

L'Oréal Danmark A/S

Havneholmen 25
1561 København V

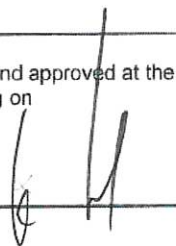
CVR no. 70 71 02 18

Annual report 2019

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

10 June 2020

Vianney Marie Huques Derville
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 L'Oréal Danmark A/S for the financial year 1 January – 31 December 2019.

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 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2019.

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.

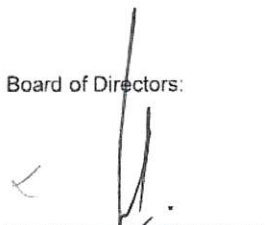
We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 3 June 2020
Executive Board:



Tomas Hruska

Board of Directors:



Vianney Marie Hugues
Derville
Chairman



Laurent Francois Marcel
Schmitt



Tomas Hruska

Independent auditor's report

To the shareholder of L'Oréal Danmark A/S

Opinion

We have audited the financial statements of L'Oréal Danmark A/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity, cash flow statement 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 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that

Independent auditor's report

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

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR no. 33 96 35 56



Kim Gerner Jacobsen
State Authorised
Public Accountant
mne10122



Ane Sachs Aasand
State Authorised
Public Accountant
mne42783

L'Oréal Danmark A/S
Annual report 2019
CVR no. 70 71 02 18

Management's review

Company details

L'Oréal Danmark A/S
Havneholmen 25
1561 København V

Website: www.loreal.com

CVR no.: 70 71 02 18
Established: 15 November 1983
Registered office: Copenhagen
Financial year: 1 January – 31 December

Board of Directors

Vianney Marie Hugues Derville, Chairman
Laurent Francois Marcel Schmitt
Tomas Hruska

Executive Board

Tomas Hruska

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab
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Attorneys

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Bank

Danske Bank
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1092 København K

Management's review

Financial highlights

DKK'000	2019	2018	2017	2016	2015
Key figures					
Revenue	1,471,895	1,388,940	1,360,692	1,382,055	1,384,219
Gross profit	552,066	538,348	447,655	408,769	394,661
Operating profit	147,242	131,077	94,862	93,755	121,726
Loss from financial income and expenses	-1,555	-1,250	-1,495	-3,026	-488
Profit for the year	111,833	102,568	71,171	74,174	93,192
Total assets	722,387	638,410	636,091	566,233	555,431
Equity	155,097	145,119	113,861	115,747	134,471
Investment in property, plant and equipment	-13,372	-23,673	-19,022	-31,471	-32,137
Cash flows from operating activities	124,316	114,298	112,964	116,561	159,284
Cash flows from investing activities	-21,750	-37,490	-41,881	-25,908	-53,871
Cash flows from financing activities	-102,568	-71,171	-74,174	-93,192	-105,414
Ratios					
Gross margin	37.5%	38.8%	32.9%	29.6%	28.5%
Return on equity	74.6%	79.2%	62.0%	59.3%	66.3%
Solvency ratio	21.5%	22.7%	17.9%	20.4%	24.2%
Net margin	7.6%	7.4%	5.2%	5.6%	6.6%
Average number of full-time employees	525	519	507	474	413

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

Gross margin
$$\frac{\text{Gross margin} \times 100}{\text{Revenue}}$$

Return on equity
$$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$$

Solvency ratio
$$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year end}}$$

Net margin
$$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$$

Management's review

Operating review

Main activities

The main activity of the company consists of sale of cosmetics, perfumes and hair care. Furthermore, the company manages stock activities for affiliated companies in Norway, Sweden and Finland.

L'Oréal Danmark A/S is Shared Service Center for Nordics.

Significant events during the year

Strong focus on market strategy and management.

Financial review

In 2019, the company's revenue came in at DKK 1,471,895 thousand against DKK 1,388,940 thousand last year. The income statement for 2019 shows a profit of DKK 111,833 thousand against a profit of DKK 102,568 thousand last year, and the balance sheet at 31 December 2019 shows equity of DKK 155,097 thousand.

The results for 2019 were higher than expected, with a strong increase in revenue (+6%) and profit before tax (+12%). General expenses were close to flat, which resulted in an increased profit % given the strong sales increase.

Events after the balance sheet date

In the worldwide context of COVID-19 pandemic disease and unprecedented crisis that started in Q1 2020 and considering measures taken by the government, part of the L'Oréal activities in Denmark are strongly reduced consequently. At this stage, it is not possible to assess the impact on L'Oréal Danmark A/S financial statements for FY2020.

L'Oréal Danmark A/S financial statements for FY2019 have been prepared with the application of going concern principle. The management of L'Oréal Danmark A/S is not aware of any significant uncertainties arising after the 2019 year-end financial statements that would have a significant financial impact, including its ability to continue as going concern over the long term.

Outlook

The market continues with very low growth. The Company is still in a positive development with ambitions to grow twice as fast as the market and gain market shares.

In 2020 L'Oreal Danmark A/S is planning a growth in revenue of around 3 - 5%, and a double digit growth on profit before tax. These were the expectations before the outbreak of COVID-19.

Financial risks

The Company's management does not foresee any material financial risk the coming year. Foreign currency exposure has been covered with foreign exchange forward contracts.

The Company has made agreements regarding customer insurance in order for the Company to avoid significant risk of bad debts.

Management's review

Operating review

Intellectual capital

The Company always tries to optimise knowledge resources and recruit necessary qualifications. With help from local knowledge and knowledge within the Group, the Company constantly tries to stay updated and focus on the key areas like advertising, knowledge of products and the general development within the market.

Corporate social responsibility

The main activity of L'Oréal Danmark A/S consists of sale of cosmetics, perfumes and hair care, and our sustainability efforts are therefore closely related to our products, our employees and our value chain.

L'Oréal S.A., the Parent of L'Oréal Danmark A/S, has been a UN Global Compact signatory since 2003 and prepares an annual Communication on Progress on behalf the Group which also includes the activities of L'Oréal Danmark A/S. The COP for 2019 will be available at <https://www.loreal.com/loreal-sharing-beauty-with-all>. In 2019, L'Oréal was named a UN Global Compact LEAD for its continuous support of the Ten Principles for responsible business and was also named one of the World's Most Ethical Companies by Ethisphere.

L'Oréal Danmark A/S is also included in the Group "Sharing Beauty With All" targets, which will be revised in 2020 to mark the end of the first series of and unveil our new programme and new commitments for 2030.

Climate and environment

L'Oréal respects the environment and seeks to minimize the Company's environmental impact. Many of the activities involved in bringing our products to market have a direct impact on the environment, and it is our responsibility to seek to reduce this impact wherever possible. It is our ambition to contribute to a global sustainable development and protecting the planet's natural resources.

To achieve this, L'Oréal has implemented several initiatives that contribute to a responsible, sustainable business model, including improving the biodegradability of our formulations, increased the sustainable sourcing of raw materials, reduced our waste, increased the use of recycled materials in our packaging, and an action plan to achieve "zero deforestation" by 2020. In 2019, 100% of the paper used for our product instructions, 99.9% of cardboard for product packaging and 94% of the paper and cardboard used in POS(1) materials was certified, as well as 98% of the soya oil used.

The L'Oréal Group has also set a Science Based Target aligned with limiting global warming to 1.5°C by reducing our Scope 1, 2 and 3 greenhouse gas emissions by 25%, and Scope 1 and 2 emissions at operated sites by 100% in absolute terms by 2030 from a 2016 base year. The Group uses renewable energy and is improving energy efficiency to reduce its greenhouse gas emissions and achieve these targets. In 2019, the L'Oréal Group was awarded an "A" score the CDP Climate Change, Water, Forests and Palm Oil rankings.

Social and employee matters

L'Oréal Danmark A/S acts in line with our conviction that a policy that promotes diversity and inclusion enables everyone to give their best within the Company. L'Oréal's diversity and inclusion policy is a key performance and innovation driver that plays a crucial role in maintaining sustainable growth. The diversity of individual talents in our workforce enhances our creativity and enables us to develop and market relevant products.

L'Oréal appreciates all types of beauty and is an employer that advocates for inclusion and equality. We want to promote the integration of people who are underrepresented in the workforce, especially people with disabilities as well as social and ethnic minorities. All L'Oréal employees have the right to a healthy,

Management's review

Operating review

safe and secure work environment and we strive to promote a strong safety culture. Our employee policies are described and implemented as part of our Code of Ethics which also clearly describes procedures for identifying and mitigating non-compliance. Our Code of Ethics can be found at <http://loreal-dam-front-resources-corp-fr-cdn.brainsonic.com/ressources/afile/130766-0fc8e-resource-code-of-ethics-dani.pdf>.

Since 2015, L'Oréal has been an active member of the International Labour Organization's Global Business and Disability Network. L'Oréal has also made gender equality in the workplace a priority. In 2019, L'Oréal made the Top 5 in the Equileap Ranking and Bloomberg Gender Equality Index, which both recognise the most advanced companies in terms of gender equality.

Human rights

L'Oréal has set a twofold commitment: to respect Human Rights, and to amplify the positive impacts of the Group's business in this domain. We are committed to respecting and promoting Human Rights, as described by the 1948 World Declaration, the UN Guiding Principles on Business and Human Rights, and we support the principles of UN Global Compact and the UN Women's Empowerment Principles. We pay particular attention to issues covered by the basic ILO conventions, the International Labor Organization, (Prohibition of Child and Forced Labor and Respect for Freedom of Association), promoting diversity, women's rights, respect of indigenous people's right to their natural resources and the right to health.

The Group has recently entered a partnership with the Danish Institute for Human Rights to identify areas for improvement in terms of its Human Rights programme. L'Oréal also works with the NGO Fair Wage Network to implement a living wage strategy, ensuring workers and their dependents have sufficient revenue for food, housing, and other basic needs. On the occasion of the UN International Human Rights Day, L'Oréal kicked-off the "We Can End It" campaign, which underscores the aspiration and the feasibility of working together to end Human Rights violations.

Our commitment to human rights is also reflected in our sourcing strategies, for example has 100% of our argan oil been sourced from six socially responsible cooperatives since 2008. Working in partnership with our supplier and NGO Yamana, L'Oréal has co-founded a programme to guarantee the cooperatives fair conditions that protect biodiversity and help to maintain their ancestral know-how.

Bribery and corruption

Bribery and corruption is unacceptable and incompatible with the L'Oréal culture. It is harmful to the societies in which we operate and harmful to our business. Corruption is prohibited in all countries where we operate, particularly if government officials are involved. We have a zero tolerance policy for corruption, which includes facilitation payments, defined as payments used to secure or smoothen routine legal authority processing such as the issuance of permits or customs release of goods.

L'Oréal Danmark A/S implements and monitors these policies in accordance with our Code of Ethics. In instances where the guidelines in our Code differ from local law or local customs in a specific country, we must comply with local laws and customs where local laws or customs impose higher standards than those described in our Code. If, on the other hand, our code sets higher standards, it must apply unless it results in illegal activity.

We ensure that our business partners and intermediaries are informed of our standards and committed to adhere to them, especially when representing us in a country where there is a high risk of corruption. We encourage all employees to express their views and report if they suspect unacceptable actions or demands. To show our commitment to an ethical business culture, we have an annual Ethics Day where all employees are invited to submit questions on ethics directly to Jean-Paul Agon, Chairman and CEO of L'Oréal, who answers them via a live webchat. The dialogue continues in all Group subsidiaries.

Management's review

Operating review

Sustainability-related risks

L'Oréal Danmark A/S has identified the retention of employees, health and safety as our key sustainability-related risks. To mitigate these potential risks, we use the Group procedures on employment and social inclusion with a strong focus on empowering people and ensuring the best working environment possible as described in our Code of Ethics. L'Oréal Danmark A/S has not identified any risks related to climate and environment, social or other employee-related issues, human rights, or the prevention of bribery and corruption.

Goals and policies for the underrepresented gender

L'Oréal Danmark A/S has a policy which aims to increase the share of the underrepresented gender on all management levels.

By the end of 2019, none of the 3 members of the board of directors elected by the AGM were women, but the Company plans to increase the board of directors with at least one female member no later than 2023. The main reason we have not yet achieved this target as well as the challenge to achieving this target moving forward would be if the AGM elects male candidates over female, and the fact that we do not replace board members who provide value to the Company due to their gender once elected.

The Company's Executive Management Committee consists of 12 members, 6 of which are women. We have significantly improved the gender balance in the last 2 years. As per December 31, 2019, there were 53% women in other managing positions. As we consider this balanced, we do not have further policies beyond our continuous aim to keep both genders represented by at least 40%.

The Company aims to promote equality between genders on all management levels. To support this development, the Company has established recruitment procedures securing that candidates of both genders are considered when hiring or promoting for management positions.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2019	2018
Revenue	2	1,471,895	1,388,940
Costs of raw materials and consumables		-807,874	-769,374
Other operating income		293,738	351,355
Other external costs		-405,693	-432,573
Gross profit		552,066	538,348
Staff costs	3	-375,143	-372,814
Depreciation, amortisation and impairment losses	4	-29,681	-34,457
Operating profit		147,242	131,077
Financial income	5	2,939	12,269
Financial expenses	6	-4,494	-13,519
Profit before tax		145,687	129,827
Tax on profit/loss for the year	7	-33,854	-27,259
Profit for the year	8	111,833	102,568

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Intangible assets	9		
Completed development projects		28,482	22,485
Development projects in progress		<u>12,181</u>	<u>19,586</u>
		<u>40,663</u>	<u>42,071</u>
Property, plant and equipment	10		
Fixtures and fittings, tools and equipment		32,942	42,296
Property, plant and equipment in progress		<u>3,694</u>	<u>3,760</u>
		<u>36,636</u>	<u>46,056</u>
Investments	11		
Deposits		<u>12,445</u>	<u>13,184</u>
Total fixed assets		<u>89,744</u>	<u>101,311</u>
Current assets			
Inventories			
Finished goods and goods for resale		<u>106,025</u>	<u>114,387</u>
Receivables			
Trade receivables		245,955	226,324
Receivables from group entities		229,679	176,124
Other receivables		20,420	2,590
Deferred tax asset	12	9,817	9,461
Corporation tax		6,124	0
Prepayments	13	<u>10,536</u>	<u>7,760</u>
		<u>522,531</u>	<u>422,259</u>
Securities		<u>4,082</u>	<u>446</u>
Cash at bank and in hand		<u>5</u>	<u>7</u>
Total current assets		<u>632,643</u>	<u>537,099</u>
TOTAL ASSETS		<u><u>722,387</u></u>	<u><u>638,410</u></u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	14	2,010	2,010
Retained earnings		41,254	40,541
Proposed dividends for the financial year	8	111,833	102,568
Total equity		<u>155,097</u>	<u>145,119</u>
Liabilities			
Current liabilities			
Trade payables		47,445	65,828
Payables to group entities		333,277	242,348
Corporation tax		0	602
Other payables		186,568	184,513
		<u>567,290</u>	<u>493,291</u>
Total liabilities		<u>567,290</u>	<u>493,291</u>
TOTAL EQUITY AND LIABILITIES		<u><u>722,387</u></u>	<u><u>638,410</u></u>
Accounting policies			
	1		
Fees to auditor appointed at the general meeting	15		
Contractual obligations, contingencies, etc.	16		
Currency and interest rate risks and the use of derivative financial instruments	17		
Related party disclosures	18		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 January 2019	2,010	40,541	102,568	145,119
Transferred, not paid dividends	0	0	0	0
Ordinary dividends paid	0	0	-102,568	-102,568
Exchange adjustment	0	914	0	914
Transferred over the profit appropriation	0	0	111,833	111,833
Tax on other equity movements	0	-201	0	-201
Equity at 31 December 2019	2,010	41,254	111,833	155,097

Financial statements 1 January – 31 December

Cash flow statement

DKK'000	Note	2019	2018
Profit for the year		111,833	102,568
Other adjustments of non-cash operating items		65,803	62,532
Cash flows from operations before changes in working capital		177,636	165,100
Changes in working capital	19	-10,664	-21,963
Cash flows from ordinary activities		166,972	143,137
Interest income		2,939	12,269
Interest expense		-4,494	-13,519
Corporation tax paid		-41,101	-27,589
Cash flows from operating activities		124,316	114,298
Acquisition of intangible assets		-5,409	-20,763
Sale of intangible assets		0	1,072
Acquisition of property, plant and equipment		-13,372	-23,673
Disposal of property, plant and equipment		667	5,692
Acquisition of securities		-3,636	-1,882
Disposal of securities		0	2,064
Cash flows from investing activities		-21,750	-37,490
Shareholders:			
Distributed dividend		-102,568	-71,171
Cash flows from financing activities		-102,568	-71,171
Cash flows for the year		-2	5,637
Cash and cash equivalents at the beginning of the year		7	-5,630
Cash and cash equivalents at year end		5	7

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of L'Oréal Danmark A/S for 2019 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Basis of recognition and measurement

The financial statements are based on the historical cost principle with below exceptions.

Assets are recognised in the balance sheet when it is probable as a result of a prior event 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 as a result of a prior event that there will be an outflow of future economic resources from the Company, and the value can be measured reliably.

Revenue is recognised in the income statement as earned based on the following criteria:

- a binding sales agreement has been made,
- the sales price has been determined,
- delivery has been made before year-end,
- payment has been received at the time of sale or may with reasonable certainty be expected to be received.

Based on the above, revenue is recognised in the income statement as earned, which includes recognition of value adjustments of financial assets and liabilities measured at fair value or amortised cost. Furthermore, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation estimates of amount that have previously been recognised in the income statement.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the financial statements which confirm or invalidate affairs and conditions existing at the balance sheet date.

Income statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that delivery and transfer of risk have been made to the purchaser by year-end. Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Other operating income

Other operating income comprises items secondary to the activities of the entity. Other operating income originates from the re-invoicing of service costs, including a mark-up to the sister companies in Norway, Sweden, Finland, Holland, and Belgium in relation to existing service contracts.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Cost of sales

Cost of sales comprises cost of sales for raw materials and consumables consumed to achieve revenue for the year.

Other external costs

Other external costs comprise expenses for premises, sales and distribution as well as office expenses etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., for entity staff.

Amortisation/depreciation

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment as well as gain and losses from current replacement of fixed assets.

The basis of depreciation is cost less any projected residual value, is amortised on a straight-line basis over the expected useful life. The expected useful lives are as follows:

Fixtures and fittings, tools and equipment	3-10 years
Goodwill	5 years
Acquired trademarks	10 years
Acquired licenses	3-5 years

The financial estimated useful life of trademark is minimum of 10 years. The valuation is based on similar experience.

Financial income and expenses

Other financial income comprises interest income, realised and unrealised exchange adjustments.

Other financial expenses comprise interest expenses, financial expenses in respect of finance leases, realised and unrealised exchange adjustments.

Tax on profit for the year

Tax for the year consists of current tax for the year and 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 entries is recognised directly in equity. Any share of the tax reported in the income statement arising from profit/loss on extraordinary activities for the year is attributed to such activities, whereas the remaining share is attributed to profit/loss on ordinary activities for the year.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Goodwill is measured at cost less accumulated amortisation and impairment losses. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. The amortisation period is usually five years, however, in certain cases it may be up to 20 years for strategically acquired enterprises with a strong market position and a long-term earnings profile if the longer amortisation period is considered to give a better reflection of the benefit from the relevant resources.

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

Intellectual property rights etc. are measured at cost less accumulated amortisation.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. Amortisation period is 3-5 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Property, plant and equipment

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

Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

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1 Accounting policies (continued)

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment is assessed for impairment on an annual basis.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories of raw materials etc. are valued at average cost. Inventories have been written down in respect of obsolescence.

The cost of goods for resale, raw materials and consumables comprises the cost prices and related transportation costs.

Receivables

Receivables are recognised in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad and doubtful debts. Provisions for bad and doubtful debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Entity's experience.

Prepayments

Prepayments include incurred costs in respect of subsequent financial years, including fair value adjustments of derivative financial instruments with a positive fair value. Such expenses are typically prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Cash and cash equivalents

Cash comprises cash in hand and bank deposits.

Equity

Dividends

Dividends are recognised as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

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1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payable and receivable is 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 using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Liabilities other than provisions

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

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

Cash flow statement

Cash flows from operating activities are calculated as profit/loss for the year adjusted for non-cash operating items such as depreciation, amortisation and impairment losses, provisions as well as changes in working capital, interest received and paid and corporation tax paid. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debts as well as payment of dividend to shareholder.

The cash flow statement cannot be immediately derived from the published financial records.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.

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1 Accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are converted during the year at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in the financial income and expenses in the income statement.

Receivables and payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are converted at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in the financial income and expenses in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently premeasured at their fair values. Positive and negative fair values of derivative financial instruments are included as prepayments.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or hedged liability.

Changes in fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions relating to purchases and sales in foreign currencies are recognised in prepayments and retained earnings under equity, respectively. If the expected future transaction results in the recognition of assets or liabilities, amounts deferred in equity are transferred from equity and recognised in the cost of the asset or liability, respectively. Amounts deferred in equity are transferred to the income statement in the period in which the hedged item affect the income statement.

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2 Segment information

DKK'000	2019	2018
Breakdown of revenue by geographical segment		
Denmark	940,235	972,374
Other European countries	531,660	416,566
	<u>1,471,895</u>	<u>1,388,940</u>

The primary market segment of L'Oréal Group is product-oriented and the secondary segment is geographical. Total revenue of L'Oréal Danmark A/S is generated within the product segment perfumes and toiletries and geographically in Scandinavia.

Product segments are not disclosed in line with section 96 of Danish Financial Statements Act as management assesses it will be damaging to the Company.

3 Staff costs

DKK'000	2019	2018
Wages and salaries	325,109	323,856
Pensions	25,764	24,434
Other social security costs	4,600	4,109
Other staff costs	19,670	20,415
	<u>375,143</u>	<u>372,814</u>
Average number of full-time employees	<u>525</u>	<u>519</u>

Total remuneration to Executive board: DKK 5,138 thousand (2018: 7,638)

Part of the staff costs are related to the shared IT, service, and logistical functions are re-invoiced to the affiliated companies in Sweden, Finland, Holland, Belgium, and Norway and recognised as income under other operation income.

4 Depreciation, amortisation and impairment losses

DKK'000	2019	2018
Amortisation of intangible assets	7,556	7,559
Depreciation of property, plant and equipment	22,125	26,898
	<u>29,681</u>	<u>34,457</u>

5 Financial income

DKK'000	2019	2018
Exchange adjustments	2,939	12,269
	<u>2,939</u>	<u>12,269</u>

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6 Financial expenses

DKK'000	2019	2018
Interest expense, group entities	460	94
Other interest expenses	103	225
Exchange adjustments	3,931	13,200
	<u>4,494</u>	<u>13,519</u>

7 Tax on profit for the year

DKK'000	2019	2018
Current tax for the year	34,201	29,179
Deferred tax for the year	-347	-1,920
	<u>33,854</u>	<u>27,259</u>

8 Proposed profit appropriation

DKK'000	2019	2018
Proposed dividends for the year	111,833	102,568
Retained earnings	0	0
	<u>111,833</u>	<u>102,568</u>

9 Intangible assets

DKK'000	Acquired licenses	Acquired trademarks	Goodwill	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2019	46,431	55,255	2,000	19,586	123,272
Additions for the year	4,287	0	0	1,861	6,148
Transfers for the year	9,266	0	0	-9,266	0
Cost at 31 December 2019	<u>59,984</u>	<u>55,255</u>	<u>2,000</u>	<u>12,181</u>	<u>129,420</u>
Amortisation and impairment losses at 1 January 2019	-23,946	-55,255	-2,000	0	-81,201
Amortisation for the year	-7,556	0	0	0	-7,556
Amortisation and impairment losses at 31 December 2019	<u>-31,502</u>	<u>-55,255</u>	<u>-2,000</u>	<u>0</u>	<u>-88,757</u>
Carrying amount at 31 December 2019	<u>28,482</u>	<u>0</u>	<u>0</u>	<u>12,181</u>	<u>40,663</u>

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10 Property, plant and equipment

DKK'000	Fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2019	168,903	3,760	172,663
Additions for the year	12,849	523	13,372
Disposals for the year	-19,966	0	-19,966
Transfers for the year	589	-589	0
Cost at 31 December 2019	162,375	3,694	166,069
Depreciation and impairment losses at 1 January 2019	-126,607	0	-126,607
Depreciation for the year	-22,125	0	-22,125
Depreciation and impairment losses for the year on assets sold	19,299	0	19,299
Depreciation and impairment losses at 31 December 2019	-129,433	0	-129,433
Carrying amount at 31 December 2019	32,942	3,694	36,636

11 Investments

DKK'000	Deposits, investments
Cost at 1 January 2019	13,184
Additions for the year	527
Disposals for the year	-1,266
Cost at 31 December 2019	12,445
Carrying amount at 31 December 2019	12,445

12 Deferred tax

DKK'000	2019	2018
Deferred tax at 1 January	-9,461	-7,502
Deferred tax adjustment for the year in the income statement	-557	-1,920
Tax on equity transactions	201	-39
Deferred tax at 31 December	-9,817	-9,461
Provisions for deferred tax relate to:		
Intangible assets	-117	-175
Property, plant and equipment	402	338
Inventories	-6,387	-6,650
Provisions	-3,431	-2,488
Other taxable temporary differences	-284	-486
	-9,817	-9,461

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13 Prepayments

The items consists primarily of prepaid rent, advertising and promotion expenses.

14 Equity

The contributed capital consists of:

402,000 shares of DKK 5.00 nominal value each for a total of DKK 2,010 thousand.

The Company's share capital has remained DKK 2,010 thousand over the past 5 years.

15 Fees to auditor appointed at the general meeting

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for L'Oréal S.A.

16 Contractual obligations, contingencies, etc.

DKK'000

Other financial obligations

Rent and lease liabilities

2019	2018
52,880	65,044
52,880	65,044

Rent and lease liabilities include rental and lease commitments due within 1 year totalling DKK 25,481 thousand (2018: 26,591) and commitments due between 1 and 5 years totalling DKK 27,399 thousand (2018: 38,453). The Company has no rental and lease commitments due after 5 years.

17 Currency and interest rate risks and the use of derivative financial instruments

Other payables and other receivables include negative and positive fair value of derivative financial instruments of net DKK 1,460 thousand. Derivative financial instruments have been entered into to hedge exchange rate exposure of future purchases of DKK 5,910 thousand divided primarily between the currencies EUR, SEK and PLN. Forward exchange contracts expire between January 2020 and December 2020.

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18 Related party disclosures

L'Oréal Danmark A/S' related parties comprise the following:

Significant influence

Related party	Domicile	Basis for significant influence
L'Oréal S.A.	Rue Royal 14, FR-75008 Paris, France	Ownership

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
L'Oréal S.A.	Rue Royal 14, FR-75008 Paris, France	www.loreal-finance.com

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.

Ownership

The following shareholders are registered in the Company's register of shareholders as holding a minimum of 5% of the votes or a minimum of 5% of the contributed capital:

Name	Domicile
L'Oréal S.A.	Rue Royal 14, FR-75008 Paris, France

19 Changes in working capital

DKK'000	31/12 2019	31/12 2018
Changes in working capital		
Change in inventories	8,362	-12,687
Change in receivables	-93,792	14,033
Change in trade payables etc	74,766	-23,309
	<u>-10,664</u>	<u>-21,963</u>