

L'Oréal Danmark A/S

Havneholmen 25
1561 København V

CVR no. 70 71 02 18

Annual report 2020

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

19 May 2021

Vianney Marie Hugues Deruelle
chairman

Vianney DERUELLE

1BEDA9077B534F1...

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	6
Company details	6
Financial highlights	7
Operating review	8
Financial statements 1 January – 31 December	11
Income statement	11
Balance sheet	12
Statement of changes in equity	14
Cash flow statement	15
Notes	16

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

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 2020.

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 2020 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2020.

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 10 May 2021
Executive Board:

DocuSigned by:

tomas.hruska@loreal.com

00C8CB2BD1EC43C...

Tomas Hruska

Board of Directors:

DocuSigned by:

vianney.derville

1BEDA9077B534F1...

Vianney Marie Hugues
Derville
Chairman

DocuSigned by:

laurent.SCHMITT@loreal.com

78F82D5C711F429...

Laurent Francois Marcel
Schmitt

DocuSigned by:

tomas.hruska@loreal.com

00C8CB2BD1EC43C...

Tomas Hruska

Independent auditor's report

To the shareholder of L'Oréal Danmark A/S

Qualified opinion

We have audited the financial statements of L'Oréal Danmark A/S for the financial year 1 January – 31 December 2020 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, except for the possible effect of the matter described in the "Basis for qualified opinion" section of our report, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for qualified opinion

As stated in note 18 'contingent liabilities', the Company has implemented a new transfer pricing setup together with its Nordic affiliated companies, after which the Company has taken over the Nordic entrepreneurial roles relating to managing L'Oréal products and brands in the Nordics region. In our view, 'Acquired similar rights', recognised at DKK 0 under assets, are measured at an amount which is DKK 55.8 – 111.6 million (EUR 7.5 - 15 million) too low due to the lacking recognition of entrepreneurial rights. For that reason, in our view, recognition of payables to group entities lacks by this amount. There is uncertainty related to the amount.

Due to the lacking recognition of 'Acquired similar rights', no amortisation has been performed as they depend on the useful life, which has not been determined by Management.

The net tax effect (net of current and deferred tax) amounts to zero.

Equity and profit for the year are thus overestimated by an amount equal to the lacking amortisation.

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.

Independent auditor's report

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 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.

Independent auditor's report

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.

As it appears from the paragraph "Basis for qualified opinion", our opinion on the financial statements has been modified, as no recognition has been performed of 'Acquired similar rights' under assets with related amortisations and payables to group enterprises due to the new transfer pricing setup. In our opinion, the Management's review is thus materially misstated.

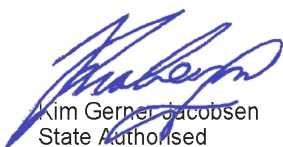
Except from the above described issue and based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act.

Copenhagen 10 May 2021

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 2020
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
Weidekampsgade 6
DK-0900 København C

Attorneys

Bech-Bruun
Langelinie Alle 35
2100 København

Bank

Danske Bank
Holmens Kanal 2-12
1092 København K

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Management's review

Financial highlights

DKK'000	2020	2019	2018	2017	2016
Key figures					
Revenue	2,861,498	1,471,895	1,388,940	1,360,692	1,382,055
Gross profit	722,586	552,066	538,348	447,655	408,769
Operating profit	317,130	147,242	131,077	94,862	93,755
Profit/loss from financial income and expenses	726	-1,555	-1,250	-1,495	-3,026
Profit for the year	250,173	111,833	102,568	71,171	74,174
Balance sheet					
Total assets	888,157	722,387	638,410	636,091	566,233
Equity	269,812	155,097	145,119	113,862	115,747
Investment in property, plant and equipment	-16,746	-13,372	-23,673	-19,022	-31,471
Cash flows					
Cash flows from operating activities	169,066	124,316	114,298	112,964	116,561
Cash flows from investing activities	-57,238	-21,750	-37,490	-41,881	-25,908
Cash flows from financing activities	-111,833	-102,568	-71,171	-74,174	-93,192
Ratios					
Gross margin	25.3%	37.5%	38.8%	32.9%	29.6%
Return on equity	117.8%	74.6%	79.2%	62.0%	59.3%
Solvency ratio	39.2%	21.5%	22.7%	17.9%	20.4%
Net margin	8.7%	7.6%	7.4%	5.2%	5.6%
Employees					
Average number of full-time employees	515	525	519	507	474

The financial ratios have been calculated as follows:

Financial ratios are calculated in accordance with the guidelines "Recommendations and Ratios" issued by the Danish Society of Financial Analysts.

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

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Management's review

Operating review

Main activities

The main activity of the Company is to sell cosmetics, perfumes and hair care products. Furthermore, the Company manages stock activities for affiliated companies in Norway, Sweden and Finland. L'Oréal Danmark A/S serves as a Shared Service Center for the Nordics.

Significant events during the year

In 2020, the operational model for L'Oréal in the Nordic region was changed, whereas L'Oréal Danmark A/S now also acts as entrepreneur in Sweden, Norway and Finland, and L'Oréal Sverige AB, L'Oréal Norge AS and L'Oréal Finland OY act as low-risk distributors for L'Oréal Danmark A/S in their respective local markets. The low-risk distributors will receive arm's length remuneration, which for 2020, is set at EBIT of 5%. Following this change in operational model, the cost and inventory structure have also changed. As a result thereof and in order to obtain certainty of the arm's length remuneration between the entities, L'Oréal Danmark A/S has together with each of three other entities individually applied for an advanced pricing agreement between Denmark and individually with Sweden, Norway and Finland. As of the balance date, the advanced pricing agreement is still being reviewed by the competent tax authorities.

This change in the operational model described above is reflected in the Income Statement and the Balance sheet. Revenue and receivables from group entities are increased due to sales of services to Sweden, Norway and Finland in total of DKK 1.1 billion. Other operating income is decreased as service costs are not re-invoiced to Sweden, Norway and Finland as previously. Other external costs and Trade payables have increased as previous re-invoicing model has been replaced with profit repatriation of 5%.

Significant uncertainties

Following the change of operational model and L'Oréal Danmark A/S' applications for advanced pricing agreements between Denmark and Sweden, Norway and Finland which are still under review from the competent tax authorities, it is uncertain whether L'Oréal Danmark A/S will be liable for indemnifying the affiliated entities L'Oréal Sverige AB, L'Oréal Finland OY and L'Oréal Norge for the transfer of functions and risks. The total indemnification is expected to an amount between DKK 0 and DKK 111.6 million. Due to the uncertainty of an indemnification, as the Danish competent tax authorities and the corresponding competent tax authorities in Sweden, Finland and Norway haven't yet agreed upon an indemnification, we haven't recognized acquired similar rights under assets, the corresponding amortization and the payable to the Group Companies.

Financial review

In 2020, the Company's revenue came in at DKK 2,861,498 thousand as against DKK 1,471,895 thousand last year due to sale of services to sister companies in Norway, Sweden and Finland at a total of DKK 1,112,415 thousand. The income statement for 2020 shows a profit of 250,173 thousand as against a profit of DKK 111,833 thousand last year, and the balance sheet at 31 December 2020 shows equity of DKK 269,812 thousand.

Revenue from sale of goods in 2020 was lower than anticipated before the COVID-19 pandemic. However, the profit is in line with expectations due to the increased revenue generated from the sales of services to Norway, Sweden and Finland.

Events after the balance sheet date

Revenue at the beginning of 2021 has slowed down due to the continued restrictions related to the COVID-19 pandemic, but we believe in recovery during the first half of the year, leading to higher revenue than in 2020.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Management's review

Operating review

Outlook

We anticipate the beauty market will continue to grow at an average of 1% in the coming years. Our company's growth has been higher than the market in the past years, and we plan on continuing to grow faster than the market. Concretely for 2021, we plan to have a revenue growth in the range of 5-10% - and an even higher growth on the profit before tax. This higher range of growth on sales is explained by our planned rebound after a disappointing year in 2020 due to COVID-19 where our revenue on products sold in Denmark remained stable vs. 2019 compared to the range of 3-5% growth we had planned for at the start of the year.

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 key areas like advertising, product know-how and general market development.

Corporate social responsibility

L'Oréal S.A., the Parent Company of L'Oréal Danmark A/S, has signed the UN Global Compact and prepares a CSR report for the group.

The report can be obtained at https://www.loreal-finance.com/system/files/2021-03/SBWA_PR_GROUPE_2020_ENG_0.pdf

Furthermore, the following group policies outline the specific risks and how they are managed:

The Group's code of ethics, including human rights, social and staff matters, the way we prevent corruption, the way we choose our suppliers and sub-supplier and the way we prevent child labor is publically available on the Groups website, see links below.

<https://www.loreal.com/group/governance/acting-ethically/code-of-ethics-and-speak-up-policy>

<https://www.loreal.com/-/media/project/loreal/brand-sites/corp/master/lcorp/documents-media/publications/group/loreal-corruption-prevention-policy.pdf>

In regard to climate and environment, the Company always tries to optimise recycling, sort garbage and be aware of the usage of energy sources.

Key factors are the retention of employees and the provision of health, safety and environment. Therefore, we implement our Group's procedures on employment and social inclusion with strong focus on empowering people and ensuring the best working environment possible.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Management's review

Operating review

L'Oréal Group Annual Financial Report describes the risks related to Human Rights, Anti-Corruption, Climate & Environment, Social matters, Staff-related matters, politics, and actions.

The report can be obtained here: https://www.loreal-finance.com/system/files/2021-03/LOREAL_2020_Annual_Report.pdf

L'Oréal Danmark A/S has not identified any other risks which are not described in the Annual Report of the Group.

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 2020, none of the three 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 in 2023. The main reason we have not yet achieved this target as well as the challenge to achieve 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 13 members, eight of which are women. We have significantly improved the gender balance during the last three years. As per December 31, 2020, there were 58% 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.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2020	2019
Revenue	2, 3	2,861,498	1,471,895
Costs of raw materials and consumables	2	-1,099,881	-807,874
Other operating income	2	11,958	293,738
Other external costs	2	<u>-1,050,989</u>	<u>-405,693</u>
Gross profit		722,586	552,066
Staff costs	4	-373,367	-375,143
Depreciation, amortisation and impairment losses	5	<u>-32,089</u>	<u>-29,681</u>
Profit before financial income and expenses		317,130	147,242
Other financial income	6	47,396	2,939
Other financial expenses	7	<u>-46,669</u>	<u>-4,494</u>
Profit before tax		317,857	145,687
Tax on profit for the year	8	<u>-67,684</u>	<u>-33,854</u>
Profit for the year	9	<u><u>250,173</u></u>	<u><u>111,833</u></u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2020	31/12 2019
ASSETS			
Fixed assets			
Intangible assets			
Licenses	10	56,019	28,482
Development projects in progress and prepayments for intangible assets		<u>16,776</u>	<u>12,181</u>
		<u>72,795</u>	<u>40,663</u>
Property, plant and equipment			
Fixtures and fittings, tools and equipment	11	27,457	32,942
Property, plant and equipment under construction		<u>4,774</u>	<u>3,694</u>
		<u>32,231</u>	<u>36,636</u>
Investments			
Other long-term receivables	12	363	0
Deposits		<u>13,586</u>	<u>12,445</u>
		<u>13,949</u>	<u>12,445</u>
Total fixed assets		<u>118,975</u>	<u>89,744</u>
Current assets			
Inventories			
Finished goods and goods for resale		<u>124,049</u>	<u>106,025</u>
Receivables			
Trade receivables		257,699	245,955
Receivables from group entities		337,712	229,679
Other receivables		17,082	20,420
Deferred tax asset	13	16,762	9,817
Corporation tax		3,101	6,124
Prepayments	14	<u>12,777</u>	<u>10,536</u>
		<u>645,133</u>	<u>522,531</u>
Securities and equity investments		<u>0</u>	<u>4,082</u>
Cash at bank and in hand		<u>0</u>	<u>5</u>
Total current assets		<u>769,182</u>	<u>632,643</u>
TOTAL ASSETS		<u>888,157</u>	<u>722,387</u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2020	31/12 2019
EQUITY AND LIABILITIES			
Equity			
Contributed capital	15	2,010	2,010
Reserve for fair value of investment assets		-23,625	0
Retained earnings		41,254	41,254
Proposed dividends for the financial year	9	<u>250,173</u>	<u>111,833</u>
Total equity		<u>269,812</u>	<u>155,097</u>
Liabilities			
Non-current liabilities			
Other payables	16	<u>34,294</u>	<u>11,821</u>
Current liabilities			
Trade payables		195,892	53,893
Payables to group entities		154,524	326,829
Other payables		<u>233,635</u>	<u>174,747</u>
		<u>584,051</u>	<u>555,469</u>
Total liabilities		<u>618,345</u>	<u>567,290</u>
TOTAL EQUITY AND LIABILITIES		<u><u>888,157</u></u>	<u><u>722,387</u></u>
Accounting policies	1		
Fees to auditor appointed at the general meeting	17		
Contractual obligations, contingencies, etc.	18		
Currency and interest rate risks and the use of derivative financial instruments	19		
Related party disclosures	20		

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Contributed capital	Reserve for fair value adjustments	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 January 2020	2,010	0	41,254	111,833	155,097
Transferred, not paid dividends	0	0	0	0	0
Ordinary dividends paid	0	0	0	-111,833	-111,833
Value adjustment of financial instruments	0	-30,362	0	0	-30,362
Profit for the year	0	0	0	250,173	250,173
Tax on other equity movements	0	6,737	0	0	6,737
Equity at 31 December 2020	2,010	-23,625	41,254	250,173	269,812

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Cash flow statement

DKK'000	Note	2020	2019
Profit for the year		250,173	111,833
Other adjustments of non-cash operating items	21	68,685	65,803
Cash flows from operations before changes in working capital		318,858	177,636
Changes in working capital	22	-85,649	-10,664
Cash flows from ordinary activities		233,209	166,972
Interest income		47,395	2,939
Interest expense		-46,669	-4,494
Corporation tax paid		-64,869	-41,101
Cash flows from operating activities		169,066	124,316
Acquisition of intangible assets		-46,516	-5,409
Disposal of intangible assets		1,413	0
Acquisition of property, plant and equipment		-16,746	-13,372
Disposal of property, plant and equipment		529	667
Acquisition of securities		4,082	-3,636
Cash flows from investing activities		-57,238	-21,750
Shareholders:			
Distributed dividends		-111,833	-102,568
Cash flows from financing activities		-111,833	-102,568
Cash flows for the year		-5	-2
Cash and cash equivalents at the beginning of the year		5	7
Cash and cash equivalents at year end		0	5

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of L'Oréal Danmark A/S for 2020 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.

Change in comparative figures

Comparative figures regarding Trade payables and Payables to group entities have been restated to reflect the correct split between these. Payables of DKK 6,448 thousand has been reclassified from Trade payables to Payables from group entities.

Comparative figures regarding short- and long-term liabilities has been reclassified by DKK 11,821 thousand, to reflect the accurate split between long- and short-term holiday pay obligations.

Basis of recognition and measurement

The financial statements are based on the historical cost principle with the 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, and
- payment has been received at the time of sale or is with reasonable certainty 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.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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. Sale of services to sister companies in Norway, Sweden and Finland is recognised in the income statement as services are delivered. 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 Holland and Belgium in relation to existing service contracts.

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 costs 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 and depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment as well as gains 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 estimated useful life of trademarks is a minimum of 10 years. The valuation is based on similar experience.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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, as well as 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. Tax attributable to the profit for the year is recognised in the income statement, whereas 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.

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 entities 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 entity 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 development projects, as well as prepayments regarding intangible assets.

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

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

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Property, plant and equipment

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.

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 write-down for bad and doubtful debts. Write-down for bad and doubtful debts is determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general write-down is also made base on the entity's experience.

Prepayments

Prepayments include incurred costs in respect of subsequent financial years. 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.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Equity

Dividends

Dividends are recognised as a liability at the time of adoption at the general meeting. Proposed dividends for the financial year are disclosed as a separate item in equity.

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

The cash flow statement shows the Company's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and divestment of entities is shown separately in cash flows from investing activities.

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities, intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in size or composition of the Company's contributed capital and costs in this respect as well as raising of loans, instalments on interest-bearing debt and distribution of dividends to owners.

Cash and cash equivalents comprise cash.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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 other receivables or other payables.

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 other payables or other receivables 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.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

2 Change in operational model

The change in the operational model described in note 18 'contingent liabilities' is reflected in the Income Statement and the Balance sheet. Revenue and receivables from group entities are increased due to sales of services to Sweden, Norway and Finland in total of DKK 1.1 billion. Other operating income is decreased as service costs are not re-invoiced to Sweden, Norway and Finland as previously. Other external costs and Trade payables have increased as previous re-invoicing model has been replaced with profit repatriation of 5%.

3 Segment information

DKK'000	2020	2019
Break-down of revenue by geographical segment		
Denmark	937,708	940,235
Other European countries	<u>1,923,790</u>	<u>531,660</u>
	<u>2,861,498</u>	<u>1,471,895</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.

Revenue to Other European countries includes intercompany sales of services to Sweden, Norway and Finland at a total of DKK 1,112,415 thousand.

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

4 Staff costs

DKK'000	2020	2019
Wages and salaries	329,469	325,109
Pensions	27,172	25,764
Other social security costs	4,330	4,600
Other staff costs	<u>12,396</u>	<u>19,670</u>
	<u>373,367</u>	<u>375,143</u>
Average number of full-time employees	<u>515</u>	<u>525</u>

Total remuneration to the Executive Board: DKK 5,241 thousand (2019: DKK 5,138 thousand).

Part of the staff costs are related to the shared IT functions are re-invoiced to the affiliated companies in Holland and Belgium and recognised as income under other operating income.

5 Depreciation, amortisation and impairment losses

DKK'000	2020	2019
Amortisation of intangible assets	11,467	7,556
Depreciation of property, plant and equipment	<u>20,622</u>	<u>22,125</u>
	<u>32,089</u>	<u>29,681</u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

6 Other financial income

DKK'000	<u>2020</u>	<u>2019</u>
Exchange adjustments	47,396	2,939
	<u>47,396</u>	<u>2,939</u>

7 Other financial expenses

DKK'000	<u>2020</u>	<u>2019</u>
Interest expense, group entities	636	460
Other interest expenses	366	103
Exchange adjustments	45,667	3,931
	<u>46,669</u>	<u>4,494</u>

8 Tax on profit for the year

DKK'000	<u>2020</u>	<u>2019</u>
Current tax for the year	67,892	34,201
Deferred tax for the year	-208	-347
	<u>67,684</u>	<u>33,854</u>

9 Proposed profit appropriation

DKK'000	<u>2020</u>	<u>2019</u>
Proposed dividends for the year	250,173	111,833
Retained earnings	0	0
	<u>250,173</u>	<u>111,833</u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

10 Intangible assets

DKK'000	<u>Licenses</u>	<u>Acquired patents</u>	<u>Goodwill</u>	<u>Development projects in progress and prepayments for intangible assets</u>	<u>Total</u>
Cost at 1 January 2020	59,984	55,255	2,000	12,181	129,420
Additions for the year	32,372	0	0	11,757	44,129
Disposals for the year	-1,358	0	0	0	-1,358
Transfers for the year	<u>7,162</u>	<u>0</u>	<u>0</u>	<u>-7,162</u>	<u>0</u>
Cost at 31 December 2020	<u>98,160</u>	<u>55,255</u>	<u>2,000</u>	<u>16,776</u>	<u>172,191</u>
Amortisation and impairment losses at 1 January 2020	-31,502	-55,255	-2,000	0	-88,757
Amortisation for the year	-11,467	0	0	0	-11,467
Amortisation and impairment losses for the year on assets sold	<u>828</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>828</u>
Amortisation and impairment losses at 31 December 2020	<u>-42,141</u>	<u>-55,255</u>	<u>-2,000</u>	<u>0</u>	<u>-99,396</u>
Carrying amount at 31 December 2020	<u><u>56,019</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>16,776</u></u>	<u><u>72,795</u></u>

11 Property, plant and equipment

DKK'000	<u>Fixtures and fittings, tools and equipment</u>	<u>Property, plant and equipment under construction</u>	<u>Total</u>
Cost at 1 January 2020	162,375	3,694	166,069
Additions for the year	14,550	2,196	16,746
Disposals for the year	-64,667	0	-64,667
Transfers for the year	<u>1,116</u>	<u>-1,116</u>	<u>0</u>
Cost at 31 December 2020	<u>113,374</u>	<u>4,774</u>	<u>118,148</u>
Depreciation and impairment losses at 1 January 2020	-129,433	0	-129,433
Depreciation for the year	-20,622	0	-20,622
Depreciation and impairment losses for the year on assets sold	<u>64,138</u>	<u>0</u>	<u>64,138</u>
Depreciation and impairment losses at 31 December 2020	<u>-85,917</u>	<u>0</u>	<u>-85,917</u>
Carrying amount at 31 December 2020	<u><u>27,457</u></u>	<u><u>4,774</u></u>	<u><u>32,231</u></u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

12 Investments

DKK'000	Other long-term receivables	Deposits, investments
Cost at 1 January 2020	0	12,445
Additions for the year	363	2,024
Disposals for the year	0	-883
Cost at 31 December 2020	<u>363</u>	<u>13,586</u>
Carrying amount at 31 December 2020	<u><u>363</u></u>	<u><u>13,586</u></u>

13 Deferred tax assets

DKK'000	31/12 2020	31/12 2019
Deferred tax at 1 January	-9,817	-9,461
Deferred tax adjustment for the year in the income statement	-208	-557
Tax on equity transactions	<u>-6,737</u>	<u>201</u>
Deferred tax at 31 December	<u><u>-16,762</u></u>	<u><u>-9,817</u></u>
Provisions for deferred tax relate to:		
Intangible assets	-58	-117
Property, plant and equipment	5,134	402
Inventories	-10,702	-6,387
Provisions	-4,115	-3,431
Other taxable temporary differences	<u>-7,021</u>	<u>-284</u>
	<u><u>-16,762</u></u>	<u><u>-9,817</u></u>

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

14 Prepayments

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

15 Equity

Contributed capital consists of:

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

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

16 Non-current liabilities

DKK'000

Holiday pay obligation

	31/12 2020	31/12 2019
	34,294	11,821
	<u>34,294</u>	<u>11,821</u>

17 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 of L'Oréal S.A.

18 Contractual obligations, contingencies, etc.

Contingent liabilities

In 2020, the operational model for L'Oréal in the Nordic region was changed, whereas L'Oréal Danmark A/S now also acts as entrepreneur in Sweden, Norway and Finland, and L'Oréal Sverige AB, L'Oréal Norge AS and L'Oréal Finland OY acts as low-risk distributors for L'Oréal Danmark A/S in their respective local markets. The low-risk distributors receive arm's length remuneration, which for 2020, is set at EBIT of 5%. Following this change in operational model, the cost and inventory structure have also changed. As a result thereof and in order to obtain certainty of the arm's length remuneration between the entities, L'Oréal Danmark A/S has together with each of three other entities individually, applied for an advanced pricing agreement between Denmark and individually with Sweden, Norway and Finland. As of the balance date, the advanced pricing agreement is still being reviewed by the competent tax authorities.

Following the change of operational model and L'Oréal Danmark A/S' applications for advanced pricing agreements between Denmark and Sweden, Norway and Finland which are still under review from the competent tax authorities, it is uncertain whether L'Oréal Danmark A/S will be liable for indemnifying the affiliated entities L'Oréal Sverige AB, L'Oréal Finland OY and L'Oréal Norge for the transfer of functions and risks. The total indemnification is expected to an amount between DKK 0 and DKK 111.6 million. Due to the uncertainty of an indemnification, as the Danish competent tax authorities and the corresponding competent tax authorities in Sweden, Finland and Norway haven't yet agreed upon an indemnification, we haven't recognized acquired similar rights under assets, the corresponding amortization and the payable to the Group Companies.

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

Other financial obligations

DKK'000	2020	2019
Rent and lease liabilities	86,113	52,880
	<u>86,113</u>	<u>52,880</u>

Rent and lease liabilities include rental and lease commitments due within 1 year totalling DKK 28,506 thousand (2019: DKK 25,481 thousand) and commitments due between 1 and 5 years totalling DKK 57,607 thousand (2019: DKK 27,399 thousand). The Company has no rental and lease commitments due after 5 years.

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

Other payables and securities include negative and positive fair value of derivative financial instruments of net DKK 34,787 thousand. Derivative financial instruments have been entered into to hedge exchange rate exposure of future purchases of DKK 357,325 thousand divided primarily between the currencies EUR, SEK and PLN. Forward exchange contracts expire between January 2021 and December 2021.

20 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 Royale 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 Royale 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 Royale 14, FR-75008 Paris, France

L'Oréal Danmark A/S
Annual report 2020
CVR no. 70 71 02 18

Financial statements 1 January – 31 December

Notes

21 Other adjustments

DKK'000	<u>2020</u>	<u>2019</u>
Tax on profit for the year	67,684	33,854
Depreciation	32,089	29,681
Financial income/expense	-726	1,555
Exchange rate adjustments	<u>-30,362</u>	<u>713</u>
	<u>68,685</u>	<u>65,803</u>

22 Changes in working capital

DKK'000	<u>31/12 2020</u>	<u>31/12 2019</u>
Changes in working capital		
Change in inventories	-18,024	8,362
Change in receivables	-118,680	-93,792
Change in trade payables etc	<u>51,055</u>	<u>74,766</u>
	<u>-85,649</u>	<u>-10,664</u>