

Estée Lauder Cosmetics A/S

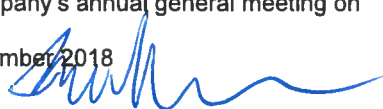
Delta Park 37
2665 Vallensbæk Strand

CVR no. 65 59 78 10

Annual report for the period 1 July 2017 – 30 June 2018

The annual report was presented and approved at
the Company's annual general meeting on

23 November 2018



chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Estée Lauder Cosmetics A/S for the financial year 1 July 2017 – 30 June 2018.

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

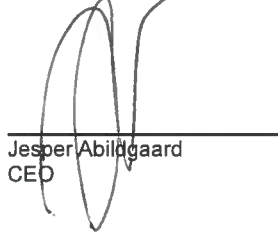
In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

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

Vallensbæk, 23 November 2018

Executive Board:

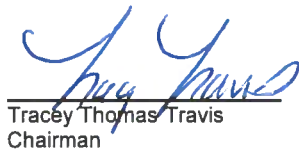


Jesper Abildgaard
CEO

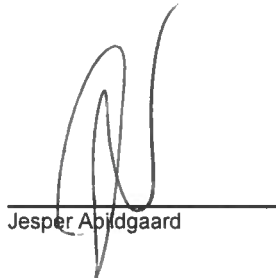


Mette Søvendahl Petersen
CFO

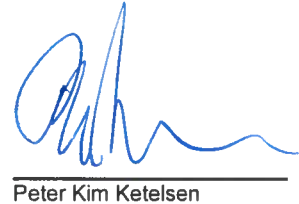
Board of Directors:



Tracey Thomas Travis
Chairman



Jesper Abildgaard



Peter Kim Ketelsen



Independent auditor's report

To the shareholders of Estée Lauder Cosmetics A/S

Opinion

We have audited the financial statements of Estée Lauder Cosmetics A/S for the financial year 1 July 2017 – 30 June 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including 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 Company's assets, liabilities and financial position at 30 June 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 our report. We are independent of the Company in accordance with the International Ethics Standards Board for 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 rules and 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 that 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 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 liquidate the Company 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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made 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

- identify and assess the risks of material misstatement of the company 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.

Independent auditor's report

- 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.
- 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 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 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 Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, 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'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 assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility 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 our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, 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 conclude that the Management's review 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's review.

Copenhagen, 23 November 2018

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98



David Olafsson
State Authorised
Public Accountant
mne19737

Estée Lauder Cosmetics A/S
Annual report 2017/18
CVR no. 65 59 78 10

Management's review

Company details

Estée Lauder Cosmetics A/S
Delta Park 37
2665 Vallensbæk Strand

Telephone: 36394400
Fax: 36394499
Website: www.elcompanies.com

CVR no.: 65 59 78 10
Established: 20 December 1965
Registered office: Vallensbæk
Financial year: 1 July – 30 June

Board of Directors

Tracey Thomas Travis, Chairman
Jesper Abildgaard
Peter Kim Ketelsen

Executive Board

Jesper Abildgaard, CEO
Mette Søvendahl Petersen, CFO

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 Copenhagen

Annual general meeting

The annual general meeting will be held on 23 November 2018.

Management's review

Financial highlights

DKK'000	2017/18	2016/17	2014/15	2013/14	2012/13
Key figures					
Revenue	704,974	723,470	709,172	573,539	525,569
Operating profit	56,136	76,617	97,910	65,145	65,578
Profit/loss from financial income and expenses	-473	-658	-4,365	844	306
Profit for the year	45,521	58,642	71,849	50,711	49,521
Assets and liabilities					
Fixed assets	87,757	78,588	53,280	45,536	42,753
Current assets	450,502	444,144	433,131	342,406	297,370
Total assets	538,259	522,732	486,411	387,942	340,123
Contributed capital	500	500	500	500	500
Equity	435,873	399,708	346,668	281,780	234,350
Provisions	3,350	4,315	8,952	10,537	6,953
Current liabilities other than provisions	99,036	118,315	130,791	95,625	98,820
Investment in property, plant and equipment	42,395	46,954	24,302	18,104	27,027
Ratios					
Gross margin	73.8%	75.2%	77.4%	77.5%	81.7%
Operating margin	8.0%	10.6%	13.8%	11.4%	12.5%
Return on equity	13.3%	17.7%	22.9%	19.7%	24.5%
Return on capital employed	9.9%	14.7%	20.1%	16.8%	19.3%
Equity ratio	76.6%	76.5%	71.3%	72.6%	68.9%
Average number of full-time employees					
	507	589	535	402	353

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios". The financial ratios have been calculated as follows:

Gross margin	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$
Operating margin	$\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$
Return on capital employed	$\frac{\text{Operating profit} \times 100}{\text{Total assets}}$
Equity interest	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$

Management's review

Operating review

Principal activities of the Company

The Company's business foundation is marketing and sale of prestigious cosmetics in Denmark, Norway, Sweden and Iceland.

The products comprise Estée Lauder, Aramis & Designer Fragrance (Tommy Hilfiger, Donna Karan, Michael Kors), Clinique, Origins, M.A.C., Bobby Brown, La Mer, Smashbox, Tom Ford, Glam Glow, Fredric Malle and Le Labo.

Development in activities and financial position

Sales in the financial year have been below expectations due to exchange rates, retailer de-stocking and general decline in the makeup category.

Norway is the fastest growing market. Sales per country can be specified as follows: Sweden 40% (2016/17: 39%), Denmark 39% (2016/17: 42%), and Norway 21% (2016/17: 19%).

In previous years, the Company has made additional tax payments to the tax authorities in Denmark in connection with the authorities' review of costs allocation (transfer pricing) between Denmark and the branches in Norway and Sweden. In 2014/15, the Company claimed tax refunds of DKK 23,646 thousand from the Norwegian and Swedish tax authorities. The Norwegian claim has been refunded in 2017/18 and it is still the Management's opinion that the Swedish amount will be refunded too.

Profit for the year (including comparison with forecasts previously announced)

Profit for the year amounts to DKK 45.521 thousand (2016/17: DKK 58.642 thousand).

During the year, additional funds have been invested in the market and therefore Management considers the profit for the year to be acceptable even though the result is lower than last year.

Capital resources

Estée Lauder Cosmetics A/S is still financially secure. The solvency ratio amounts to 76,6% (2016/17: 76,5%). Equity at 30 June 2018 amounts to DKK 435.873 thousand (2016/17: DKK 399.708 thousand). At the end of the financial year, the Company's cash at bank and in hand amounted to DKK 8.550 thousand (2016/17: DKK 6.756 thousand).

The total revenue of Estée Lauder Cosmetics A/S is expected to increase in 2018/19 compared to the previous period.

As there is an increased focus on earnings at group level and local management level, the profit for the year is also expected to increase compared to this year.

Outlook

Management is optimistic about the development in the Nordic markets and expects that the consumption of prestigious cosmetics will increase in the coming financial year, and the Company is still expected to increase its market shares. At the same time, Management is optimistic in respect of improved distribution possibilities for the brands that Estée Lauder Cosmetics A/S already holds and the possibility to introduce new brands and types of distribution.

Management's review

Operating review

Risks

Operating risks

The Company's most significant operating risk relates to the ability to be strongly positioned in the most significant markets. Moreover, it is important for the Company to always be at the cutting edge of new products and brands. This is ensured through significant development activities in other companies in the Group.

Financial risks

Due to its financial position and financial resources, the Company has only limited exposure to changes in the interest rate level and to currency risks in respect of operations.

Currency risks

The Company invoices its goods in DKK, NOK and SEK. A significant part of supplies are purchased in the same currencies, and consequently, there is no need for hedging when entering into financial agreements.

Credit risks

The Company's credit risks primarily relate to financial assets recognised in the balance sheet.

The Company has no significant risks relating to individual customers or cooperative partners and is not dependent on a single customer or cooperative partner. The Company's policy for undertaking credit risks entail that all large customers and other cooperative partners are credit rated on an ongoing basis.

Intellectual capital

It is essential to Estée Lauder Cosmetics A/S' continued growth to attract and retain highly educated employees specialising in marketing and sale of prestigious cosmetics.

Corporate social responsibility

Estée Lauder Cosmetics in Denmark does not have its own individual policies for corporate social responsibility, including respect for human rights and the Company's impact on the climate and environment. The Group's policies and efforts within corporate social responsibility/CSR can be found at <http://www.elcompanies.com/our-commitments>. Here you will find the focus subjects for CSR like 'Sustainable Sourcing', 'Employee Well-Being', 'Product-and-packaging-innovation', 'Guiding Principles', 'Volunteerism' and focus areas like BCA (Breast Cancer Awareness) and MAC Aids Fund.

Diversity in Management

It is the Company's goal that each gender should be represented by at least 33% on the Board of Directors. At present, the Company meets its goal.

For a number of years, Estée Lauder Cosmetics A/S has had an even distribution of the two genders in Management; at present, 30% of the members are male. It is our policy to appoint the persons with the best qualifications to management positions, and at the same time, we want to promote diversity in Management. In order to do so, executive management and HR work closely together to do their outmost

Management's review

Operating review

that, to the extent possible, there is at least one candidate of each gender among the final three candidates when externally recruiting members of Management. To the extent external recruitment agencies are used they are instructed to focus on the diversity of the two genders. This year one position was changed in the management team. In this position, a female was hired.

Further, for our Talent Acquisition Manager it is a priority to create a more diverse workforce in the Nordics, but tracking diversity through monthly reports we are securing employer Branding initiatives are making the Nordic organization more attractive to a more diverse pool of candidates.

Events after the balance sheet date

Subsequent to the balance sheet date at the board meeting on 27 September 2018, the Board of Directors approved distribution of extraordinary dividends of DKK 322,200 thousand. The prepared interim balance sheet presented at the board meeting showed there were sufficient distributable reserves to perform the distribution.

Besides the above mentioned, no events materially affecting the assessment of the annual report have occurred after the balance sheet date.

Financial statements 1 July – 30 June

Income statement

DKK'000	Note	2017/18	2016/17
Revenue	2	704,974	723,470
Cost of sales		<u>-184,525</u>	<u>-179,375</u>
Gross profit		520,449	544,095
Distribution costs	3	-408,052	-400,349
Administrative expenses	3, 4	<u>-56,261</u>	<u>-67,129</u>
Operating profit		56,136	76,617
Financial income	5	365	512
Financial expenses	6	<u>-838</u>	<u>-1,170</u>
Profit before tax		55,663	75,959
Tax on profit for the year	7	<u>-10,142</u>	<u>-17,317</u>
Profit for the year	8	<u>45,521</u>	<u>58,642</u>

Financial statements 1 July – 30 June

Balance sheet

DKK'000	Note	2017/18	2016/17
ASSETS			
Fixed assets			
Intangible assets			
Earnest money	9	1,292	2,319
Property, plant and equipment			
Sales stations	10	75,309	58,234
Tools and equipment		2,288	7,431
Sales stations under development		5,566	7,503
		83,163	73,168
Investments			
Deposits		3,302	3,101
Total fixed assets		87,757	78,588
Current assets			
Inventories			
Finished goods and goods for resale		3,497	3,265
Receivables			
Trade receivables		89,543	134,222
Receivables from group entities		323,180	270,598
Corporation tax		2,407	1,626
Deferred tax asset	11	1,381	2,059
Corporation tax receivables	7	18,724	21,734
Prepayments	12	3,220	3,884
		438,455	434,123
Cash at bank and in hand		8,550	6,756
Total current assets		450,502	444,144
TOTAL ASSETS		538,259	522,732

Financial statements 1 July – 30 June

Balance sheet

DKK'000	Note	2017/18	2016/17
EQUITY AND LIABILITIES			
Equity			
Contributed capital	13	500	500
Retained earnings		<u>435,373</u>	<u>399,208</u>
Total equity		<u>435,873</u>	<u>399,708</u>
Provisions			
Other provisions	14	<u>3,350</u>	<u>4,315</u>
Liabilities other than provisions			
Non-current liabilities other than provisions			
Lease obligations		<u>0</u>	<u>394</u>
Current liabilities other than provisions			
Current portion of non-current liabilities		0	147
Trade payables		19,048	25,972
Payables to group entities		15,352	18,433
Corporation tax payable		2,060	12,018
Other payables	15	<u>62,576</u>	<u>61,745</u>
		<u>99,036</u>	<u>118,315</u>
Total liabilities other than provisions		<u>99,036</u>	<u>118,709</u>
TOTAL EQUITY AND LIABILITIES		<u>538,259</u>	<u>522,732</u>
Lease obligations	16		
Contingent liabilities and collateral	17		
Related party disclosures	18		

Financial statements 1 July – 30 June

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 July 2017	500	399,208	399,708
Exchange adjustment	0	-9,356	-9,356
Transferred over the profit appropriation	0	45,521	45,521
Equity at 30 June 2018	500	435,373	435,873

Financial statements 1 July – 30 June

Notes

1 Accounting policies

The annual report of Estée Lauder Cosmetics A/S for 2017/18 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Estée Lauder Companies Inc.

Recognition and measurement

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

Liabilities are recognised in the balance sheet when it is probable that future economic resources will flow from the Company and the value of the liability can be reliably measured.

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

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned. Moreover, expenses incurred to generate earnings for the year are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals resulting from changed accounting estimates of amounts that used to be recognised in the income statement.

Consolidation of Swedish and Norwegian branches

The Company's branches are integrated foreign entities. The Company uses the net investment method, as the results of using this method do not deviate significantly from using the temporal method.

This means that the branches are consolidated line by line. Balance sheet items are translated at the internal exchange rate, which approximately corresponds to the official exchange rates at the balance sheet date, and income statement items are translated at the internal average exchange rate for the year.

Exchange rate adjustments arising from the translation of the foreign branches' net assets at the beginning of the year at the closing rate and exchange rate adjustments arising from the difference between the Swedish branch's and the Norwegian branch's income statements translated at average exchange rates and the closing rate, are recognised directly in equity.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from the sale of goods for resale are recognised in the income statement provided that transfer of risk to the buyer has taken place before year end and that the income can be measured reliably and is expected to be received. Revenue is recognised exclusive of VAT and taxes charged on behalf of third parties.

Cost of sales

Cost of sales comprises cost incurred to generate revenue for the year. This item also comprises direct costs for goods for resale.

Distribution costs

Distribution costs comprise costs incurred to distribute goods sold during the year and to conduct sales campaigns, etc., including costs relating to sales staff, advertising and exhibitions as well as depreciation.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration, including expenses for administrative staff, office premises, office expenses and depreciation.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme, etc.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Tax on profit for the year

Tax for the year comprises current tax for the year, adjustment of tax regarding previous years and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement.

Balance sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.

The basis of amortisation is cost less any residual value and is amortised on a straight-line basis over the expected useful life.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Property, plant and equipment

Sales stations and tools and equipment are measured at cost less accumulated depreciation.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Depreciation is provided on a straight-line basis over the expected useful life based on the following assessment of the expected useful lives of the assets:

Sales stations	3-5 years
Tools and equipment	5-10 years

Depreciation is recognised in the income statement as distribution costs and administrative expenses.

Gains and losses from the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as distribution costs and administrative expenses.

The carrying amount of property, plant and equipment is assessed annually for indication of impairment other than the decrease in value reflected by depreciation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost, corresponding to nominal value. Write-down is made for bad debt losses.

Prepayments

Prepayments comprise costs incurred relating to subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

Equity

Dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting. The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured in accordance with the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Deferred tax assets, including the tax value of tax loss carryforwards, are measured at the value of their expected realisation, either as a set-off against tax on future income or as a set-off against deferred tax liabilities. Any deferred net assets are measured at net realisable value.

Deferred tax is measured based on the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

Provisions

Provisions comprise restructuring costs and costs for charities, etc. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realisable value. If the obligation is expected to be settled in the distant future, the obligation is measured at fair value.

Liabilities other than provisions

Liabilities are measured at net realisable value.

2 Segment information

Pursuant to section 96 of the Danish Financial Statements Act, the Company has chosen not to disclose the distribution of revenue by product groups due to competitive reasons.

Revenue distributed in the geographical segments are the following:

DKK'000	2017/18	2016/17
Geographical		
Denmark	275,473	305,593
Norway	145,136	134,660
Sweden	284,365	283,217
	<u>704,974</u>	<u>723,470</u>

Financial statements 1 July – 30 June

Notes

3 Staff Costs

DKK'000	2017/18	2016/17
Total wages, salaries and remuneration can be specified as follows:		
Wages, salaries and remuneration	157,794	161,851
Pensions	11,873	12,971
Other social security costs	21,623	22,393
	<u>191,290</u>	<u>197,215</u>
Staff costs are recognised in the financial statements as follows:		
Distribution	161,460	170,129
Administration	29,830	27,086
	<u>191,290</u>	<u>197,215</u>
Portion related to remuneration of the Executive Board	5,807	5,687
Average number of employees	507	589

Share based payment

A share based incentive programme has been set up for the Company's Executive Board. The Executive Board is granted an even number of RSUs and Stock Options. RSUs are capitalised after three years, and Stock Options expire after ten years. The estimated value of granted RSUs and Stock Options in the year amounts to DKK 1,536 thousand (2016/17: DKK 1,437 thousand).

The number of granted RSUs and Stock Options are dependent on the Group's results and the individual entity's results, which are determined and assessed annually via a comprehensive and well-structured Performance Review. The results are assessed based on operational and personal performance.

DKK'000	2017/18	2016/17
4 Fees to auditor appointed at the general meeting		
Statutory audit	432	423
Fee for other assurance engagements	147	117
Other services	45	30
	<u>624</u>	<u>570</u>
5 Financial income		
Interest income from group entities	365	512
	<u>365</u>	<u>512</u>

Financial statements 1 July – 30 June

Notes

DKK'000	<u>2017/18</u>	<u>2016/17</u>
6 Financial expenses		
Interest expense	118	317
Foreign exchange losses	<u>720</u>	<u>853</u>
	<u>838</u>	<u>1,170</u>
7 Tax on profit for the year		
Current tax for the year	9,464	15,871
Deferred tax adjustment for the year	<u>678</u>	<u>1,446</u>
	<u>10,142</u>	<u>17,317</u>
8 Distribution of profit for the year		
Transferred to next year	<u>45,521</u>	<u>58,642</u>
	<u>45,521</u>	<u>58,642</u>
9 Intangible assets		
DKK'000		Earnest money
Cost at 1 July 2017		4,725
Foreign exchange adjustments in foreign entities		<u>-190</u>
Cost at 30 June 2018		4,535
Amortisation and impairment losses at 1 July 2017		-2,406
Foreign exchange adjustments in foreign entities		70
Amortisation for the year		<u>-907</u>
Amortisation and impairment losses at 30 June 2018		<u>-3,243</u>
Carrying amount at 30 June 2018		<u>1,292</u>

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10 Property, plant and equipment

DKK'000	Sales stations	Tools and equipment	Sales stations under development	Total
Cost at 1 July 2017	112,623	11,670	7,503	131,796
Foreign exchange adjustments in foreign entities	3,262	-289	-40	2,933
Additions for the year	42,216	542	514	43,272
Disposals for the year	-12,166	0	-877	-13,043
Transfers for the year	1,534	-432	-1,534	-432
Cost at 30 June 2018	147,469	11,491	5,566	164,526
Depreciation and impairment losses at 1 July 2017	-54,389	-4,239	0	-58,628
Foreign exchange adjustments in foreign entities	-7,730	35	0	-7,695
Depreciation for the year	-22,207	-5,431	0	-27,638
Depreciation on disposals	12,166	432	0	12,598
Depreciation and impairment losses at 30 June 2018	-72,160	-9,203	0	-81,363
Carrying amount at 30 June 2018	75,309	2,288	5,566	83,163

11 Deferred tax

Deferred tax that is expected to fall due more than five years after the balance sheet date relates to restructuring, charitable contributions, key money, fixed assets and changes in tax percentage.

12 Prepayments

DKK'000	2017/18	2016/17
Facility rents	1,851	1,956
Auto lease	372	403
Insurance	550	442
Other prepayments	447	1,083
	3,220	3,884

13 Equity

The share capital consists of 500 shares of nom. DKK 1 thousand each.

All shares rank equally.

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14 Other provisions

DKK'000	2017/18	2016/17
Other provisions at 1 July	4,315	8,952
Used during the year	-4,315	-7,995
Provisions for the year	3,350	3,358
Other provisions at 30 June	3,350	4,315
The provisions at 30 June 2018 comprise Viva Glam (charity) of DKK 3,350 thousand (2017: Viva Glam (charity) DKK 3,358 thousand and restructuring DKK 957 thousand).		
0-1 years	3,350	4,315
Other provisions at 30 June	3,350	4,315

15 Other payables

VAT and taxes payables	12,326	14,669
Payroll costs payable	30,237	32,485
ATP contribution payable	1,216	1,091
Other payables	18,797	13,500
	62,576	61,745

16 Lease obligations

The Company has entered into ten leases (2016/17: eight leases) covering the period up to and including February 2023. The annual rent for these leases amounts to DKK 14,275 thousand (2016/17: DKK 10,739 thousand). The total lease commitment amounts to DKK 36,684 thousand (2016/17: DKK 33,941 thousand).

The Company has entered into several leases regarding cars and tools and equipment. The leases cover different periods up to 2022, and the total residual lease obligation amounts to DKK 4,149 thousand (2016/17: DKK 4,901 thousand).

17 Contingent liabilities and collateral

The Company has not provided any assets as collateral for loan arrangements.

The Company has provided total bank guarantees of DKK 4,103 thousand (2016/17: DKK 5,185 thousand).

Usual dismantling obligations are incumbent on the Company regarding sales stations fitted in stores and department stores.

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18 Related party disclosures

Estée Lauder Cosmetics A/S' related parties comprise entities in the Estée Lauder Group.

The Company's supplies are, in all material respects, purchased from group entities.

Distribution costs comprise royalty costs and share of overhead costs from group entities.

There have been no transactions with members of the Company's Board of Directors. Transactions with members of the Company's Executive Board is specified in note 3.

Control

Estée Lauder Luxembourg S.A.R.L., 8-10 Rue Mathias Hardt, B.P. 39, Luxembourg, owns 100% of the share capital.

Related party transactions

The Company's balances with group enterprises at 30 June 2018 are recognised in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 5 and 6. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

DKK'000	2017/18	2016/17
Purchase of services from group enterprises	-83,757	-88,003
Purchase of goods from group enterprises, cost of sales	-182,680	-177,581
Purchase of goods from group enterprises, distribution costs	-33,185	-40,329