



HEALTH & BEAUTY

2023

ANNUAL REPORT

LR HEALTH & BEAUTY SE



FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

**LR HEALTH & BEAUTY SE, MÜNCHEN
BALANCE SHEET AS AT 31 DECEMBER 2023**

kEUR	Dec. 31, 2023	Dec. 31, 2022
NON-CURRENT ASSETS		
Intangible assets	0	0
Property, Plant and Equipment	0	0
Financial assets	152,458	152,458
thereof Shares in affiliates	152,458	152,458
	152,458	152,458
CURRENT ASSETS		
Receivables and other assets	619	1,475
thereof Receivables from affiliates	619	1,475
Cash at hand and at banks	141	280
	760	1,755
TOTAL ASSETS	153,218	154,213

**LR HEALTH & BEAUTY SE, MÜNCHEN
BALANCE SHEET AS AT 31 DECEMBER 2023**

kEUR	Dec. 31, 2023	Dec. 31, 2022
EQUITY		
Subscribed capital	10,120	10,120
Capital reserve	142,458	142,458
Accumulated loss	-381	-298
	152,197	152,280
PROVISIONS		
Other provisions	451	1,104
	451	1,104
LIABILITIES		
Trade payables	5	14
Liabilities to shareholders	500	500
Other liabilities	65	315
	570	829
TOTAL EQUITY AND LIABILITIES	153,218	154,213

FINANCIAL STATEMENTS

LR HEALTH & BEAUTY SE, MÜNCHEN
STATEMENT OF PROFIT OR LOSS FOR 2023

kEUR	FY 2023	FY 2022
Revenue	1,015	2,057
Other operating income	64	32
	1,079	2,089
Personnel Expenses	951	1,970
thereof wages and salaries	930	1,939
thereof social security, pension and other benefit costs	21	31
Other Operating Expenses	211	336
	1,162	2,306
Finance result	0	0
Income taxes	0	0
NET PROFIT/LOSS FOR THE PERIOD	-83	-217

LR HEALTH & BEAUTY SE, MÜNCHEN
STATEMENT OF CASH FLOWS FOR 2023

kEUR	FY 2023	FY 2022
CASHFLOW FROM OPERATING ACTIVITIES		
Profit or loss for the period	-83	-217
Reduction (-)/Increase (+) in provisions	-653	1,044
Increase (-)/Reduction (+) of trade receivables or other assets	857	-1,306
Increase (+)/Reduction (-) of trade payables and other liabilities	-260	643
	-139	163
CASH FLOW FROM INVESTING ACTIVITIES		
	0	0
CASH FLOW FROM FINANCING ACTIVITIES		
	0	0
CASH AT THE END OF PERIOD		
Net increase	-139	163
Cash and cash equivalents at the beginning of period	280	116
Cash and cash equivalents at the end of period	141	280



MANAGEMENT REPORT

LR HEALTH & BEAUTY SE, MUNICH/GERMANY

COMBINED MANAGEMENT REPORT ON THE COMPANY AND THE GROUP FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2023

A. FUNDAMENTALS OF THE GROUP

LR Health & Beauty SE, Munich, business address: Kruppstraße 55, 59227 Ahlen, Germany (hereinafter also referred to as "LR SE") is a European stock corporation incorporated in Germany pursuant to Art. 3 (2) SE Regulation and is registered in the commercial register of Munich under HRB No. 258262. The share capital of the company amounts to EUR 10,120 thousand and is divided into 120,000 ordinary no-par value shares and 10,000,000 no-par value bearer shares. It acts as a holding company with management services for subsidiaries.

The LR Health & Beauty Group with its parent company LR Health & Beauty SE (hereinafter referred to as the LR Group, LR or the Group) is an internationally oriented group that is primarily active in the cosmetics and food supplements industry. The LR Group is represented by 34 companies worldwide. The Group's production facilities are located in Ahlen (Germany), from where all subsidiaries are supplied. Research and development are also carried out 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 arose for LR Health & Beauty SE, Munich, with the contribution of LR Global Holding GmbH, Ahlen, by way of a contribution in kind by resolution dated November 30, 2021.

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

The recovery in global economic output that began after the coronavirus pandemic cooled off again in 2022 with the outbreak of war in Ukraine. According to data from the International Monetary Fund (IMF), global economic growth still amounted to 3.5%. Inflation in many countries around the world and the resulting fiscal policy measures to fight inflation in particular were already major factors influencing economic developments in 2022 and throughout 2023. According to IMF¹ estimates, the global economic growth rate for 2023 has fallen further to +3.1%.

In the euro zone, the LR Group's most important market, economic output still increased by 3.4% in 2022 despite the war in Europe, high inflation rates and the declining consumer climate according to the IMF, although economic growth in Germany was significantly weaker at +1.8%. The IMF's current estimate for 2023 sees only slight growth of +0.5% in the eurozone and a decline in economic output of -0.3% for Germany.

In other LR Group markets, the development of real gross domestic product varied greatly. Russia was already able to exceed its pre-coronavirus pandemic level in 2021. The start of the war and the subsequent sanctions imposed by the West and countersanctions by Russia ultimately led to a reversal of this positive trend. According to IMF data, economic output in Russia fell by -1.2% in 2022, but the IMF estimates that economic growth in Russia will be much more positive again in 2023 at +3.0%. According to the IMF, South Korea, the LR Group's expansion market, continued to record positive economic growth of +2.6% in 2022, in line with the trend of recent years. A further positive but slightly weaker increase of +1.4% is expected for 2023.

According to the World Federation of Direct Selling Associations (WFDSA), after sales growth in 2020 (+2.4%) and 2021 (+2.0%), direct selling worldwide recorded a slight decline in sales of -1.5% in 2022. In all three years, there was a significant decline in sales in the Chinese market – one of the world's largest direct sales markets (China's share of the total direct sales market was 11.4% in 2020, 9.8% in 2021 and 9.1% in 2022). Adjusted for this special effect, the development of direct selling would be significantly more dynamic in 2020 at +6.2% and 2021 at +3.8%, and the negative trend would be significantly lower in 2022 at -0.8%. In Europe, the LR Group's core market, development was less dynamic over the two years, with market growth of +1.7% in 2020 and +4.3% in 2021, and the decline in 2022 was slightly higher at -1.1%. At the time of preparing this management report, there is no valid data on developments in 2023. However, LR assumes that the slightly negative trend of the past year will continue in 2023. This assessment is based on the predominantly declining sales figures of competitors subject to reporting requirements.

Production

At the liquid dietary supplements production facility in Ahlen, a substantial amount of the LR Group's dietary supplements is produced and bottled. 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. Cosmetic devices are purchased as merchandise in Europe, accessories in Southeast 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 has been built by the Theodor F. Leifeld-Stiftung and will be used

¹World Economic Outlook Update, January 2023

MANAGEMENT REPORT

for a newer and more modern logistics system in the future and is scheduled to go into operation in 2024.

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 2023, 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 2,470 (PY: kEUR 2,736).

Furthermore, own work for self-developed intangible assets in the amount of kEUR 81 (PY: kEUR 147) were capitalized. Amortization of capitalized development costs amounted to kEUR 1,292 in the 2023 financial year (PY: kEUR 1,288).

Headcount

During the 2022 financial year, the Group employed an average headcount of 1,217 (PY: 1,262), including the Executive Board. Of these, 714 (PY: 738) can be allocated to the German subsidiaries and thereof 1 (PY: 2) to the LR Health & Beauty SE.

In 2023, an average of 16 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, media designer for image and sound, 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.

Within the trainee program, an average of two trainees were employed in the division Sales Management in 2023. One trainee from this program was offered a permanent position in the division in 2023.

The LR Group has a dual study program. In 2023, as in the previous year, two participants were recruited for a dual study program in business administration. Three places are planned for the following year, as well as a further place for a dual study program in business informatics.

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.

D. 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. LR does not use any quantifiable key figures for the non-financial performance indicators.

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 trend of the 2019 to 2021 financial years was interrupted in 2022 with the outbreak of war in Ukraine. The macroeconomic conditions have thus changed significantly. The significant rise in inflation, the resulting fall in real wages and the resulting sharp rise in interest rates have led to a weakening of the consumer sentiment. Shortly after the outbreak of the war, the management began to adjust the strategic direction to the changed conditions and these strategic initiatives were systematically continued in 2023. In particular, this includes the decision to focus much more on the LR Business Opportunity in order to support the careers of our partners in the best possible way and to strengthen the resilience of our business model in the face of a persistently weak general consumer sentiment. We were able to support the productivity of our sales partners through improved partner communication, apps and analysis tools that we make available to our sales partners.

Our strategy aims to make it as easy as possible to start an LR career so that new sales partners can earn an additional income alongside a full-time job. In addition, we support our sales partners in switching from a part-time position to a full-time position at LR. Thanks to the high-quality products in the starter sets, high entry levels and thus a fast and successful career are possible. Our newly established Fast Track Program enables our partners to earn a quick and secure income, which has also made a significant contribution to positive sales development.

Another important building block was the adaptation of our new product strategy and the accompanying communication process. The last three new product launches with the new patented Zeitgard Pro for innovative face care in September 2022, the new BodyMission with the launch of new FiguActiv products for weight management in January 2023 and a new variant of our MindMaster Drinking Gels, MindMaster Gold, in September 2023 were the most successful new product launches in LR's long history.

All of these factors contributed to a total increase of 2.6% in sales in the 2023 financial year compared to the previous year. In total, sales (revenue from sold goods) amounted to kEUR 276,473 in the financial year 2023 (PY: kEUR 269,417). Of this amount, kEUR 169,211 (PY: kEUR 154,489) is attributable to Region Western Europe² and kEUR 105,534 (PY: kEUR 113,283) to Region Central Eastern Europe². The main driver for the decline in the region Central Eastern Europe is the significant drop in sales from Russia, which is particularly related to exchange rate developments. In addition, there are other sales of kEUR 12,282 (PY: kEUR 12,265), which mainly result from the on-charging of other services to our sales partners. This results in revenues before sales deductions of kEUR 288,755 (PY: kEUR 281,682) and after sales deductions of kEUR 274,477 (PY: kEUR 268,287).

²The breakdown of regions has changed in 2023 financial year; for better comparability, the prior-year figures have also been converted to the new structure:
 - Region Western Europe consisting of Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and United Kingdom
 - Region Central Eastern Europe consisting of Albania, Bulgaria, Czech Republic, Cyprus, Greece, Hungary, Kazakhstan, Poland, Romania, Russia, Slovakia and Ukraine.

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Compared to the previous year, other operating income decreased significantly from kEUR 21,645 to kEUR 6,279 in the financial year 2023. The higher amount in the previous year was mainly driven by a significant increase in gains from currency translation. This includes an effect from the first-time application of IAS 29 in connection with the hyperinflation in Turkey as well as further gains from currency translation due to the different development of the exchange rates of the main Group currencies in the 2022 financial year. However, these high gains from currency translation are simultaneously offset by high expenses from currency translation, which were reported under other operating expenses.

The cost of materials increased to kEUR 53,397 in the 2023 financial year (PY: kEUR 48,959), while at the same time the changes in finished goods and work in progress increased to kEUR 4,207 (PY: kEUR -2,446). The total of cost of materials and changes in finished goods and work in progress thus decreased from kEUR -51,405 in the 2022 financial year to kEUR -49,190 in the 2023 financial year. In relation to sales (revenue from sold goods), this results in a ratio³ of 17.8%, which corresponds to a significant reduction compared to the previous year (19.1%). The improvement in the ratio is the result of price increases in the 2023 financial year and negative non-recurring effects in connection with devaluations in the 2022 financial year.

Personnel expenses slightly decreased from kEUR 54,648 to kEUR 53,521. 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 already led to a reduction in the number of employees (including the Executive Board) to 1,237 on December 31, 2022 and decreased again slightly to 1,223 in the 2023 financial year. Overall, personnel costs in relation to total overall performance⁴ were reduced to 19.2% (PY: 20.6%).

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 were significantly higher in the previous year, but were offset by gains from currency translation (see section on other operating income). In total the other operating expenses were reduced from kEUR 152,817 in the financial year 2022 to kEUR 146,632 in the financial year 2023.

Compared to the previous year, EBITDA⁵ slightly increased from kEUR 31,062 to kEUR 31,413. Taking into account normalizations of one-time, non-recurring and extraordinary operating expenses, such as expenses in connection with the expansion to United Kingdom, totaling kEUR 3,967 (PY: kEUR 4,979), normalized EBITDA amounts to kEUR 35,380 (PY: kEUR 36,041).

Depreciation and amortization decreased slightly from kEUR 14,229 to kEUR 13,212 in the financial year 2023. This results in EBIT⁶ of kEUR 18,201 (PY: kEUR 16,833).

The financial result of kEUR -15,836 (PY: kEUR -12,011) is characterized by the interest payments for the bond of the LR Global Holding GmbH in the amount of kEUR 12,962, which increased with the 3M Euribor (PY: kEUR 9,372).

This results in earnings before taxes for the Group of kEUR 2,365 (PY: kEUR 4,822) for the financial year 2023. Despite the lower earnings before taxes, income taxes only fell from kEUR 4,248 in the previous year to kEUR 3,230 in the 2023 financial year, which is due in

particular to the increase in interest expenses with the interest barrier⁷. The after-tax result thus amounts to kEUR -865 (PY: kEUR 574). After offsetting the other comprehensive income consisting of currency translation differences of kEUR -818 (PY: kEUR -1,246), the overall result is kEUR -1,683 (PY: kEUR -672).

The forecast issued by the LR Group for revenue from sales (revenue from goods sold) in the range of kEUR 275,000 to kEUR 280,000 was achieved at kEUR 276,473. The forecast for EBITDA reported in the range of kEUR 28,000 to kEUR 32,000 was achieved at the upper end of the range at kEUR 31,413. The Executive Board is therefore very satisfied with the development of the 2023 financial year overall.

Assets, liabilities, and financial position LR Group

As of December 31, 2023, total assets amounted to kEUR 234,702 (PY: kEUR 235,290), of which kEUR 151,198 (PY: kEUR 148,819) relate to non-current assets. Therein property, plant and equipment decreased only slightly to kEUR 12,966 (PY: kEUR 13,048). Rights of use increased from kEUR 16,214 to kEUR 17,439. The largest position under non-current assets is intangible assets, which increased slightly from kEUR 118,189 to kEUR 119,372. 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 web shop, the warehouse management system and the ERP (Enterprise Resource Planning) system.

Current assets totaled kEUR 83,504 (PY: kEUR 86,471). Inventories were built up due to the difficult situation in the global logistics market and amount to kEUR 34,612 (PY: kEUR 25,781). Trade receivables are above the previous year's level at kEUR 13,824 (PY: kEUR 10,675). The main driver is the increased sale of subscription contracts in Germany. Other assets mainly consist of receivables from the tax office, periodic accrued expenses, as well as other receivables and increased from kEUR 9,361 to kEUR 10,805 in 2023. At the same time Cash decreased in 2023 financial year to kEUR 23,955 (PY: kEUR 39,418). The main driver were subsequent payments for income tax for the profitable years 2020 and 2021, which were due in the first half of 2023 (accompanied by a significant decrease in tax liabilities). 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.

Equity amounted to kEUR 27,229 as of the reporting date 31.12.2023. This corresponds to a decrease compared to the previous year (kEUR 28,912) in the amount of the negative overall result of kEUR -1,683. The equity ratio thus fell slightly from 12.3% to 11.6%. The liabilities are mainly characterized by the corporate bond. On January 27, 2021, LR Global Holding GmbH placed a corporate bond in the amount of EUR 125 million. The carrying amount of the corporate bond in the Group⁸ of kEUR 125,490 corresponds to the issue amount less the acquisition commission recognized, which is added back pro rata over the term of the bond plus accrued interest. The corporate bond was terminated by LR Global Holding after the balance sheet date in accordance with the terms and conditions and redeemed in March 2024. The proceeds of a new corporate bond issued by LR Health & Beauty SE on March 4, 2024, which was made available to LR Global Holding GmbH via a shareholder loan, were used for the repayment. The new bond of LR Health & Beauty SE was issued in the so-called "Nordic Bond Format" under Swedish law and with the involvement of Nordic Trustee & Agency AB as trustee. The bond has already been admitted to trading on the Open Market of the Frankfurt Stock Exchange and must be listed on the

³ For internal management purposes, LR uses a ratio consisting of the total of cost of materials and changes in finished goods in relation to sales (revenue from sold goods); different calculation methodology to a cost of materials ratio as the cost of materials in relation to total output (revenue plus changes in inventories)

⁴ Overall performance comprises revenues and changes in finished goods and work in progress.

⁵ Earnings before interest, taxes, depreciation and amortization

⁶ Earnings before interest and taxes

⁷ The interest barrier describes a specific element of German tax law that limits the deduction of interest expenses for tax purposes.

⁸ 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)

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regulated market of NASDAQ Stockholm within 12 months of issue in accordance with the terms and conditions of the bond. The interest rate is composed of the 3M Euribor (with a floor of 0%) and a premium of 7.5 percentage points. The bond has a four-year duration and has a final maturity on March 4, 2028.

Compared to the previous year, provisions decreased from kEUR 5,190 to kEUR 4,328. Of this amount, kEUR 356 (PY: kEUR 500) relates to non-current provisions and kEUR 3,972 (PY: kEUR 4,690) to current provisions.

Lease liabilities totaled kEUR 18,067 and were thus above the previous year's level of kEUR 16,990. Of this amount, kEUR 12,064 (PY: kEUR 10,637) relates to non-current and kEUR 6,003 (PY: kEUR 6,353) to current lease liabilities.

A sale and leaseback agreement for the headquarters building in Ahlen, Germany, was already concluded 2022 in financial year. 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 corresponding liabilities from loans in the amount of kEUR 8,470 (previous year: kEUR 8,825) are divided into non-current liabilities in the amount of kEUR 8,105 and current liabilities in the amount of kEUR 365.

At kEUR 34,748, trade payables increased significantly compared to the previous year's figure of kEUR 29,697, which is mainly caused by the increase in inventories.

Other liabilities of kEUR 11,293 are above the previous year's level of kEUR 10,316. In contrast, tax liabilities decreased significantly from kEUR 7,627 to kEUR 1,184 as a result of the subsequent tax payments for the profitable fiscal years 2020 and 2021.

In the 2023 financial year, the operating cash flow amounted to kEUR 12,874 (PY: kEUR 24,411). 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 -5,922 (PY: kEUR -6,022) and thus decreased slightly compared to the previous year. This results in a free cash flow⁹ of kEUR 6,952 (PY: kEUR 18,389). The cash flow from financing activities amounted to kEUR -23,019 (PY: kEUR -10,217; includes kEUR 9,000 proceeds from the above-mentioned sale-and-lease-back 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 HEALTH & BEAUTY SE

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 of the LR Health & Beauty SE

Revenue came to kEUR 1,015 in the 2023 financial year (PY: kEUR 2,057) and mainly stemmed from cost allocations to LR Health & Beauty Systems GmbH, Ahlen, for services rendered, which were below the previous year's level. Other operating income amounted to kEUR 64 (PY: kEUR 32).

At kEUR 951, personnel expenses in the reporting year were significantly lower than in the previous year (kEUR 1,970). Other operating expenses at LR SE, including legal and consulting fees, Allowances for the Supervisory Board and travel expenses, amounted to kEUR 211 in the financial year and were therefore lower than the previous year's figure of kEUR 336. Overall, this results in a net loss for the year of kEUR -83 (PY: kEUR -217).

Assets and liabilities of the LR Health & Beauty SE

On the assets side, of total assets of kEUR 153,218 (PY: kEUR 154,213) as of December 31, 2023, non-current assets represent 99.5% (PY: 98.9%) and current assets 0.5% (PY: 1.1%). Non-current assets totaling kEUR 152,458 (PY: kEUR 152,458) consist mainly of the shares in LR Global Holding GmbH, Ahlen. Current assets amounted to kEUR 760 as of December 31, 2023, (PY: kEUR 1,755) and consist of receivables from affiliated companies in the amount of kEUR 619 (PY: kEUR 1,475), which decreased in line with revenue, and cash in the amount of kEUR 141 (PY: kEUR 280).

LR SE's equity amounted to kEUR 152,197 as of December 31, 2023 and was thus at the previous year's level (kEUR 152,280).

Other provisions totaling kEUR 451 (PY: kEUR 1,104) include provisions for personnel costs, audit costs and outstanding supplier invoices.

Liabilities consist mainly of liabilities to shareholders in the amount of kEUR 500 and other liabilities in the amount of kEUR 65.

After the balance sheet date, LR SE issued a corporate bond in the amount of kEUR 130,000. The proceeds of the bond were used to redeem the existing corporate bond of a subsidiary, LR Global Holding GmbH. For this purpose, a shareholder loan was granted by LR SE to LR Global Holding GmbH. The new bond of LR Health & Beauty SE was issued in the so-called "Nordic Bond Format" under Swedish law and with the involvement of Nordic Trustee & Agency AB as trustee. The bond has already been admitted to trading on the Open Market of the Frankfurt Stock Exchange and must be listed on the regulated market of NASDAQ Stockholm within 12 months of issue in accordance with the terms and conditions of the bond. The interest rate is composed of the 3M Euribor (with a floor of 0%) and a premium of 7.5 percentage points. The bond has a four-year duration and has a final maturity on March 4, 2028.

For the financial year 2023, the cash flow from operating activities amounts to kEUR -139 (PY: kEUR 164). All major factors affecting operating cash flow, such as profit, changes in receivables or changes in liabilities, are described in the sections Financial performance of the LR Health & Beauty SE and Assets and liabilities of the LR Health & Beauty SE. No investments were made in LR SE, so the cash flow from investing activities amounts to kEUR 0 (previous year: kEUR 0). Cash flow from financing activities amounts to kEUR 0 (PY: kEUR 0).

⁹Free cash flow as the sum of cash flow from operating activities and cash flow from investing activities

MANAGEMENT REPORT

G. 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 company's financial statements are prepared using a uniform reporting system for the entire Group. 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.

Corporate controlling/Group Controlling systematically and regularly analyzes data from the Group using systems of key figures and reports this to the management. Sales are reported per country and region on a daily basis. Sales 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 SE.

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 opportunities 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 2022 financial year for safety reasons, while business operations could be ensured throughout the past financial year. Nevertheless, the risk of a further closure cannot be ruled out for the new financial year either. 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.

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.

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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. In addition, new or revised requirements in the area of network and information security must be implemented by the EU Directive NIS-2.

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 if necessary, 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 2023 by sales (revenue from sold goods) were Russia/Kazakhstan (Russian roubles/Kazakh tenge), Poland (Polish zloty), the Czech Republic (Czech koruna), Bulgaria (Bulgarian lev) and Ukraine (Ukrainian hryvnia). The general increase in the interest rate level has already significantly increased interest expenses in the past two financial years. The EUR 125 million corporate bond issued by a subsidiary, LR Global Holding GmbH, in spring 2021 was redeemed in March 2024. The refinancing was carried out at the level of the LR Health & Beauty SE. The redeemed bond as well as the newly issued bond use the 3M Euribor as the interest rate benchmark for the variable interest rate, which rose significantly in the recent financial years. For the first time since 2015, the 3M Euribor rose above 0% in July 2022 and was above 3.9% at the end of 2023. 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 32 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

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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 and the LR SE.

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 are becoming more attractive worldwide in the long-term trend (adjusted for the extraordinary effect in the Chinese market, where LR is not active), thereby opening up future opportunities for the Company. In this environment, the LR Group is reinforcing its positioning as a leading social selling company. In addition to the channel-specific advantages, LR also has opportunities on the product level since general trends such as anti-aging, healthy nutrition, etc. influence the growth of the product categories.

In many markets in which the LR Group operates, inflation rates rose at an above-average rate in the past two financial years. Real wages are declining due to the non-proportional increases in wages and salaries. Without additional income, falling real incomes lead to a declining standard of living. According to a study¹⁰ 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 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.

¹⁰Opinium Research, on behalf of CRIFF, surveyed 7,000 consumers in European countries (Czech Republic, France, Germany, Italy, Slovakia, and the United Kingdom) between July 8 and 25, 2022.

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.

H. OUTLOOK

Various factors that are difficult to forecast may have a significant impact on developments in 2024. 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 remain high worldwide and 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.

Following very strong economic growth in 2021 and the years 2022 and 2023 already burdened by war in Europe, rapidly rising inflation rates and subdued consumer sentiment, the IMF forecasts growth rates of +3.1% for 2024 and +3.2% for 2025. The assessment of global economic growth in 2024 and 2025 is below the historical annual average (2000 to 2019) of 3.8%, which the IMF attributes to the restrictive monetary policy and the withdrawal of fiscal support as well as low production growth.

For the euro zone, the IMF forecast predicts significantly lower growth of only +0.9% for 2024. For 2025, growth is forecast to increase slightly again to +1.7%, which is slightly above the average of the last 10 years. For Germany, the most important LR market, the IMF forecasts a lower growth rate of +0.5% in 2024 and +1.6% in 2025.

The forecast for the other markets of the LR Group are very different. The IMF's estimates for economic growth in the LR Group's other markets vary widely. Following the IMF's estimate of 3.0% growth for Russia in 2023, economic growth is expected to slow to 2.6% (2024) and 1.1% (2025). In South Korea, gross domestic product growth has been stable in recent years. According to the IMF, South Korea is expected to see slightly weaker growth of +1.4% in 2023, followed by more stable growth of +2.3% in both 2024 and 2025.

The development of economic performance in the LR markets has different effects on the LR Group's business model. On the one hand, weak or negative economic growth often has an impact on the consumer sentiment. On the other hand, in addition to pure product consumption, LR also offers a very attractive and flexible opportunity to generate additional income or main income as a sales partner. Depending on the prevailing conditions, the LR Group's business model therefore offers the opportunity to market the consumer business or the distribution model in a more focused manner.

The combination of strategic enhancement of the sales model, new products, and strategic projects, especially in the area of digitalization, has already proven to be very robust under the challenging conditions during the pandemic and following the decline in sales as a result of the outbreak of the war in Ukraine. 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.

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The forecast issued by the LR Group for revenue from sales (revenue from goods sold) in the range of kEUR 275,000 to kEUR 280,000 was achieved at kEUR 276,473. The forecast for EBITDA reported in the range of kEUR 28,000 to kEUR 32,000 was achieved at the upper end of the range at kEUR 31,413.

The development of the overall economic situation and its impact on the various LR markets remains difficult to assess. The further course of the war in Ukraine, the mutual sanctions between Russia and the European Union and the persistence of the current decline in inflation rates and their impact on the general interest rate level and the general consumer sentiment are factors that are difficult to calculate.

Against this background, the management expects sales (revenue from sold goods) for the 2024 financial year to remain at the previous year's level. The management also assumes that further cost increases will be largely offset by price increases and that EBITDA will therefore be slightly lower or stable compared to the previous year.

As a holding company, the development of the individual company LR Health & Beauty SE depends on the development of the LR Group and is therefore not controlled individually. The cost structure is expected to remain largely unchanged compared to the previous year.

I. FINAL DECLARATION ON THE DEPENDENCY REPORT

The Management Board of LR Health & Beauty SE has prepared a report on relationships with affiliated companies for the 2023 financial year in accordance with the German Stock Corporation Act (Section 312 AktG), which contains the following concluding declaration:

"We declare that LR Health & Beauty SE has received appropriate consideration for the legal transactions and measures listed in the report on relationships with affiliated companies in accordance with the circumstances known to us at the time the legal transactions were carried out or the measures were taken or omitted and has not been disadvantaged by the fact that measures were taken or omitted."

Munich, March 31, 2024

LR Health & Beauty SE – Executive Board –



Dr. Andreas Laabs
(CEO)



Andreas Grootz
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