
Estée Lauder Cosmetics A/S

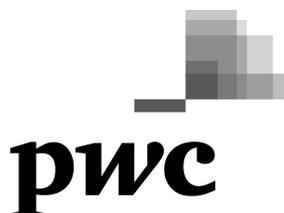
Franciska Clausens Plads 20, DK-1799 København V

Annual Report for 1 July 2020 - 30 June 2021

CVR No 65 59 78 10

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
18/11 2021

Peter Kim Ketelsen
Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Estée Lauder Cosmetics A/S for the financial year 1 July 2020 - 30 June 2021.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 30 June 2021 of the Company and of the results of the Company operations for 2020/21.

In our opinion, 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, 18 November 2021

Executive Board

Jesper Abildgaard
CEO

Daoud David Gerges
Executive Officer

Board of Directors

Tracey Thomas Travis

Jesper Abildgaard

Peter Kim Ketelsen

Independent Auditor's Report

To the Shareholder of Estée Lauder Cosmetics A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2021 and of the results of the Company's operations for the financial year 1 July 2020 - 30 June 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Estée Lauder Cosmetics A/S for the financial year 1 July 2020 - 30 June 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, 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 in Management's Review.

Independent Auditor's Report

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 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 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:

- 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 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

Independent Auditor's Report

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.

Hellerup, 18 November 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Martin Lunden
statsautoriseret revisor
mne32209

Lone Vindbjerg Larsen
statsautoriseret revisor
mne34548

Company Information

The Company

Estée Lauder Cosmetics A/S
Franciska Clausens Plads 20
DK-1799 København V

CVR No: 65 59 78 10
Financial period: 1 July - 30 June
Municipality of reg. office: Copenhagen

Board of Directors

Tracey Thomas Travis
Jesper Abildgaard
Peter Kim Ketelsen

Executive Board

Jesper Abildgaard
Daoud David Gerges

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2020/21	2019/20	2018/19	2017/18	2016/17
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	713,918	675,940	680,252	704,974	723,470
Gross profit/loss	508,997	490,901	499,977	506,312	544,095
Profit/loss before financial income and expenses	91,925	75,360	54,114	56,136	76,617
Net financials	234	10	99	-473	-658
Net profit/loss for the year	70,379	68,805	42,588	45,521	58,642
Balance sheet					
Balance sheet total	410,849	346,630	258,712	538,259	522,732
Equity	273,755	198,426	156,375	435,873	399,708
Investment in property, plant and equipment	9,674	17,689	27,192	42,395	46,954
Number of employees	402	482	478	507	589
Ratios					
Gross margin	71.3%	72.6%	73.5%	71.8%	73.5%
Profit margin	12.9%	11.1%	8.0%	8.0%	10.6%
Return on assets	22.4%	21.7%	20.9%	10.4%	14.7%
Solvency ratio	66.6%	57.2%	60.4%	81.0%	76.5%
Return on equity	29.8%	38.8%	14.4%	13.3%	17.7%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions we refer to accounting policies.

Management's 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 Company operates in Denmark, and in Sweden and Norway through the branches Estée Lauder Cosmetis A/S Danmark (Sverigefilial) and Estée Lauder Cosmetics Danmark Norgesfilialen, as well as in Iceland through a distributor which ensures a strong/well-established base servicing the Nordic customers. The products comprise the following brands: Estée Lauder, Aramis & Designer Fragrances (Tommy Hilfiger, Donna Karan, Michael Kors), Clinique, Origins, M.A.C., Bobbi Brown, La Mer, Smashbox, Tom Ford, Glam Glow, Aveda, Bumble & Bumble, Le Labo and Too Faced.

Development in activities and financial position

Sales in the financial year have been aligned with expectations, despite the effects the Covid-19 crisis that impacted the retail space as well as the continued general decline in the makeup category. The Nordics as a market was less disrupted than most other EMEA markets due to a combination of less restrictive lock downs as well as the Nordic consumers' agility to purchase through the widely available e-commerce platforms. In this fiscal year, Norway is the fastest growing market, widely outgrowing both the Danish & Swedish operations. Sales per country can be specified as follows: Sweden 43% (2019/20: 44%), Denmark 37% (2019/20: 38%), and Norway 20% (2019/20: 18%).

In general, our Brick & Mortar distribution has been negatively impacted by the Covid-19 crisis, while our online sales have picked up tremendously to offset most of the decline. During the last months of the fiscal year, we started seeing signs of recovery in the makeup category which will further fuel the anticipated continued growth in fiscal year 2022.

We refer to section 20 in the "Notes to the Financial Statements" for mention of correction of misstatements from prior years regarding Share-Based Compensation. The corrections have been incorporated in the opening equity and the comparison figures for fiscal year 2019/20.

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

Profit for the year amounts to DKK 70,379 thousand (2019/20: DKK 68,805 thousand) primarily driven by higher sales with a more favorable mix compared to previous year coupled with cost controlling and cost avoidance efforts. During the year, additional funds have been invested in the market and therefore Management considers the profit for the year to be satisfactory.

Capital resources

Estée Lauder Cosmetics A/S is still financially solid. The solvency ratio amounts to 66,6% (2019/20: 57,2%). Equity at 30 June 2021 amounts to DKK 273,755 thousand (2019/20: DKK 198,426 thousand) as no dividends were paid out this year. At the end of the financial year, the Company's cash at bank and in hand amounted to DKK 3,228 thousand (2019/20: DKK 2,993 thousand).

Management's Review

Outlook

Management is optimistic about the development of the prestige beauty segment in the Nordic markets, despite the Covid-19 effects in the retail space and expects that the consumption of prestige beauty products will increase in the coming financial year, with markets re-opening, consumers returning to stores as well as the makeup category experiencing a revival after more than one and a half year of downturn. In addition, Management is optimistic in respect of improved distribution possibilities for the brands that Estée Lauder Cosmetics A/S already holds and foresees a possibility to introduce new brands and types of distribution within the upcoming years. Hence we are furthermore expecting to grow our revenue in 2021/22 compared to the previous year, with the ambition to outperform the prestige beauty market development. And with the increased focus on earnings at group level and on local management level, the profit for 2021/2022 is also expected to grow compared to last year's levels. The company is expecting a profit for 2021/2022 within 50 to 150 basis points compared to this fiscal years' result.

Risks

Operating risks

The Company's most significant operating risk relates to both the aftermath of the Covid-19 pandemic, such as the supply chain challenges most industries are facing as well as the effects this would have on the brick & mortar retail environment coupled with a changing consumer behaviors. The online revolution in the industry drives focus on securing the right competencies to drive the business in the right direction. 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 is purchased in the same currencies, and consequently, there is no need for hedging when entering financial agreements.

Credit risks

The Company's credit risks primarily relate to financial assets recognized 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.

Management's Review

Intellectual capital

People are our primary assets and it is essential to Estée Lauder Cosmetics A/S' continued growth to attract and retain highly educated employees specializing in marketing and sale of prestigious cosmetics as well as digital capabilities.

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, as the Company is covered by the Group's policies. The Company refers to the Group's Social Impact and Sustainability Report for our statement on corporate social responsibility. The report has been prepared in accordance with Global Reporting Initiative (GRI) standards and is available at <https://www.elcompanies.com/en/news-and-media/media-resources/resources-and-reports>. 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.

Estée Lauder Cosmetics in Denmark, Norway and Sweden have a variety of local initiatives under the group umbrella like focus on BreastCancerAwareness in cooperation with 'Støt Brysterne'; 'Brystkreftforeningen' and 'Bröstcancerförbundet'.

Statement on gender composition

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, 64% 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 utmost 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.

Further, for our Talent Acquisition Manager it is a priority to create a more diverse workforce in the Nordics. We are constantly working on employer Branding initiatives making the Nordic organization more attractive to a more diverse pool of candidates.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 July - 30 June

	Note	2020/21	2019/20
		TDKK	TDKK
Revenue	1	713,918	675,940
Cost of sales		-204,921	-185,039
Gross profit/loss		508,997	490,901
Distribution expenses	2	-363,343	-371,747
Administrative expenses	2	-58,495	-50,668
Operating profit/loss		87,159	68,486
Other operating income	3	4,766	6,874
Profit/loss before financial income and expenses		91,925	75,360
Financial income	4	324	106
Financial expenses	5	-90	-96
Profit/loss before tax		92,159	75,370
Tax on profit/loss for the year	6	-21,780	-6,565
Net profit/loss for the year		70,379	68,805

Balance Sheet 30 June

Assets

	Note	2021 TDKK	2020 TDKK
Software		123	68
Intangible assets	7	123	68
Sales stations		37,232	56,455
Other fixtures and fittings, tools and equipment		551	1,086
Sales stations under development		4,977	3,493
Property, plant and equipment	8	42,760	61,034
Deposits		7,027	3,042
Fixed asset investments	9	7,027	3,042
Fixed assets		49,910	64,144
Finished goods and goods for resale		1,015	2,051
Inventories		1,015	2,051
Trade receivables		88,038	58,330
Receivables from group enterprises		261,510	213,776
Other receivables		2,470	1,687
Deferred tax asset	14	3,959	3,021
Prepayments	10	719	628
Receivables		356,696	277,442
Cash at bank and in hand		3,228	2,993
Currents assets		360,939	282,486
Assets		410,849	346,630

Balance Sheet 30 June

Liabilities and equity

	Note	2021 TDKK	2020 TDKK
Share capital	11	500	500
Exchange adjustments reserve		4,950	0
Retained earnings		268,305	197,926
Equity		273,755	198,426
Other provisions	15	2,845	4,077
Provisions		2,845	4,077
Trade payables		20,205	18,531
Payables to group enterprises		18,839	15,931
Corporation tax		14,255	7,298
Other payables	16	80,950	102,367
Short-term debt		134,249	144,127
Debt		134,249	144,127
Liabilities and equity		410,849	346,630
Subsequent events	12		
Distribution of profit	13		
Contingent assets, liabilities and other financial obligations	17		
Related parties	18		
Fee to auditors appointed at the general meeting	19		
Accounting Policies	20		

Statement of Changes in Equity

	Share capital	Exchange adjustments reserve	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 July	500	0	215,887	216,387
Net effect of correction of material misstatements	0	0	-17,961	-17,961
Adjusted equity at 1 July	500	0	197,926	198,426
Exchange adjustments	0	4,950	0	4,950
Net profit/loss for the year	0	0	70,379	70,379
Equity at 30 June	500	4,950	268,305	273,755

Notes to the Financial Statements

	<u>2020/21</u>	<u>2019/20</u>
	TDKK	TDKK
1 Revenue		
<p>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.</p>		
Geographical segments		
Denmark	261,712	260,703
Norway	147,114	121,087
Sweden	305,092	294,150
	<u>713,918</u>	<u>675,940</u>

Notes to the Financial Statements

2 Staff

Wages and Salaries	153,498	148,326
Pensions	10,108	10,350
Other social security expenses	12,611	16,214
	<u>176,217</u>	<u>174,890</u>

Wages and Salaries, pensions and other social security expenses are recognised in the following items:

Distribution expenses	129,896	147,778
Administrative expenses	46,321	27,112
	<u>176,217</u>	<u>174,890</u>

Including remuneration to the Executive Board	<u>7,063</u>	<u>7,500</u>
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Average number of employees	<u>402</u>	<u>482</u>
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The Company's Executive board participates in a share based incentive program of the ultimate parent company. The Executive Board is granted an even number of RSUs and Stock Options. RSU's have a vesting period of one to three years, and Stock Options expire after ten years. The total estimated value of granted RSUs and Stock Options granted to all employees in the year amounts to DKK 5,866k (2019/20: DKK 5,805k)

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 result is assessed based on operational and personal performance.

3 Other operating income

Salary compensation	4,766	6,874
	<u>4,766</u>	<u>6,874</u>

Notes to the Financial Statements

	2020/21 TDKK	2019/20 TDKK
4 Financial income		
Interest received from group enterprises	31	106
Other financial income	293	0
	324	106
5 Financial expenses		
Other financial expenses	90	96
	90	96
6 Tax on profit/loss for the year		
Current tax for the year	22,623	18,241
Deferred tax for the year	-843	-1,210
Adjustment of tax concerning previous years	0	-10,466
	21,780	6,565
7 Intangible assets		Software TDKK
Cost at 1 July		71
Exchange adjustment		5
Additions for the year		77
Cost at 30 June		153
Impairment losses and amortisation at 1 July		3
Amortisation for the year		27
Impairment losses and amortisation at 30 June		30
Carrying amount at 30 June		123
Amortised over		5 years

Notes to the Financial Statements

8 Property, plant and equipment

	Sales stations TDKK	Other fixtures and fittings, tools and equipment TDKK	Sales stations under development TDKK	Total TDKK
Cost at 1 July	141,482	5,663	3,493	150,638
Exchange adjustment	3,505	145	129	3,779
Additions for the year	417	0	9,257	9,674
Disposals for the year	-15,771	-3,224	0	-18,995
Transfers for the year	7,902	0	-7,902	0
Cost at 30 June	<u>137,535</u>	<u>2,584</u>	<u>4,977</u>	<u>145,096</u>
Impairment losses and depreciation at 1 July	85,027	4,577	0	89,604
Exchange adjustment	2,127	166	0	2,293
Depreciation for the year	26,534	484	0	27,018
Reversal of impairment and depreciation of sold assets	<u>-13,385</u>	<u>-3,194</u>	<u>0</u>	<u>-16,579</u>
Impairment losses and depreciation at 30 June	<u>100,303</u>	<u>2,033</u>	<u>0</u>	<u>102,336</u>
Carrying amount at 30 June	<u>37,232</u>	<u>551</u>	<u>4,977</u>	<u>42,760</u>

9 Fixed asset investments

	Deposits TDKK
Cost at 1 July	3,042
Exchange adjustment	44
Additions for the year	<u>3,941</u>
Cost at 30 June	<u>7,027</u>
Revaluations at 1 July	<u>0</u>
Revaluations at 30 June	<u>0</u>
Impairment losses at 1 July	<u>0</u>
Impairment losses at 30 June	<u>0</u>
Carrying amount at 30 June	<u>7,027</u>

Notes to the Financial Statements

10 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

11 Share capital

The share capital consists of 500 shares of a nominal value of TDKK 1. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

12 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

13 Distribution of profit

	<u>2020/21</u> TDKK	<u>2019/20</u> TDKK
Retained earnings	<u>70,379</u>	<u>68,805</u>
	<u>70,379</u>	<u>68,805</u>

Notes to the Financial Statements

	2021 TDKK	2020 TDKK
14 Deferred tax asset		
Deferred tax asset at 1 July	3,021	1,811
Amounts recognised in the income statement for the year	843	1,210
Exchange adjustments	95	0
Deferred tax asset at 30 June	3,959	3,021
Property, plant and equipment	-3,892	-2,734
Trade receivables	-67	66
Provisions	0	-353
Transferred to deferred tax asset	3,959	3,021
	0	0
Deferred tax has been provided at 22% corresponding to the expected current tax rate.		
Deferred tax asset		
Calculated tax asset	3,959	3,021
Carrying amount	3,959	3,021
15 Other provisions		
Balance at beginning of year	4,077	763
Exchange adjustment	46	0
Provision in year	578	4,077
Employed in year	-1,856	-763
	2,845	4,077
16 Other payables		
Value added tax etc	13,844	34,084
Labour Market Supplementary Pension (ATP)	1,991	518
Accrued wages and salaries	49,822	46,927
Other payables	15,293	20,838
	80,950	102,367

Notes to the Financial Statements

	2021 TDKK	2020 TDKK
17 Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	7,039	12,639
Between 1 and 5 years	21,877	3,768
After 5 years	21,889	0
	50,805	16,407
Other contingent liabilities		
The company has provided total bank guarantees	1,000	2,716

18 Related parties

Transactions

There have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration. In accordance with section 98(c)(7) of the Danish Financial Statements Act, only transactions which are not made on an arm's length basis needs to be disclosed. No such transactions exists.

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Estée Lauder Luxemborg S.A.R.L.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest group:

Name	Place of registered office
Estée Lauder Companies Inc	767 Fifth Avenue, New York, NY 10153, USA

Notes to the Financial Statements

	<u>2020/21</u> TDKK	<u>2019/20</u> TDKK
19 Fee to auditors appointed at the general meeting		
PricewaterhouseCoopers		
Audit fee	459	459
Other assurance engagements	15	123
Other services	127	13
	<u>601</u>	<u>595</u>

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of Estée Lauder Cosmetics A/S for 2020/21 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The Financial Statements for 2020/21 are presented in TDKK.

Correction of material misstatements

In connection with the preparation of the annual report, misstatements in previous years have been corrected regarding Share-Based Compensation. The identified misstatements comprises errors in recognition of expenses and liabilities in relation to an incentive program of the ultimate parent company in which selected employees and the Danish Executive Board participates. The company has an obligation to reimburse the ultimate parent company for the value to the employees of vested instruments which is now presented as a financial liability. The misstatement has been corrected via equity in the opening balance. The equity at 1 July 2020 has been reduced with DKK 17,961k as a result of this correction.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Estée Lauder Companies Inc, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

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

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Notes to the Financial Statements

20 Accounting Policies (continued)

Leases

All leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Revenue

Information on business segments and geographical segments based on the Company's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Share-Based Compensation

Liabilities to reimburse the parent company related to Share-based compensation are recognized based on an ending intrinsic value of all granted RSUs and Stock Options. The expense related to this compensation consists of the value of this year's granted RSUs and Stock Options, as well as the change in intrinsic value of previously granted RSUs and Stock Options.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Notes to the Financial Statements

20 Accounting Policies (continued)

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including government relief packages.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance Sheet

Intangible assets

Software is measured at the lower of cost less accumulated amortisation and recoverable amount. The software is amortised over expected useful life, which is 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time

Notes to the Financial Statements

20 Accounting Policies (continued)

when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Sales stations	3-5 years
Other fixtures and fittings, tools and equipment	5-10 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Fixed asset investments

Fixed asset investments consist of deposits.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Notes to the Financial Statements

20 Accounting Policies (continued)

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

Notes to the Financial Statements

20 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$