property rights etc.

Intellectual property rights etc comprise acquired software.

Software is measured at cost less accumulated amortisation. Software is amortised over 3-5 years.

Software is written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

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

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Accounting Policies

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the assets fair value and present value of future lease payment.

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	3-5 years	0%
Leasehold improvements	5 years	0%

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

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

Inventories

Inventories are measured at the lower of cost using the average method and net realisable value.

Cost of goods for reale consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost which usually corresponds to the nominal value. The value is reduced by write-downs for expected bad debts.

Income tax payable or receivable

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.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

Defferd tax is recognised on all temporary diffenrences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value assets is calculated based on the planned use of each asset.

Defferd 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 defferd tax liabilities or as net tax assets.

Operating leases

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

Other financial liabilities

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

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Accounting Policies

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Cash Flow Statement

The company has taken exception to presentation of the cash flow statement, given the fact that the Parent produces a cash flow statement on group basis.

Financial highlights

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios		Calculation formula	Ratios reflect
Solvency ratio (%)	=	$\frac{\text{Equity X 100}}{\text{Total assets}}$	The financial strength of the Entity

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Income Statement

	Note	2016 DKK	2015 DKK
Gross profit		23.209.585	15.128.685
Employee benefits expense	1	-21.226.118	-20.221.108
Depreciation, amortisation expense and impairment losses of property, plant and equipment and intangible assets recognised in profit or loss		-6.138.128	-6.569.347
Profit from ordinary operating activities		-4.154.661	-11.661.770
Finance income		5.015	2.026
Finance expences		-209.130	-333.501
Profit from ordinary activities before tax		-4.358.776	-11.993.245
Tax expense on ordinary activities	2	956.994	2.879.523
Profit		-3.401.782	-9.113.722
Proposed distribution of results			
Retained earnings		-3.401.782	-9.113.722
Distribution of profit		-3.401.782	-9.113.722

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Balance Sheet as of 31. December

	Note	2016 DKK	2015 DKK
Assets			
Acquired intangible assets	3	759.496	1.141.328
Prepayments for intangible assets	4	1.574.832	400.007
Intangible assets		2.334.328	1.541.335
Fixtures, fittings, tools and equipment	5	511.659	135.517
Leasehold improvements	6	3.811.849	6.300.214
Property, plant and equipment in progress	7	513.402	209.160
Property, plant and equipment		4.836.910	6.644.891
Deposits, investments	8	6.959.930	3.602.362
Investments		6.959.930	3.602.362
Fixed assets		14.131.168	11.788.588
Manufactured goods and goods for resale		7.780.516	9.314.349
Inventories		7.780.516	9.314.349
Short-term trade receivables		17.340.877	11.133.792
Short-term receivables from group enterprises		3.373.770	2.767.392
Short-term tax receivables		627.850	7.950.803
Other short-term receivables		127.713	68.493
Prepayments	9	357.911	138.721
Receivables		21.828.121	22.059.201
Cash and cash equivalents		440.516	305.413
Current assets		30.049.153	31.678.963
Assets		44.180.321	43.467.551

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Balance Sheet as of 31. December

	Note	2016 DKK	2015 DKK
Liabilities and equity			
Contributed capital	10	80.002	80.001
Retained earnings		22.244.345	4.646.127
Equity		22.324.347	4.726.128
Provisions for deferred tax		230.663	528.469
Provisions		230.663	528.469
Prepayments received from customers		6.866	6.878
Trade payables		8.291.589	3.648.725
Payables to group enterprises		6.780.614	28.583.489
Other payables		6.546.242	5.973.862
Short-term liabilities other than provisions		21.625.311	38.212.954
Liabilities other than provisions within the business		21.625.311	38.212.954
Liabilities and equity		44.180.321	43.467.551
Contingent liabilities	11		
Ownership	12		
Liabilities under off-balance sheet leases	13		
Other disclosures	14		

Sephora Danmark ApS

Statement of changes in Equity

	Contributed capital	Retained earnings	Total
Equity 1 January 2016	80.001	4.646.127	4.726.128
Increase of capital	1	21.000.000	21.000.001
Profit (loss)	0	-3.401.782	-3.401.782
Equity 31 December 2016	<u>80.002</u>	<u>22.244.345</u>	<u>22.324.347</u>

Notes

	2016 DKK	2015 DKK
1. Employee benefits expense		
Wages and salaries	20.323.236	18.702.177
Post-employment benefit expense	681.932	662.622
Social security contributions	360.709	351.149
Other employee expense	-139.759	505.160
	21.226.118	20.221.108
Average number of employees	63	59
2. Tax expense		
Change in deferred tax for the year	-297.807	-266.274
Current tax	-627.850	-2.622.054
Adjustment relating to previous years	-31.337	8.805
	-956.994	-2.879.523
3. Acquired intangible assets		
Cost at the beginning of the year	3.683.646	3.370.332
Addition during the year, incl. improvements	312.667	313.314
Cost at the end of the year	3.996.313	3.683.646
Depreciation and amortisation at the beginning of the year	-2.542.318	-1.855.757
Amortisation for the year	-694.499	-686.561
Impairment losses and amortisation at the end of the year	-3.236.817	-2.542.318
Carrying amount at the end of the year	759.496	1.141.328
4. Prepayments for intangible assets		
Cost at the beginning of the year	400.007	0
Addition during the year, incl. improvements	1.574.832	400.007
Transfers during the year to other items	-400.007	0
Cost at the end of the year	1.574.832	400.007
Carrying amount at the end of the year	1.574.832	400.007

Notes

	2016	2015
	DKK	DKK
5. Fixtures, fittings, tools and equipment		
Cost at the beginning of the year	686.631	814.866
Addition during the year, incl. improvements	487.901	26.719
Disposal during the year	-123.805	-154.954
Cost at the end of the year	1.050.727	686.631
Depreciation and amortisation at the beginning of the year	-551.114	-512.829
Amortisation for the year	-100.711	-176.784
Reversal of prior years' impairment losses and amortisation	112.757	138.499
Impairment losses and amortisation at the end of the year	-539.068	-551.114
Carrying amount at the end of the year	511.659	135.517
6. Leasehold improvements		
Cost at the beginning of the year	15.969.209	18.995.124
Addition during the year, incl. improvements	2.843.505	1.960.219
Disposal during the year	-14.517.180	-4.986.134
Cost at the end of the year	4.295.534	15.969.209
Depreciation and amortisation at the beginning of the year	-9.668.995	-8.965.583
Amortisation for the year	-3.320.226	-3.810.277
Reversal of impairment losses and amortisation of disposed assets	12.505.536	3.106.865
Impairment losses and amortisation at the end of the year	-483.685	-9.668.995
Carrying amount at the end of the year	3.811.849	6.300.214
7. Property, plant and equipment in progress		
Cost at the beginning of the year	209.160	356.750
Addition during the year, incl. improvements	513.402	209.160
Disposal during the year	-209.160	-356.750
Cost at the end of the year	513.402	209.160
Carrying amount at the end of the year	513.402	209.160
8. Deposits		
Cost at the beginning of the year	3.602.362	3.249.819
Addition during the year, incl. improvements	4.276.290	597.847
Disposal during the year	-918.722	-245.304
Cost at the end of the year	6.959.930	3.602.362
Carrying amount at the end of the year	6.959.930	3.602.362

Notes

9. Prepayments

Prepayments primarily comprise prepaid rental costs.

10. Contributed capital

	Number	Par value DKK	Nominal value DKK
Ordinary shares	80	1,000.00	80,000
Ordinary shares	2	1.00	2
	82		80,002

	2016	2015	2014	2013	2012
Balance, beginning of the year	80.001	80.000	80.000	80.000	0
Additions during the year	1	1	0	0	80.000
Balance, end of the year	80.002	80.001	80.000	80.000	80.000

11. Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which Parfums Christian Dior A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and from 1 July 2012 also obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

12. Ownership

The Company has registered the following shareholder to hold more than 5% of the voting share capital or of the nominal value of the share capital:

Sephora SAS, 65 Avenue Edouard Vaillant, 92100 Boulogne Billancourt, France

The shareholder controls the company.

13. Unrecognised rental and lease commitments

Commitments under rental agreements or leases until expiry 44,813,174 (2015: 14,515,635 DKK)

14. Consolidation

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

LVMH Moët Hennessy-louis Vuitton, paris, France