HEALTH & BEAUTY

2022

ANNUAL REPORT

LR GLOBAL HOLDING GMBH

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

LR GLOBAL HOLDING GMBH, AHLEN
BALANCE SHEET AS AT 31 DECEMBER 2022

kEUR	Dec. 31, 2022	Dec. 31, 2021
NON-CURRENT ASSETS		
Intangible assets	0	0
Property, Plant and Equipment	13	17
thereof Other equipment, office and operating equipment	13	17
Financial assets	192,115	192,115
thereof Shares in affiliates	192,115	192,115
	192,128	**192,132**
CURRENT ASSETS		
Receivables and other assets	159,290	152,924
thereof Trade receivables	0	1
thereof Receivables from shareholders	500	1,090
thereof Receivables from affiliates	157,632	150,565
thereof Other assets	1,158	1,268
Cash at hand and at banks	0	0
	159,290	**152,924**
PREPAID EXPENSES	**38**	**42**
DEFERRED TAX LIABILITIES	**0**	**0**
TOTAL ASSETS	**351,456**	**345,098**

LR GLOBAL HOLDING GMBH, AHLEN
BALANCE SHEET AS AT 31 DECEMBER 2022

kEUR	Dec. 31, 2022	Dec. 31, 2021
EQUITY		
Subscribed capital	25	25
Capital reserve	152,430	152,430
Accumulated loss	-23,897	-19,854
	128,558	**132,601**
PROVISIONS		
Tax provision	7,342	6,136
Other provisions	1,321	1,422
	8,663	**7,558**
LIABILITIES		
Liabilities from corporate bond	126,023	125,806
Trade payables	73	1,512
Liabilities to shareholders	500	0
Liabilities to affiliates	83,537	73,690
Other liabilities	618	1,098
	210,751	**202,106**
DEFERRED TAX LIABILITIES	**3,484**	**2,833**
TOTAL EQUITY AND LIABILITIES	**351,456**	**345,098**

FINANCIAL STATEMENTS

LR GLOBAL HOLDING GMBH, AHLEN
STATEMENT OF PROFIT OR LOSS FOR 2022

kEUR	FY 2022	FY 2021
Revenue	16,358	11,761
Other operating income	2,266	51,608
	18,624	**63,369**
Personnel Expenses	15,144	10,517
thereof wages and salaries	12,886	9,281
thereof social security, pension and other benefit costs	2,258	1,236
Amortization and Depreciation of intangible assets and property, plant and equipment	5	14
Other Operating Expenses	4,289	6,632
	19,438	**17,163**
Income from investments	5,025	12,984
Other interest and similar income	4,305	3,762
Other interest and similar expenses	10,192	14,460
	-862	**2,286**
Income taxes	**2,367**	**4,847**
NET PROFIT/LOSS FOR THE PERIOD	**-4,043**	**43,645**

LR GLOBAL HOLDING GMBH, AHLEN
STATEMENT OF CASH FLOWS FOR 2022

kEUR	FY 2022	FY 2021
CASHFLOW FROM OPERATING ACTIVITIES		
Profit or loss for the period	-4,043	43,644
Amortization and depreciations (+) and write-up (-) on fixed assets	5	-50,301
Reduction (-)/Increase (+) in provisions	-101	-441
Increase (-)/Reduction (+) of inventories, trade receivables or other assets	2,967	-43,555
Increase (+)/Reduction (-) of trade payables and other liabilities	7,825	10,724
Interest expenses (+)/interest income (-)	861	-2,286
Income tax expenses (+)/income (-)	2,368	4,847
Income tax paid (-)	-510	-1,210
	9,372	**-38,578**
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for (-) investments in intangible assets	0	-7
Payments for (-) investments in property, plant and equipment	0	-7
	0	**-14**
CASH FLOW FROM FINANCING ACTIVITIES		
Payments from (+) the issue of bonds	0	125,000
Proceeds (+) from equity contributions	0	5,000
Repayment (-) of shareholder loan	0	-40,400
Repayments (-) of (finance) loans	0	-43,306
Payments (-) for interest	-9,372	-7,702
	-9,372	**38,592**

MANAGEMENT REPORT

MANAGEMENT REPORT

LR GLOBAL HOLDING GMBH, AHLEN / GERMANY

COMBINED MANAGEMENT REPORT ON THE COMPANY AND THE GROUP FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2022

A. FUNDAMENTALS OF THE GROUP

LR Global Holding GmbH, domiciled at Kruppstrasse 55 in 59227 Ahlen, Germany (hereinafter also referred to as LR Global), is an intermediate holding company with administrative functions. Since March 2013, it has performed various business enablement functions for the LR Group (e.g., controlling, finance). It bills the services rendered on to the group companies.

The LR Health & Beauty Group (hereinafter referred to as the LR Group, LR or the Group) and its parent company LR Global Holding GmbH (hereinafter referred to as the LR Global) is an internationally operating enterprise with a primary focus on cosmetics and dietary supplements. The LR Group is represented with 32 companies worldwide. The Group's production site supplying all subsidiaries is in Ahlen (Germany). Research and development are also implemented exclusively in Germany.

The LR Group markets its products through direct sales, with marketing plans focused on the European and Asian markets. The product range comprises dietary supplements, perfumes, cosmetics, cosmetic devices and accessories. The Company's business is primarily determined by private consumption and the pertinent cosmetics and food laws.

The obligation to prepare consolidated financial statements for LR Global Holding GmbH as parent company arose only with the acquisition of the LR Group at the closing date on March 7, 2013.

LR Global Holding GmbH was transferred to its current parent company LR Health & Beauty SE, Munich, in a non-cash contribution by resolution dated November 30, 2021, and is now included in the latter's consolidated financial statements.

On March 31, 2023, the Group's consolidated financial statements were prepared by the management and subsequently submitted to the shareholders' meeting for approval. The ultimate controlling parent company is Aloco Holding S.à r.l., with registered office in Luxembourg, Luxembourg.

B. BUSINESS REPORT

Overall economy and sector development

After the global economy weakened by more than –3% in 2020 in the wake of the Corona pandemic, the International Monetary Fund[1] (IMF) reports that a significant recovery was already underway in 2021, with growth of 6.2%, despite the ongoing lockdowns, particularly in the first half of the year. In 2022, this upturn cooled off again significantly, with the outbreak of war in Ukraine in particular impacting global economic output, which the IMF estimates to have increased by only 3.4%.

In the euro zone, the most important market for the LR Group, the negative economic effects of the Corona pandemic in 2020 were even more significant than the global average, with a decline in real gross domestic product of –6.4%. With a recovery in 2021 +5.2%, economic output in the euro zone has not returned to pre-crisis levels. According to IMF estimates, economic output in the eurozone will still increase by 3.5% in 2022, despite the war in Europe, high inflation rates and declining consumer confidence. The estimate for Germany, the most important LR market, is significantly below average with a plus of only 1.9%.

In other markets important to the LR Group, the development of real GDP was more positive over the two pandemic years. According to the IMF, after the weakening of economic output in 2020 by –2.7%, Russia again recorded economic growth of +4.7% in 2021, thus exceeding the overall pre-crisis level. The outbreak of war and the subsequent sanctions imposed by the West and counter-sanctions by Russia finally led to a reversal of the positive trend. According to IMF estimates, economic output in Russia declined by –2.2%. In South Korea, an important future market for the LR Group, economic development was positive again at +4.1% in 2021 after a slight slowdown of -0.9% in the first corona year. According to IMF estimates, this positive trend could be maintained in a slightly weakened form in 2022 at +2.6%.

According to the World Federation of Direct Selling Association (WFDSA), direct selling recorded slight sales growth worldwide of +2.3% in 2020 and +1.5% in 2021. Both years saw significantly declining sales in the Chinese market – one of the world's largest direct selling markets (China's share of the total direct selling market 11.2% in 2020 and 9.7% in 2021). Adjusted for this effect, the development of direct selling would be estimated to be even more dynamic at +6.0% and +3.3%. In Europe, the core market of the LR Group, the development was less dynamic with a market growth of +0.1% in 2020 and +3.0% in 2021, but nevertheless following a steady positive trend. At the time of preparing this management report, there are no valid data on the development in 2022. However, LR assumes that the positive trend of recent years will be interrupted for the time being in 2022 with the outbreak of the war in Ukraine. This assessment is based on the largely declining sales figures of competitors subject to reporting requirements.

Production

The production facility for aloe vera drinking gels, set up jointly with the Theodor F. Leifeld-Stiftung, has been producing and bottling a substantial amount of dietary supplement products in Ahlen since 2018. With this step, the LR Group is consistently implementing its strategic commitment to the quality promise "Made in Germany."
In addition, the Company is further strengthening the profitability of this important product category. Most of the cosmetics and care products are also produced at the Ahlen site.
In addition, contracts have been concluded with several suppliers. Decorative cosmetics and cosmetic devices are purchased as merchandise in Europe, accessories in Southeast

[1] World Economic Outlook Update, January 2023

MANAGEMENT REPORT

Asia. The production and the dispatch line in Ahlen are designed for multi-shift operation. Staff shortages are covered by temporary workers. In 2021, the foundations for a new logistics building were laid, which is likewise being built by the Theodor F. Leifeld-Stiftung and will be used for a newer and more modern logistics system in the future.

Research and development
In its laboratories, the LR Group develops products for safeguarding and further expanding its market position, mainly in the field of cosmetics and dietary supplements. In addition to the application-oriented research and product developments, the focus is on contacting and negotiating with approval and monitoring authorities which have a significant influence on the launch of new products. In 2022, the focus was also on the enhancement of digital solutions to support the sales partners.

Research and development expenditure in the financial year amounted to kEUR 2,736 (PY: kEUR 2,600).

Furthermore, own development costs for self-developed intangible assets in the amount of kEUR 523 (PY: kEUR 1,854) were capitalized. Amortization of capitalized development costs amounted to kEUR 1,288 in the 2022 financial year (PY: kEUR 1,373).

Headcount
During the 2022 financial year, the Group employed an average headcount of 1,261 (PY: 1,295), of which 737 (PY: 765) can be allocated to the German subsidiaries and thereof 219 (PY: 114) to the LR Global Holding GmbH.

In 2022, an average of 17 trainees were employed in the vocational fields of management assistant for marketing communications, IT specialist in system integration, industrial clerk, digital and print media designer, IT specialist in application development, warehouse logistic specialist as well as mechatronics engineer. In general, permanent employment after successful completion of the apprenticeship is envisaged.

Furthermore, a trainee program for university graduates started in 2020. An average of nine trainees in the divisions Global Finance, Global Project Management, Logistics, Marketing, New Markets, Sales Management and SCM International took part in this program in 2022. Of these, a total of 6 trainees have been taken on in the relevant divisions in 2022.
In addition, the LR Group has introduced a dual study program, which started with the first two participants in the field of business administration in 2021. In 2022, two more participants were also recruited for a dual study program in business administration, and two places are again planned for the following year.

C. IMPORTANT FINANCIAL PERFORMANCE INDICATORS

In order to analyze the course of business and the Group's position, sales (revenue from sold goods) and EBITDA are used as financial performance indicators for management purposes and are compared with the previous year's forecasts for the reporting period.
In addition, the LR Group uses normalized EBITDA as a performance indicator to assess the profitability of its operating business. The aim of this key figure is to calculate EBITDA adjusted for one-off, non-recurring and unusual operating expenses and income and, if necessary, adjusted on a pro forma basis.

D. IMPORTANT NON-FINANCIAL PERFORMANCE INDICATORS

Apart from financial indicators, the LR Group's business value is also determined by non-financial indicators, concerning the relationships of the Company with its partners and employees as well as the product strategy. The LR Group is aware that this goal can only be achieved if it is able to retain competent and committed employees in the long term as an attractive and responsible employer, and it develops products and solutions which meet the customers' requirements in the future. The Company attaches major importance to sustainably increasing the benefit for partners through its product and service offers.

E. POSITION OF THE GROUP

The entire assets, liabilities, financial position and financial performance of the LR Group can be illustrated by the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

Financial performance LR Group
The strong growth course that had already begun in financial year 2019 and was significantly increased over the Corona years in 2020 and 2021 could not be continued in 2022. This was driven in particular by the very different macroeconomic conditions in the respective periods. Supported by exceptionally strong growth in financial year 2020 and the last major lockdowns in several countries, six consecutive monthly sales records were achieved in the first half of 2021. As a result, the first half of 2021 marked the highest sales levels in LR's history. Without these strong supporting conditions, sales performance in January and February 2022 was below 2021 levels but still above 2020 levels, in line with LR Group expectations. With the outbreak of the war in Ukraine, sales (revenue from goods sold) in March 2022 decreased by –23.7% year-on-year.

The Ukrainian subsidiary in Kiev had to be temporarily closed, and further negative effects of the uncertain situation were also felt in other markets, especially in neighboring countries, but also in Central and Western Europe. In addition, high inflation and the resulting change in consumer behavior contributed to the decline in sales.

Since the unexpected sales drop in March, the LR Group has been working on stabilizing the sales development. While the year-on-year decline in sales in the second quarter of 2022 was still –14.6%, the gap was already reduced to –3.7% in the third quarter. In the fourth quarter, which is traditionally very consumer-driven with the Christmas business, the year-on-year sales gap was further reduced to –3.5% despite the significantly weaker consumer climate.

A particularly important building block along the way was the launch of the new patented Zeitgard Pro for innovative facial care in September. It is the most successful product launch in recent years and offers not only high quality for the user, but also a wide range of business opportunities for our sales partners. In addition, the relaunch of the Fast Track Bonus strengthened our sales partners and thus also contributed significantly to the positive sales development.

The sales (revenue from sold goods) amounted to kEUR 269,441 in the financial year 2022 (PY: kEUR 296,239). Of this amount, kEUR 114,280 (PY: kEUR 120,944) is attributable to Region 1[2], kEUR 64,402 (PY: kEUR 80,945) to Region 2[2], and kEUR 89,082

(PY: kEUR 93.421) to Region 3[2]. In addition, there are other sales of kEUR 12,263 (PY: kEUR 12,400), which mainly result from the on-charging of other services to our sales partners. This results in revenues before sales deductions of kEUR 281,704 (PY: kEUR 308,639) and after sales deductions of kEUR 268,309 (PY: kEUR 292,940).

Compared to the previous year, other operating income increased significantly from kEUR 8,673 to kEUR 21,614 in the financial year 2022. This is mainly driven by a significant increase in gains from currency translation from kEUR 5,006 to kEUR 14,900. This includes an effect of kEUR 2,358 from the first-time application of IAS 29 in connection with the hyperinflation in Turkey. The further increase in gains from currency translation is due to the different development of the exchange rates of the main Group currencies in the financial year. However, these high gains from currency translation are simultaneously offset by high expenses from currency translation amounting to kEUR −13,269 (PY: kEUR −5,432), which were reported under other operating expenses. In total, this would result in a positive effect from currency translation of only kEUR 1,631 (PY: kEUR −426).

Cost of materials, as a percentage of overall performance[3], amounts to 18.4% (PY: 19.2%) and is subject to periodic fluctuations caused by seasonality and sales activities during the year.

Personnel expenses decreased from kEUR 54,162 to kEUR 52,678. As a result of the drop in sales following the outbreak of war, various cost-cutting measures were taken, including a temporary hiring freeze, and even thereafter vacant positions were not automatically refilled. This led to a reduction in the number of employees from 1,314 on December 31, 2021, to 1,236 on December 31, 2022, thus limiting the percentage increase in personnel costs in relation to total overall performance to 19.8% (PY: 18.3%).

The Group's other operating expenses are mainly composed of bonuses granted, license fees and distribution costs, as well as selling, consulting and administrative expenses and losses from currency translation. The latter increased significantly from kEUR −5,432 to kEUR −13,269; this is offset by gains from currency translation, resulting in a net positive effect from currency translation of kEUR 1,631 (previous year: kEUR −426) (see section on other operating income). Despite this significant increase in losses from currency translation, other operating expenses were reduced from kEUR 157,462 in the financial year 2021 to kEUR 154,561 in the financial year 2022. The main drivers for this reduction were, on the one hand, various cost-cutting measures implemented after the drop in sales following the start of the war in Ukraine and, on the other hand, the lower bonuses granted due to the lower sales.

Compared to the previous year, EBITDA[4] decreased from kEUR 36,793 to kEUR 31,279. The main reason for this was the decline in sales in the reporting period. Taking into account normalizations of one-time, non-recurring and extraordinary operating expenses, such as expenses in connection with the listing of the corporate bond, totaling kEUR 4,979 (PY: kEUR 4,859), normalized EBITDA amounts to kEUR 36,258 (PY: kEUR 41,652).

Depreciation and amortization decreased slightly from kEUR 14,833 to kEUR 14,229 in the financial year 2022, in particular due to the ending depreciation cycle on the capitalized consultant workforce in March 2022. This results in EBIT[5] of kEUR 17,050 (PY: kEUR 21,960).

[2] The breakdown of regions has changed as of Jan. 1, 2022; for better comparability, the prior-year figures have also been converted to the new structure:
- Region 1 consisting of Austria, Belgium, Germany, Luxembourg, Netherlands and Switzerland
- Region 2 consisting of Italy, Poland, Portugal, Slovakia, Spain, Czech Republic and Ukraine
- Region 3 consisting of Albania, Bulgaria, Cyprus, Denmark, Finland, France, Greece, Hungary, Kazakhstan, Norway, Romania, Russia, Sweden and Turkey.

The financial result of kEUR −12,011 (PY: kEUR −24,139; influenced by the refinancing activities in 2021 and valuation effects) is characterized by the interest payments for the bond in the amount of kEUR 9,372, which increased with the 3M Euribor.

This results in earnings before taxes for the Group of kEUR 5,039 (PY: kEUR −2,179) for the financial year 2022 and, after deduction of income taxes of kEUR 4,248 (PY: kEUR 6,525), an after-tax result of kEUR 791 (PY: kEUR −8,704). After offsetting the other comprehensive income of kEUR −1,246 (PY: kEUR 430), the overall result is kEUR −455 (PY: kEUR −8,274).

With the outbreak of the war in Ukraine, exceptionally sharp increases in inflation rates, declining consumer sentiment, and ongoing difficulties in the global logistics market, the 2022 financial year was characterized by very difficult conditions. Nevertheless, the LR Group was able to achieve its forecast for sales (revenue from sold goods) published after the outbreak of the war at the upper end of the range and even exceed the forecast in EBITDA.

Assets, liabilities, and financial position LR Group

As of December 31, 2022, total assets amounted to kEUR 235,507 (PY: kEUR 231,018), of which kEUR 148,816 (PY: kEUR 149,304) relate to non-current assets. Therein property, plant and equipment decreased only slightly to kEUR 13,048 (PY: kEUR 13,620). Rights of use decreased from kEUR 18,214 to kEUR 16,214, due in particular to a lower number of newly concluded car leasing contracts. The largest position under non-current assets is intangible assets, which increased slightly from kEUR 115,859 to kEUR 118,186. The main item here is goodwill of EUR 101,522 k, which did not change during the reporting period. The increase in intangible assets results primarily from the capitalization of an ongoing IT project to renew the ERP (Enterprise Resource Planning) system and the web shop.

Current assets totaled kEUR 86,691 (previous year: kEUR 81,714). Inventories were built up in the course of fiscal year 2021 due to the difficult situation in the global logistics market and were reduced again in the reporting period. This resulted in a significant reduction compared to the previous year from kEUR 29,599 to kEUR 25,781. Trade receivables are slightly above the previous year's level at kEUR 10,675 (PY: kEUR 10,209). Other assets mainly consist of receivables from the tax office, periodic accrued expenses, as well as other receivables and decreased from kEUR 11,621 to kEUR 9,860 in 2022. This reduction is composed, among other things, of the reduction in prepayments made in the amount of kEUR 461 and decreased receivables from shareholders in the amount of kEUR 512.

Capital is allocated centrally via LR Global Holding GmbH, which provides the Group companies with liquidity and manages the issuing of guarantees and letters of comfort for Group companies. The Group is largely a single financial entity.

Cash increased to an exceptionally high level of kEUR 39,139 (PY: kEUR 30,033) as of the reporting date. This was supported by the conclusion of a sale and leaseback agreement for the headquarters building in Ahlen, Germany, with a sales price of kEUR 9,000. In addition, payments for income tax for the profitable years 2020 and 2021 will only become due in the course of the first half of 2023 and will thus not burden the cash level at the end of 2022.

The liabilities side was already fundamentally restructured in 2021. Equity was significantly improved by the contribution of the shareholder loans at the end of November 2021. Accordingly, the capital reserve increased significantly and total equity including non-controlling interests totaled kEUR 29,537 as of December 31, 2021. In the financial year 2022, equity

[3] Overall performance comprises revenues and changes in finished goods and work in progress.
[4] Earnings before interest, taxes, depreciation and amortization
[5] Earnings before interest and taxes

decreased in particular by the slightly negative comprehensive income of kEUR 455 and amounts to kEUR 29,087 as of December 31, 2022.

Following the restructuring of the liabilities side in the financial year 2021, the liabilities are mainly characterized by the corporate bond. On January 27, 2021, LR Global Holding GmbH issued a corporate bond of EUR 125 million. The senior secured bond was issued in a private placement to institutional investors mainly in Germany and other European countries. The bond was issued in the “Nordic bond format” in accordance with Swedish law and with the involvement of Nordic Trustee & Agency AB as trustee. Trading on the Open Market of the Frankfurt Stock Exchange commenced on February 3, 2021, and the bond has also been listed on the regulated market of NASDAQ Stockholm since January 26, 2022. The interest rate is composed of the 3M Euribor (with a floor of 0%) and a premium of 7.25 percentage points. The bond has a four-year duration and has a final maturity on February 3, 2025. The carrying amount in the Group[6] of the corporate bond of kEUR 124,571 corresponds to the issue amount less the commission recognized, which is being added back pro rata over the term of the bond.

Compared to the previous year, provisions decreased from kEUR 6,473 to kEUR 5,147. Of this amount, kEUR 500 (PY: kEUR 391) relates to non-current provisions and kEUR 4,647 (PY: kEUR 6,082) to current provisions. The decrease in current provisions is mainly due to the utilization for the organization of partner events following the removal of Corona-related restrictions.

Lease liabilities totaled kEUR 16,990 and were thus below the previous year’s level of kEUR 18,624. Of this amount, kEUR 10,637 (PY: kEUR 12,022) relates to non-current and kEUR 6,353 (PY: kEUR 6,602) to current lease liabilities.

In the reporting period, a sale and leaseback agreement was concluded for the headquarters building in Ahlen, Germany. For settlement purposes, a special purpose vehicle (Divanno Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG) acting as buyer and lessor was used and is fully consolidated. The purchase price amounted to kEUR 9,000 and the lease agreement was concluded for 20 years with an option for a further 10 years. Due to the corresponding bank loan agreement concluded by the special purpose vehicle at favorable conditions (interest rate 2.5% p.a.), EUR 8,469k is reported under liabilities to financial institutions within non-current liabilities and EUR 356k under liabilities to financial institutions within current liabilities.

At kEUR 31,062, trade payables decreased moderately compared to the previous year's figure of kEUR 33,410. This is due in particular to the reduction in inventories.

At kEUR 9,036, other liabilities are slightly below the previous year’s level of kEUR 9,658. In contrast, tax liabilities increased further from kEUR 6,687 to kEUR 7,627. This includes, in particular, income tax payments from the profitable fiscal years 2020 and 2021, which will become due in the first half of 2023.

In the 2022 financial year, the operating cash flow amounted to kEUR 24,248 (PY: kEUR 25,361). All major factors affecting operating cash flow, such as profit, depreciation and amortization, interest expenses, changes in inventories or trade receivable and trade payables, are described in Financial performance LR Group and Assets, liabilities, and financial position LR Group. The cash flow from investing activities amounted to kEUR −6,022 (PY: kEUR −5,583) and thus increased slightly compared to the previous year.

[6] Capitalized value of the bond in the Group according to IFRS different from the capitalized value in LR Global Holding accounted according to German accounting standard (Handelsgesetzbuch)

This results in a free cash flow[7] of kEUR 18,226 (PY: kEUR 19,778). The cash flow from financing activities amounted to kEUR −10,217 (PY: kEUR −22,339; influenced by refinancing activities in 2021 and valuation effects) and also includes kEUR 9,000 from the new concluded sale-and-leaseback agreement.

The LR Group ensures that it can fulfill its obligations at all times. Its business activities create the basis for its ability to generate sustainable cash flows. The bond market is another major source of funding. See the above explanations in this regard. In addition, there is a guarantee facility agreement in the amount of kEUR 2,000, of which kEUR 1,564 had been utilized as of the balance sheet date.

F. POSITION OF THE LR GLOBAL HOLDING GMBH

The entire assets, liabilities, financial position, and financial performance of the LR Group can be illustrated by the financial statements prepared in accordance with German accounting standards (Handelsgesetzbuch).

Financial performance LR Global

Revenue came to kEUR 16,358 in the 2022 financial year (PY: kEUR 11,761) and mainly stemmed from cost allocations to LR Health & Beauty Systems GmbH, Ahlen, for services rendered. Following an internal Group reorganization towards the end of 2021, more personnel were assigned to LR Global, and as a result more services are charged on to LR Health & Beauty Systems GmbH.

Other operating income amounted to kEUR 2,266. The extraordinarily high amount of kEUR 51,608 in the previous year resulted mainly from a reversal of an impairment loss of kEUR 50,315 on the book value of the equity investment.

Personnel expenses increased from kEUR 10,517 to kEUR 15,144 in the reporting period. This strong increase compared to the previous year results from the internal Group reorganization, which was completed in the fourth quarter of 2021. As part of this, a significant number of employees were assigned to LR Global Holding GmbH, while the number of employees at LR Health & Beauty Systems GmbH decreased accordingly. Compared to the end of the third quarter of 2021, the number of employees at LR Global increased from 76 to 214 at the end of fiscal 2022.

Other operating expenses at LR Global, including legal and consulting fees, vehicle expenses and travel expenses, amounted to kEUR 4,289 in the financial year, a significant reduction on the previous year's figure of kEUR 6,632. This is due in particular to the expenses incurred in the previous year as a result of the bond issue. Depreciation and amortization amounted to kEUR 5 (PY: kEUR 15).

The financial result of kEUR −862 (PY: kEUR 2,286) includes interest expenses of kEUR 10,192, thereof kEUR 9,589 from the corporate bond, interest income from LR Health & Beauty Systems Beteiligungs GmbH of kEUR 4,305 and the investment income of kEUR 5,025 (PY: kEUR 12,984) resulting from the profit and loss transfer agreement with LR Health & Beauty Systems Beteiligungs GmbH.

After income taxes of kEUR 2,367 (PY: kEUR 4,847), the net loss for the year was kEUR −4,043 (PY: kEUR 43,645; the extraordinarily high amount in the previous year resulted mainly from the reversal of impairment losses).

[7] Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities

Assets and liabilities LR Global
On the assets side, of total assets of kEUR 351,456 (PY: kEUR 345,098) as of December 31, 2022, non-current assets represent 54.7% (PY: 55.7%) and current assets 45.3% (PY: 44.3%). Non-current assets totaling kEUR 192,128 (PY: kEUR 192,132) consist mainly of the shares in LR Health & Beauty Beteiligungs GmbH, Ahlen, totaling kEUR 192,115 (PY: kEUR 192,115), which were acquired as part of the company purchase on March 7, 2013. Current assets amounted to kEUR 159,290 as of December 31, 2022, (PY: kEUR 152,924) and mainly consist of receivables from affiliated companies. These mainly result from receivables from LR Health & Beauty Systems Beteiligungs GmbH, Ahlen, from distributions, accrued interest and the on-charging of services provided exclusively for LR Health & Beauty Systems GmbH, Ahlen. At the end of the financial year, receivables from shareholders still amounted to kEUR 500 (PY: kEUR 1,090) and other assets to kEUR 1,158 (PY: kEUR 1,268).

The equity and liabilities side was already fundamentally restructured in 2021. In the process, equity was significantly strengthened, so that equity of kEUR 132,601 was reported as of December 31, 2021. Reduced by the accumulated loss of the financial year 2022, the equity of LR Global amounts to kEUR 128,558 as of December 31, 2022.

Provisions comprise tax provisions of kEUR 7,342 (PY: kEUR 6,136) and other provisions of kEUR 1,321 (PY: kEUR 1,422), including provisions for litigation costs, personnel expenses, audit fees, contributions to the Chamber of Industry and Commerce and outstanding supplier invoices.

Following the restructuring of the liabilities side in the financial year 2021, liabilities are mainly characterized by two items. These are, firstly, liabilities to affiliated companies amounting to kEUR 83,537 (PY: kEUR 73,690) resulting mainly from the cash-pooling agreement with LR Health & Beauty Systems GmbH, Ahlen, amounting to kEUR 83,384 (PY: kEUR 73,562) and, secondly, liabilities from the corporate bond[8] amounting to kEUR 126,023 (PY: kEUR 125,806).

The corporate bond issued on February 3, 2021, is senior secured and covered by various covenants. These include a financial covenant relating to the leverage ratio (net interest-bearing debt to EBTIDA of the Group as defined in the bond terms). All covenants and other agreements were duly complied with in the reporting year. The collateral has been deposited with the trustee Nordic Trustee & Agency AB, Stockholm, Sweden, and can be realized in the event of a breach of the bond conditions.

- Shares of selected companies of the Group (kEUR 317,515)
- Cash at banks of selected companies of the Group (kEUR 30,123)
- The IP rights (trademarks) within the Group
- The stocks of selected companies of the Group (kEUR 17,877)
- The intercompany receivables of selected companies of the Group (kEUR 266,030)

Trade payables decreased from kEUR 1,512 to kEUR 73 compared to the previous year. Liabilities to shareholders amounted to kEUR 500 as of December 31, 2022, (PY: kEUR 0). Other liabilities amounted to kEUR 618 at the end of the reporting period (previous year: kEUR 1,098).

[8] Capitalization in LR Global according to German accounting standard (German Commercial Code) differing from capitalization in the Group according to international accounting standard (IFRS)

Aside from the corporate bond, the Company is financed through a cash pooling agreement in place between LR Global and the operating company, LR Health & Beauty Systems GmbH, which acts as the cash pool leader.

For the financial year 2022, the cash flow from operating activities amounts to kEUR 9,372 (PY: kEUR –38,577). All major factors affecting operating cash flow, such as profit, changes in trade receivables or changes in trade payables, are described in Financial performance LR Global and Assets and liabilities LR Global. No investments were made in LR Global, so the cash flow from investing activities amounts to kEUR 0 (previous year: kEUR –15). Cash flow from financing activities amounts to kEUR –9,372 (PY: kEUR 38,592; impacted by the refinancing activities in 2021 and valuation effects) and results from the interest payments for the corporate bond. Cash level remain unchanged at kEUR 0 as of December 31, 2022.

G. NON-FINANCIAL STATEMENT

As a capital market-oriented company, LR Global Holding GmbH is required to issue a non-financial statement in accordance with German accounting standards (Handelsgesetzbuch). This is done by publishing a separate report, the “Sustainability Report 2022”. It is published at the same time as the Annual Report and can be found at ir.lrworld.com.

H. REPORT ON RISKS AND OPPORTUNITIES

Risk management
The internal control system for the accounting process consists of the following subareas.

The Group’s internal rules on the preparation of financial statements and accounting (e.g. guidelines, circulars) are made available promptly to all employees involved. The consolidated financial statements are prepared in a uniform Group-wide reporting system. Reconciliation processes for Group-internal business transactions serve to prepare the corresponding consolidation steps. Central contact persons of the LR Group are also in continuous contact with the local subsidiaries in order to ensure IFRS-compliant accounting and compliance with reporting deadlines and obligations.

Information from the Group is gathered in Corporate Controlling/Group Controlling and is systematically and regularly evaluated via KPIs and reported to the management. Revenue is reported per country and region on a daily basis. Revenue and earnings forecasts are prepared regularly. Information on partner productivity (assessed by the number of orders and order value per partner), number of active partners as well as on product quality (assessed by the number of returns, value, article, and reason for return) are analyzed on an ongoing basis. A comprehensive reporting package including a statement of profit or loss, balance sheet, cash flow, revenue development by countries and product groups with analyses of deviations against the plan and previous year at Group level is also prepared on monthly basis for the management and the supervisory board of the LR Health & Beauty SE as the parent company of LR Global.

In addition, the LR Group records risks through the compliance department and the involvement of the operational managers within the context of the risk management system. The “TÜV Rheinland”-certified Compliance Management System serves to identify, assess and control internal and external risks at an early stage. The focus of risk identification is the risk inventory, which determines the main risks on an annual basis. The course of business and the opportunities and risks arising from current business are discussed in the meetings of the company management and the supervisory board. In principle, uniform guidelines apply to all business divisions, which are defined by the management of the LR Group and monitored by a central compliance system with the involvement of regional compliance delegates.

Business and market risks
The LR Group operates in a market characterized by a constant change in customer needs and the entry of potential competitors. In order to meet the needs of customers and to differentiate ourselves from potential competitors, new products and services are continually developed and existing products and services improved. Further business development and the success of the business model are based on private demand and the competitiveness of the overall offer (product and business opportunities) on the market. The drivers for future growth and thus business success are the number of new partners, improvement of reselling rates, a consistently good product quality, attractive business opportunities and compensation arrangements for partners as well as country and language-oriented optimization of offers. The proactive steering of the outlined success factors is intended to ensure a positive development of the sales partners, thus reducing the main risks for our business model.

The Group's ability to acquire partners and to maintain and grow sales through its partners can be impacted by negative publicity or a negative public perception of the Group, the Group's competitors, or the industry in general. The increase in the use of social and digital media increases the speed and scale at which information, including misinformation, and opinions can be spread. Negative public perception can also include negative publicity regarding the sales structure of major social selling companies and a negative perception of the business model or products of competitors. A large share of the LR Group's income from the sale of goods is generated with products containing aloe vera. Negative publicity about products containing aloe vera in general could lead to a decline in consumer interest and weaken LR's success factor aloe vera as a result.

The political situation in Europe, the Group's most important sales market, had been very stable over the last few years. This has changed with the escalation in the Russia-Ukraine conflict. The LR Group has one sales company in Ukraine and one in Russia, with the Russian company additionally serving the market in Kazakhstan. With the outbreak of war in Ukraine and the resulting sanctions for Russia, there are considerable risks for the further development of business in both countries.

The subsidiary in Ukraine had to be temporarily closed completely in the past year for safety reasons. The risk of a further closure cannot be ruled out for the new financial year either. In addition, there is also a financial risk regarding car leasing agreements that LR has with important sales partners in Ukraine, and which are mainly serviced from the ongoing bonus payments. The Russian market faces considerable risks in the current situation with extensive financial and economic sanctions. The highly volatile exchange rate makes planning difficult and, if unfavorable, can lead to sharp declines in profits from the Russian market. Maintaining payment transactions to and from Russia could be made difficult or almost impossible by further sanctions. In addition, the availability of products for the subsidiary in Russia also represents a risk due to the sanctions and difficult logistics. Likewise, further market risks in the countries and markets directly bordering Ukraine cannot be ruled out. Moreover, the political and economic developments are constantly monitored by the management in order to be able to actively respond to any deterioration in framework conditions.

Operative risks
Continuous control in line with the latest quality and safety regulations ensure top-quality and premium products. In addition to quality assurance of the existing product range, new and refined products are developed here as well. Considerable emphasis is placed on compliance with quality standards of the cosmetics and food regulations to reduce the product risk.

Most orders from partners and customers are placed online through the Group's IT platform. In addition, the LR Group is greatly dependent on IT systems to maintain its revenue streams, communicate efficiently with partners and to receive information on customer behavior and the sales patterns on various markets. This is especially significant against the backdrop of the current IT projects to enhance the mobile apps available to the partners, the Group website, ERP (enterprise resource planning) system and other administrative systems. Unplanned downtime of the Group's IT systems, including the ERP system, due to system failure, computer viruses, denial of service attacks or other reasons therefore poses a considerable risk. Due to the current changes in PCI-DSS requirements (Payment Card Industry Data Security Standard), IT systems must be converted and adapted, particularly in the area of credit card payments, through which a large proportion of sales are processed.

The focus of management is on securing the supply of goods and the supply chain to ensure the ability to deliver at all times. Especially, very precise demand planning plays an important role here, which on the one hand must take into account ensuring the ability to deliver, but on the other hand must not lead to excessive or possibly unsaleable inventories.

Payment default risks are reduced by the type of payment methods offered as well as by using credit ratings from external service providers. In addition, accounts receivables are continuously monitored in the operational business.

A significant share of the Group's revenue relates to products manufactured and/or packaged at the LR Group's production facilities in Ahlen, Germany. Unplanned downtime at the Group's production facilities due to plant outages, power cuts, natural disasters, supplier insolvency or other causes could impair the Group's ability to meet delivery requirements in part or in full. In addition, supplier failure or disruptions to supply chains could have significant negative effects on the manufacture and packaging of the Group's products. This is especially the case given the currently difficult situation in the global supply chains that emerged during the coronavirus pandemic and that has been further exacerbated by the war in Ukraine. The management's focus is on ensuring the supply of goods and upholding the supply chain to ensure the Group's ability to deliver at all times. In particular, very precise demand planning plays an important role here, which on the one hand must take into account ensuring the ability to deliver, but on the other hand must not lead to excessive or possibly unsaleable inventories.

Further operative risks that might significantly influence the Company are currently not known.

Financial market risks
Foreign currency risks exist with suppliers who deliver on USD basis. Currency hedging takes place in individual cases but was not carried out in the reporting period. Significant risks of price changes or default are not known. Foreign currency risks for deliveries to non-European countries are not minimized through financial measures but through shaping the economic conditions (i.e., "natural hedging"). In addition, there are exchange rate risks

for the LR Group due to business activities and net investments in subsidiaries from non-euro countries. The Group's top five non-euro markets in 2022 by sales (revenue from sold goods) were the Czech Republic (Czech koruna), Poland (Polish złoty), Russia / Kazakhstan (Russian ruble / Kazakh tenge), Bulgaria (Bulgarian lev) and Switzerland (Swiss franc).

The general increase in the interest rate level has already significantly increased interest expenses in the past fiscal year. The EUR 125 million corporate bond issued in spring 2021 uses the 3M Euribor as the interest rate benchmark for the variable interest rate, which rose significantly in the past fiscal year. For the first time since 2015, the 3M Euribor rose above 0% in July 2022 and had already exceeded the 2% mark by the end of 2022. If interest rates are sustained or continue to rise, future new and refinancing costs will also be affected.

The liquidity risk is regularly monitored based on budgetary planning. The Group's liquidity provision provides a sufficient risk buffer for unplanned payments.

Legal risks
In the course of our business activities, risks on our financial performance and financial position may arise from legal disputes, mainly with respect to competition, patent, tax or contract law, or product liability. These risks are actively addressed through internal guidelines and professional legal advice, and attempts are made to mitigate them in advance.

The Group currently operates in 28 countries, in which very different rules and regulations, e.g., concerning marketing and quality standards for cosmetics and food safety, can apply. Non-adherence to such rules and regulations as well as regulatory or statutory changes can result in existing or future licenses and approvals being revoked or not issued or in penalties being imposed or claims being asserted against the Group.

As part of its business activities, the Group uses IT systems in which it collects, uses, transfers, and stores personal data on its extensive partner and customer base, which comprises hundreds of thousands of people in all of the LR Group's markets. Data protection laws in the European Union are particularly comprehensive and complex, with a trend towards stricter enforcement of the requirements for the protection and confidentiality of personal data.

In addition, the various data protection authorities in the Member States of the European Union may interpret the applicable legislation differently. In principle, data protection legislation is a very dynamic area of law in which applicable directives and previous precedents are frequently revised, sometimes with limited or no consideration of the old equipment or systems in use. Infringements of data protection regulations can result in investigations and/or other actions by supervisory or other authorities, litigation, fines, sanctions, and damage to the LR brand.

Other regulatory factors that could have a negative impact on the Group include:

- The imposition of legal, tax or financial constraints on the Group or its partners that exert financial and/or structural pressure on the Group and its sales model
- Contesting the status of the partners as independent contractors rather than employees or a change in employment laws or regulations or the social security regulations relating to independent contractors, which could result in additional financial obligations, investigations and fines
- Trade defense actions and import or export licenses, restricting LR's options for selling its products
- Changes in trade or antitrust law or changes in the interpretation of trade or antitrust law in direct sales
- Unexpected amendments to laws, ordinances and administrative acts or court rulings, in particular with regard to food product laws, or amendments to guidelines that the Group or its suppliers are required to observe.

Strict compliance with the statutory stipulations in the dietary supplements field, especially after the entry into force of the Health Claims Regulation on July 1, 2007, are crucial for reducing risks. In connection with the general regulations applying to health and beauty products, the regulation of hydroxyanthracene derivatives (HAD), chemical substances that can occur naturally in products containing aloe vera, is an issue. The key regulation in this context is Regulation (EC) No 1925/2006 of the European Parliament and of the Council of 20 December 2006 on the addition of vitamins and minerals and of certain other substances to foods. In March 2021, this was amended by Commission Regulation (EU) 2021/468 and now contains a ban on the addition of HAD (and preparations containing HAD) to food, which, according to the wording of the regulation, would have been tantamount to an effective ban on the substance. After the amendment became effective, the Standing Committee on Plants, Animals, Food and Feed (PAFF) concluded that a certain number of parts per million (ppm), this being less than 1 ppm, can apply as a limit of quantification (LOQ) for deeming a substance to substantially contain no HAD. This interpretation was confirmed by the European Commission. The LR Group examines on a regular basis whether its products adhere to the limits specified in Regulation (EC) No 1925/2006 and has not identified any concentrations of HAD above 1 ppm to date.

The majority of the risks described are inherent in the business model, our products, our markets and our own production activities and are closely monitored accordingly.
In addition, newly emerging risks, such as those arising from changes in the geopolitical situation or legislative changes, are identified and assessed as quickly as possible and analyzed for possible countermeasures or safeguards. Overall, we currently see no risks jeopardizing the continuance of the Group.

Opportunities
On the one hand, many of the business and market risks described are offset by corresponding opportunities in the event of a positive development; on the other hand, certain risks are taken in order to exploit potential opportunities. This correlation with the main Group risks creates further opportunities for the LR Group.

Direct sales as a sales channel is becoming more attractive worldwide, thereby opening up future opportunities for the Company. In this environment, the LR Group is reinforcing its positioning as a social selling platform. In addition to the channel-specific advantages, LR also has opportunities on the product level since general trends such since anti-aging, healthy nutrition, etc. influence the growth of the categories.

In many markets in which the LR Group operates, inflation rates rose at an above-average rate last year (compared to previous years). Unless these price increases are offset by corresponding increases in wages and salaries, real income will fall. Without additional income, falling real incomes lead to a declining standard of living. According to a study[9] by the credit agency CRIFF, which was carried out in the important LR markets of Germany, France, Italy, the Czech Republic, and Slovakia, among others, an average of over 40 % of

[9] Opinium Research, on behalf of CRIF, surveyed 7,000 consumers in European countries (Czech Republic, France, Germany, Italy, Slovakia, and the United Kingdom) between July 8 and 25, 2022.

MANAGEMENT REPORT

those surveyed assume that they will earn extra money from a part-time job to compensate for the increased price level. At this point, the LR Group's business model offers a major advantage. The LR Group offers its sales partners a unique opportunity to build up a secondary income with the greatest possible flexibility.

In addition, there is great potential in the LR Group's expansion strategy. The business can be further expanded through planned market entries in countries in which the LR Group has not been present to date.

The increased focus on social selling activities, differentiated, country-specific market cultivation, the current development of new premium range concepts as well as sound training in the LR Academy, combined with a comprehensive car plan and international celebrities as cooperation partners form the basis of a positive future development. A major focus in the past financial year as well as in the coming years is the further expansion of digital offerings and services – a field that offers considerable opportunities for the LR Group. The sales concept has also been developed further in the past year to contribute to the partners' success by means of differentiated market cultivation.

I. Outlook

Various factors that are difficult to forecast may have a significant impact on developments in 2023. The further course of the war in Ukraine will not only have a direct impact on the markets in Russia and Ukraine, but also beyond in various ways. Further effects on the already difficult situation of global supply chains since the Corona pandemic cannot be ruled out. The further development of inflation rates, which have already risen sharply worldwide, but especially in LR's core market of Europe, will have a particular impact on economic development, as this will affect both the future interest rate decisions of central banks and fundamental consumer behavior.

The current forecasts of the International Monetary Fund (IMF) show a further weakening of global economic growth. Following very strong economic growth in 2021 and a year 2022 already burdened by war in Europe, rapidly rising inflation rates and subdued consumer spending, the IMF forecasts growth rates of only +2.9% for 2023 and +3.1% for 2024. Although the IMF assumes declining inflation rates of 6.6% in 2023 and 4.3% in 2024 in its forecast, these are still significantly above the level before the Corona pandemic. For the time being, therefore, central bank interest rates are expected to continue to rise or at least remain high, which will weigh on global economic growth. The uncertain developments in the war in Ukraine are also seen as a negative factor for global economic development.

For the euro zone, the IMF forecast predicts significantly lower growth of only +0.7% for 2023. For 2024, growth is forecast to increase slightly again to +1.6%, but this is still significantly lower than in 2021 and 2022. For Germany, the most important LR market, the IMF forecasts even lower growth of +0.1% in 2023 and +1.4% in 2024.

The forecast for the other important markets of the LR Group are very different. Following the decline in GDP of −2.2% in 2022 estimated by the IMF for Russia, a stabilization is assumed with a small plus of 0.3% for 2023 and a slight recovery with a plus of 2.1% for 2024. In South Korea, GDP growth has been stable in recent years. The economic slowdown in the first Corona year was very slight and was already more than compensated for in 2021 with growth of +4.1%. According to IMF estimates, after economic growth of +2.6% in 2022, South Korea will experience slightly weaker growth of +1.7% in 2023 and stable growth of +2.6% in 2024.

The combination of strategic enhancement of the sales model, new products, and strategic projects, especially in the area of digitalization, has already proved very successful in the challenging environment in the first coronavirus year of 2020 as well as in 2021 with revenue at an all-time high in both years. In addition to significant technical innovations in the online sector and the further development of the sales remuneration system, the Group is focusing on the development of sustainable story-telling solutions in order to differentiate itself from the online and retail sectors.

The forecast for the 2022 financial year was published after the outbreak of the war and the subsequent significant drop in sales. With a stabilization of sales and a significant recovery in the second half of the year, the LR Group was able to achieve the forecast at the upper end of the range with sales (merchandise revenues) of kEUR 269,417. EBITDA of kEUR 31,279 could even exceed the forecast.

Due to the ongoing development, which is difficult to assess, especially regarding the war in Ukraine and the mutual sanctions between Russia and the European Union, but also with regard to inflation and the consumer climate, the management assumes that sales (revenue from sold goods) in 2023 will be at the previous year's level.

The management assumes that further cost increases will be largely compensated by price increases, and therefore a slightly lower or stable EBITDA compared to the previous year can be achieved.

Provided that the previously mentioned external factors do not develop negatively and the positive momentum of the sales development from the last two quarters of 2022 continues, a performance above the expected one is possible.

Ahlen, March 31, 2023

LR Global Holding GmbH
– Company management –

Dr. Andreas Laabs (CEO)	Andreas Grootz (General Manager)	Patrick Sostmann (General Manager)

IMPRINT
Publisher:
LR Global Holding GmbH
Kruppstr. 55
D-59227 Ahlen

Manager:
Dr. Andreas Laabs (CEO)
Andreas Grootz
Patrick Sostmann

CONTACT
LRworld.com
IR.LRworld.com
facebook.com/LRworld.de
facebook.com/lrgkf
instagram.com/LRworldofficiallrgkf.com
tel. +49 2382 7813-0
fax +49 2382 7658-287
info@lrworld.com
InvestorRelations@LRworld.com

MORE QUALITY
for your life.