

## **Directors' Report from consolidated financial statements of Lush Cosmetics Limited for year ended 30 June 2014.**

### **Directors' report**

The directors present their annual report and the audited consolidated financial statements for the year ended 30 June 2014.

### **Results and dividends**

There was a profit for the financial year after taxation amounting to £12,567,000 (2013: £10,546,000). No dividends were paid or proposed during the year (2013: £nil).

### **Directors**

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

M Constantine

Mrs M Constantine

A Gerrie (removed 15 December 2014)

K Bygrave (appointed 15 December 2014)

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Charitable contributions**

Lush partners worldwide raised £5,141,000 and donated a total of £4,597,000 (2013: £3,095,000) to charities and other good causes; of this £3,824,000 was from Lush Group and associate companies (2013: £2,918,000).

Our charitable giving focus remains on innovative, effective giving through support of small, grassroots organisations working in the areas of environment, human rights and animal protection. We aim to support causes and organisations that are overlooked by others and also address the root causes of issues through campaigns, education and activism. Our support is not limited to registered charities. We also give donations to campaign groups and other organisations which are not registered with the Charity Commission.

Lush raises most of its funds through the sale of Charity Pot body lotion, which is sold in various sizes both online and in our shops. We donate 100% of the retail price of the product, less VAT, to a variety of good causes working in the focus areas. In this financial year Charity Pot was sold in twenty five countries: Australia, Austria, Belgium, Canada, Croatia, Finland, France, Germany, Holland, Hong Kong, Hungary, Ireland, Italy, Japan, Korea, Luxemburg, Mexico, New Zealand, Norway, Panama, Russia, Spain, Sweden, UK, and USA. We also sell limited edition products, which raise funds for specific charities and campaigns. In this financial year we created a scarf with Vivienne Westwood which raised £116,000 and was donated to climate change campaign groups.

In addition to Charity Pot and limited edition charity products, the UK also continued the Carbon Tax fund. This self-imposed tax is charged on staff's international flights at a rate of £50 per tonne of carbon dioxide emitted and the funds raised are donated to environmental groups. A total of £215,000 (2013: £117,000) in donations was made from Carbon Tax funds this year.

The sustainable Lush (SLush) fund grew considerably where a total of £616,000 was raised as a percentage of our buying budgets (2013: £500,000). Of this £557,000 (2013: £446,000) was donated through the fund, predominantly to permaculture farms and to some of our suppliers to enable them to become more sustainable. Ingredients from projects funded through the SLush Fund are included in our new Charity Pot formula.

Our FUN product, where a percentage of global sales is donated to support children affected by the Fukushima disaster, raised £107,000 (2013: £93,000) for the FunD, of which £34,000 was donated (2013: £30,000), leaving a balance of £135,000.

## Taxation and Country by Country Reporting

Following the publication of our first Ethical Tax Policy last year we also carried out a benchmarking exercise to make sure our internal pricing was demonstrably arm's length. Having enjoyed rapid international expansion in recent years we wanted to be able to show that our pricing policy was consistent and transparent for all markets and to make sure it was also fit for purpose for our future growth plans.

We also set ourselves the target of providing a country by country breakdown of the taxes incurred in the countries in which we operate and some key financial information alongside this to improve our transparency and enable the readers of our accounts to understand the results and effective tax rates – and perhaps encourage other businesses to follow suit ahead of country by country reporting becoming a legal requirement over the next 2 to 3 years.

Here it is:-

Country of operation	Number of shops	Number of factories	Number of employees	Sales £ k	Staff costs £ k	Profit before tax £ k	Taxes charged £ k						Total taxes charged £ k
							Tax on profits	Effective tax rate	Premises tax	Payroll taxes	Stamp duty	Customs duty	
Japan	153	1	1,822	88,471	28,298	5,395	3,113	57.7%	90	3,857	-	110	7,170
UK	102	1	1,696	170,225	43,544	14,628	2,957	20.2%	4,599	7,088	132	368	15,144
Germany	45	-	277	17,785	6,528	(625)	4	-0.6%	-	1,099	-	-	1,103
France	41	-	270	19,396	6,220	191	46	24.1%	-	1,840	-	-	1,886
Italy	38	-	155	11,028	4,390	(1,341)	74	-5.5%	-	-	-	-	74
Australia	25	1	167	21,066	6,820	(1,842)	89	-4.8%	-	314	-	236	639
Spain	11	-	67	3,502	1,338	(850)	-	0.0%	20	365	-	-	385
New Zealand	9	-	46	3,215	811	59	-	0.0%	-	4	-	29	33
Sweden	9	-	39	3,915	1,593	118	-	0.0%	-	313	-	-	313
Holland	8	-	55	3,836	1,472	(572)	-	0.0%	17	429	-	-	446
Middle East	8	-	73	4,463	1,095	849	-	0.0%	-	-	-	-	-
Hong Kong	6	-	74	5,695	919	709	84	11.8%	-	-	-	-	84
Austria	6	-	43	3,291	1,359	145	3	2.1%	-	315	3	-	321
Croatia - Manufacturing	-	1	41	3,114	770	3	-	0.0%	3	99	-	-	102
Belgium	4	-	21	1,698	603	(238)	-	0.0%	-	14	-	-	14
Hungary	4	-	21	824	269	(77)	10	-13.2%	-	48	-	-	58
Latvia	4	-	18	181	104	(104)	-	0.0%	-	22	-	-	22
Ireland	3	-	22	1,607	466	(367)	-	0.0%	55	75	-	-	130
Bulgaria	2	-	11	171	82	(13)	-	0.0%	-	10	-	-	10
Portugal	2	-	21	516	241	(234)	-	0.0%	-	58	4	-	62
Brazil	1	-	17	77	603	(1,732)	-	0.0%	22	69	-	-	91
Czech Republic	1	-	11	786	136	140	32	22.9%	-	-	-	-	32
Luxembourg	1	-	5	497	121	100	29	29.0%	2	12	-	-	43
Estonia	1	-	7	146	64	(14)	-	0.0%	-	-	-	-	-
Lithuania	1	-	6	87	43	(48)	-	0.0%	-	-	-	-	-
Elimination and consolidation <sup>1</sup>				(83,126)		(1,124)	-	0.0%	-	-	-	-	-
Deferred tax consol <sup>2</sup>							783						783
Group subtotal	485	4	4,985	282,466	107,890	13,156	7,224	54.9%	4,808	16,031	139	743	28,945
Share of Joint Ventures PBT <sup>3</sup>						9,040	2,900	32.1%					
Share of Associates PBT						1,067	262	24.6%					
Non group subtotal	413	2		171,663		10,107	3,162	31.3%					
	<b>898</b>	<b>6</b>		<b>454,129</b>		<b>23,263</b>	<b>10,386</b>	<b>44.6%</b>					

Note 1: Elimination of manufacturing sales to group companies and consolidation adjustments.

Note 2: Write off of central deferred tax asset previously recognised on consolidation in respect of Lush Retail Limited.

Note 3: The Joint Ventures profit before tax relates to our share of the North American business.

In addition to the £28.9m group country tax charge, £26m of sales tax was collected from our customers during the year on behalf of Tax Authorities in the countries in which our Group subsidiaries operate.

Note 8 to the accounts provides further details of the corporation tax charge for the year ended 30 June 2014 and refers to the write back of the deferred tax asset in Japan which has contributed to their extraordinarily high effective tax rate.

We believe that our investment in training and the more recent positive like for like sales growth in Europe and Australia will reduce the losses in some of the lower turnover countries as they develop. Our aim is for all markets to become profitable as the businesses become fully developed.

## Employees

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available then, where practicable,

arrangements will be made to continue the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

The development of employee involvement in the Group's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees. Formal and informal briefing of employees takes place as appropriate.

The Group takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability.

#### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Independent auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board

**Mark Constantine**

**Director, 8 January 2015**

#### **About Lush**

Since establishing 20 years ago, Lush has been driven by innovation and its ethics. Creators of pioneering beauty products such as the fizzing bath bomb, shower jellies and solid shampoo bars, Lush places emphasis on fresh ingredients like organic fruits and vegetables. Lush operates a strict policy against animal testing and supports Fair Trade and Community Trade initiatives. Lush leads the cosmetics industry in combating over-packaging by running public awareness campaigns and developing products that can be sold 'naked' to the consumer without any packaging. Lush has been awarded the RSPCA Good Business Award for 2006, 2007 and 2009, along with the 2006 PETA Trailblazer Award for Animal Welfare. Co-founders Mark and Mo Constantine were awarded OBEs for services to the beauty industry in the new years honours list 2010. Lush was the winner of the Best in Business Award at the 2014 Observer Ethical Awards and is regularly voted at the top of Which? magazine's customer service surveys.

**For any further media enquiries, please contact Stephanie Boyd in the Lush Press Office on 020 7434 3948 or email [stephanie@lush.co.uk](mailto:stephanie@lush.co.uk)**

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HANDMADE  
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