
Interim Financial Report for the Period 1 January – 30 June 2014



Brødrene A & O Johansen A/S

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Company Announcement No. 8/2014

The Board of Directors has today approved the Group's interim financial report for the period 1 January – 30 June 2014.

Summary

- AO's pre-tax profit for the first half of 2014 was DKK 35.3 million, which is DKK 19.9 million less than in the first half of 2013. Pre-tax profit for the second quarter of 2014 was DKK 18.7 million, which is DKK 15.5 million less than last year. These results are in line with expectations announced in the Group's interim financial report for the first quarter of 2014.
- Consolidated revenue for the first six months of the year was DKK 1,076.4 million against DKK 1,116.3 million for the same period of 2013, equalling a decline of DKK 39.9 million or 3.6%. In the second quarter of 2014, consolidated revenue was DKK 534.6 million, which is DKK 58.4 million or 9.8% less than last year. The decline in revenue is mainly attributable to a weak market and deliberate rejections of loss-making project orders.
- Gross margin for the first half of 2014 was DKK 315.5 million against DKK 334.2 million for the same period of 2013, equalling a decline of DKK 18.7 million. The gross profit margin came in at 29.3%, which is 0.6 percentage point less than last year. Gross margin for the second quarter of 2014 was DKK 155.7 million, a decline of DKK 19.2 million compared to last year. The gross profit margin came in at 29.1%, which is 0.4 percentage point less than in the second quarter of last year.
- Operating profit (EBIT) for the period was DKK 36.7 million, equalling a profit margin of 3.4%, compared to DKK 55.9 million and 5.0% last year. EBIT for the second quarter of 2014 was DKK 19.4 million, equalling a profit margin of 3.6%, compared to DKK 34.6 million and 5.8% last year.
- As at 30 June 2014, the Group's total assets amounted to DKK 1,436.0 million, which is DKK 29.7 million more than last year. The increase is attributable to the ongoing construction of a new high-bay warehouse in Albertslund.
- Cash flow from operating activities totalled DKK 58.7 million, which is DKK 10.1 million more than profit after tax plus depreciation and amortisation. Compared to last year the cash flow is DKK 17.0 million lower.

Important events

- A new online trading platform with improved user interface and search engine was implemented at AO.dk.
- A declining market and increased competition had a downward effect on results for the period.
- The construction of a new high-bay warehouse for 29,000 pallets proceeds according to plan.

Expectations for the year

- As announced in the Group's interim financial report for the first quarter of 2014, profit before tax for 2014 is expected to be approximately DKK 75-100 million.

Albertslund, 29 August 2014

Niels A. Johansen
CEO

Henrik T. Krabbe
COO & CFO

Financial highlights for the AO Group

(DKKm)

Key figures	H1 2014	H1 2013	Q2 2014	Q2 2013	Full Year 2013
Consolidated revenue	1,076.4	1,116.3	534.6	593.0	2,309.7
Gross margin	315.5	334.2	155.7	174.9	691.1
Operating profit or loss (EBIT)	36.7	55.9	19.4	34.6	127.1
Financial income and expenses, net	(1.5)	(0.7)	(0.7)	(0.3)	(1.9)
Profit or loss before tax (EBT)	35.3	55.2	18.7	34.3	125.2
Tax on profit or loss for the period	(9.0)	(9.7)	(4.6)	(4.5)	(26.6)
Net profit or loss for the period	26.3	45.5	14.1	29.9	98.6

Non-current assets	780.7	651.0	780.7	651.0	721.7
Current assets	655.3	755.3	655.3	755.3	709.5
Total assets	1,436.0	1,406.3	1,436.0	1,406.3	1,431.3
Share capital	57.0	57.0	57.0	57.0	57.0
Equity	888.3	810.7	888.3	810.7	863.0
Non-current liabilities	198.8	198.3	198.8	198.3	199.7
Current liabilities	348.9	397.2	348.9	397.2	368.5

Average number of employees	639	641	639	641	650
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Cash flow from operating activities	58.7	75.7	37.3	27.6	165.0
Cash flow from investing activities	(81.9)	(34.8)	(47.2)	(10.9)	(126.1)
Of which investments in property, plant and equipment	(73.7)	(24.3)	(42.2)	(4.2)	(109.5)
Cash flow from financing activities	1.7	(0.2)	1.8	(0.1)	(2.4)
Cash flow for the period	(21.5)	40.7	(8.2)	16.6	36.6

Financial ratios

Gross profit margin	29.3%	29.9%	29.1%	29.5%	29.9%
Profit margin	3.4%	5.0%	3.6%	5.8%	5.5%
Return on capital employed	2.6%	4.2%	1.4%	2.6%	9.4%
Return on equity	3.0%	5.8%	1.6%	3.8%	12.1%
Solvency ratio	61.9%	57.7%	61.9%	57.7%	60.3%

Book value	1,558	1,422	1,588	1,422	1,514
Share price at the end of the period	1,336	1,135	1,336	1,135	1,335
Earnings per share (EPS Basic), DKK	54	83	29	55	201
Diluted earnings per share (EPS-D), DKK	53	83	28	55	198

Basic EPS and diluted EPS have been calculated in accordance with IAS. Other financial ratios have been calculated in accordance with the Danish Society of Financial Analysts' "Recommendations and Financial Ratios 2010". The financial ratios have been calculated on the basis of the respective periods.

Figures given in brackets are negative results or deductible items.

Management's review

The consolidated financial statements include the financial statements of Brødrene A & O Johansen A/S and the wholly owned subsidiaries AO Invest A/S, AO Sverige AB in Sweden and Vaga Tehnika Eesti OÜ in Estonia.

Activities of the period

Consolidated revenue for the period ended 30 June 2014 was DKK 1,076.4 million against DKK 1,116.3 million for the same period of 2013, equalling a decline of DKK 39.9 million or 3.6%. The decline is attributable partly to Denmark, where the market is weak and revenue is declining due to deliberate rejections of loss-making project orders, partly to overseas countries, where EU projects in Estonia have been postponed and a reorganisation of the Swedish sales management team has taken place. This was also the case in the second quarter of 2014, and at the same time Easter fell in the second quarter of 2014. As a result, second quarter revenue of DKK 534.6 million was down DKK 58.4 million or 9.8% compared to last year.

Gross margin for the first six months of 2014 was DKK 315.5 million, compared to DKK 334.2 million in 2013. The gross profit margin declined by 0.6 percentage point to 29.3% due to increased competition both domestically and internationally. Gross margin for the second quarter of 2014 was DKK 155.7 million against DKK 174.9 million in the second quarter of 2013. The gross profit margin of 29.1% was down 0.4 percentage point compared to the second quarter of 2013.

Total operating expenses for the first half of 2014 were DKK 278.8 million, which is DKK 0.5 million or 0.2% less than reported for the same period last year. Total operating expenses for the second quarter of 2014 were DKK 136.2 million, which is DKK 4.0 million or 2.9% less than for the same quarter last year.

External expenses for the period were DKK 97.1 million, which is DKK 7.7 million less than last year due to implemented savings. Most savings were implemented in the second quarter of 2014, where external expenses totalled DKK 45.4 million, a decline of DKK 7.4 million on last year's figures.

Staff costs for the period were DKK 156.5 million, an increase of DKK 2.8 million or 1.8%. Staff costs for the second quarter of 2014 were DKK 78.2 million, an increase of DKK 0.9 million on last year's figures. Implemented staff reductions will take full effect in the second half of 2014.

Depreciation, amortisation and write-downs for the period amounted to DKK 22.3 million, an increase of DKK 5.3 million due to a higher number of own stores and increased software amortisation in connection with the Movex upgrade.

The item of 'Other operating expenses' includes losses on receivables of DKK 2.8 million, which is at the same level as in the first half of 2013.

Operating profit (EBIT) for the first six months of the year was DKK 36.7 million, which is 3.4% of revenue. Compared to the same period last year, EBIT is DKK 19.2 million lower, and the profit margin is down by 1.6 percentage point. The difference is a result of lower gross margin caused by lower sales volumes. Operating profit (EBIT) for the second quarter of 2014 was DKK 19.4 million or 3.6% of revenue, which is DKK 15.2 million less than in the second quarter of 2013. The difference is a result of lower gross margin counterbalanced by cost savings.

Financial income and expenses, net, for the period were negative at DKK 1.5 million against DKK 0.7 million in 2013. Increased financial expenses are attributable to an increased draw on the Group's credit facilities as a result of ongoing investment in a high-bay warehouse and the higher number of own stores.

The Group recorded a pre-tax profit of DKK 35.3 million for the first six months of 2014. The results are DKK 19.9 million lower than reported for the same period last year. Profit before tax for the second quarter of 2014 amounted to DKK 18.7 million, which is DKK 15.5 million lower than for the same quarter last year. These results are in line with expectations announced in the interim financial report for the first quarter of 2014.

Tax is in accordance with applicable tax rates in the areas where the Group is operating, equalling an average tax rate of approximately 25%.

A post-tax profit of DKK 26.3 million was recorded for the period, compared to DKK 45.5 million for the first six months of 2013. A post-tax profit of DKK 14.1 million was recorded for the second quarter of 2014, compared to DKK 29.9 million for the second quarter of 2013.

As at 30 June 2014 the Group's total assets amounted to DKK 1,436.0 million, which is DKK 29.7 million more than last year at the same time.

The growth in total assets is attributable to non-current assets which increased by DKK 129.7 million to DKK 780.7 million due to investment in new stores and ongoing renovation and extension of the central warehouse in Albertslund for which reason the value of land and buildings increased by DKK 103.5 million to DKK 515.2 million. Due to the present investment in a new high-bay warehouse 'Fixtures and operating equipment' increased by DKK 34.9 million to DKK 109.4 million.

Current assets declined by DKK 100.0 million to DKK 655.3 million due to lower trade receivables, prepaid corporation tax and less cash and cash equivalents.

Equity of DKK 888.3 million, equalling a solvency ratio of 61.9%, is DKK 77.6 million higher than last year. Trade payables of DKK 289.2 million are DKK 49.6 million lower than last year. Other liabilities are at the same level as last year.

After payment of DKK 4.8 million in corporation taxes, the Group's cash flow from operating activities totalled DKK 58.7 million, which is DKK 17.0 million less than in the same period last year mainly as a result of lower profit. Changes in working capital and corporation tax paid are at the same level as last year.

Net investments for the period totalled DKK 81.9 million against DKK 34.8 million for the same period last year. The major part of the investments is attributable to investment in new stores and renovation of the central warehouse in Albertslund. Planned investments of approximately DKK 100 million are still to be made in the central warehouse and the high-bay warehouse.

Cash flow from operating and investing activities for the first half of 2014 was negative at DKK 23.2 million. In addition, DKK 1.7 million was drawn on the Group's credit facilities, and as a result the Group's cash and cash equivalents for the period decreased by DKK 21.5 million to DKK 33.3 million. As at June 30 2014, the Group's credit facility draw is DKK 173.1 million, which is DKK 0.5 million less than last year.

Significant risks

As mentioned in the annual report for 2013, under the paragraph 'Internal controls and risk management', the Company assesses on an ongoing basis the most significant risks in connection with the Company's activities. In addition to the risks mentioned in the annual report, the Group is sensitive to the overall development in Danish and Swedish economy as well as business trends in the building industries of these countries.

Incentive programme

The present incentive programme is in accordance with the general guidelines for incentive pay approved by the annual general meeting on 22 March 2012. The guidelines are available in full on the Company's website www.ao.dk.

A total of 18,887 share options have been granted in connection with the existing incentive programme. Of the above-mentioned number of share options, 14,243 matured on 30 June 2014. On 30 June 2014, the Company holds a total of 23,270 treasury shares. No options have been granted or exercised, and no treasury shares have been acquired or sold during the period.

Outlook

The market for 2014 is still difficult to predict, and due to increased competition in the market the gross profit margin is on the decline.

Profit before tax for 2014 is still expected to be approximately DKK 75-100 million, which is in line with expectations announced in the interim financial report for the first quarter of 2014.

Events after the end of the interim period

No significant events have occurred after the end of the reporting period.

Additional information

This interim financial report is available in Danish and English. In case of doubt, the Danish version shall apply.

Financial calendar for 2014

Interim financial report for the first three quarters of 2014 21 November 2014

The financial calendar for 2015 will be released in December of 2014.

Company announcements in 2014

Announcement no. 1	Annual report for 2013	24 February 2014
Announcement no. 2	Notice convening the annual general meeting	24 February 2014
Announcement no. 3	Revised financial calendar for 2014	24 February 2014
Announcement no. 4	Election of employee representatives to the Board of Directors of Brødrene A & O Johansen A/S	17 March 2014
Announcement no. 5	Results of annual general meeting	21 March 2014
Announcement no. 6	Articles of association	21 March 2014
Announcement no. 7	Interim financial report for the first quarter of 2014	20 May 2014

Management's statement

Today the Board of Directors and the Executive Board have discussed and approved the interim financial report of Brødrene A & O Johansen A/S for the period 1 January - 30 June 2014.

The interim financial report, which has not been audited or reviewed by the Company's auditor, has been prepared in accordance with IAS 34 'Presentation of Interim Financial Statements' as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion the interim financial statements give a true and fair view of the Group's assets, liabilities and financial position at 30 June 2014 and of the results of the Group's operations and cash flows for the period 1 January – 30 June 2014.

Further, in our opinion the Management's review includes a fair review of the development in the Group's operations and financial matters, the net profit or loss for the period and of the Group's financial position as a whole as well as a description of the most significant risks and elements of uncertainty facing the Group.

Albertslund, 29 August 2014

Executive Board

Niels A. Johansen
CEO

Henrik T. Krabbe
COO & CFO

Board of Directors

Henning Dyremose
Chairman of the Board

Michael Kjær
Deputy Chairman

René Alberg

Erik Holm

Leif Hummel

Carsten Jensen

Niels A. Johansen

Preben Damgaard Nielsen

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Income statement and statement of comprehensive income

<i>(All amounts are in DKK thousands)</i>	Note:	H1 2014	H1 2013	Q2 2014	Q2 2013	Full Year 2013
Revenue		1,076,352	1,116,274	534,612	592,994	2,309,707
Cost of sales		(760,942)	(782,209)	(379,043)	(418,204)	(1,618,825)
Gross profit		315,410	334,065	155,569	174,790	690,882
Other operating income		96	140	96	94	234
Gross margin		315,506	334,205	155,665	174,883	691,117
External expenses		(97,124)	(104,807)	(45,403)	(52,786)	(206,323)
Staff costs		(156,546)	(153,768)	(78,219)	(77,364)	(314,706)
Depreciation, amortisation and impairment of property, plant and equipment as well as intangible assets		(22,289)	(16,972)	(11,194)	(8,419)	(36,955)
Other operating expenses		(2,835)	(2,755)	(1,423)	(1,693)	(6,042)
Total operating expenses		(278,794)	(278,302)	(136,239)	(140,262)	(564,027)
Operating profit or loss (EBIT)		36,712	55,903	19,426	34,622	127,090
Financial income		1,417	1,755	580	948	3,028
Financial expenses		(2,872)	(2,500)	(1,288)	(1,268)	(4,912)
Profit or loss before tax (EBT)		35,257	55,158	18,718	34,302	125,205
Tax on profit or loss for the period		(8,955)	(9,665)	(4,644)	(4,451)	(26,564)
Net profit or loss for the period		26,302	45,494	14,074	29,851	98,642
Other comprehensive income						
Items reclassified to the income statement						
Foreign currency translation adjustment relating to foreign entities		(997)	(1,028)	(1,408)	(2,394)	(1,884)
Tax on other comprehensive income		0	0	0	0	0
Other comprehensive income after tax		(997)	(1,028)	(1,408)	(2,394)	(1,884)
Total comprehensive income		25,305	44,466	12,666	27,457	96,759
Earnings per share						
Earnings per share (EPS)		54	83	29	55	201
Diluted earnings per share (EPS-D)		53	83	28	55	198

Balance sheet as at 30 June

(All amounts are in DKK thousands)

ASSETS	Note:	H1 2014	H1 2013	Full Year 2013
Non-current assets				
Intangible assets				
Goodwill	4	102,348	102,070	102,348
Software		51,245	54,921	51,982
		153,594	156,992	154,330
Property, plant and equipment				
Land and buildings		515,161	411,708	456,085
Leasehold improvements		2,530	7,806	3,528
Fixtures and operating equipment		109,373	74,473	107,774
		627,064	493,987	567,387
Total non-current assets	5	780,657	650,978	721,717
Current assets				
Inventories	6	320,123	319,539	328,978
Trade receivables	7	270,617	331,792	289,057
Corporation tax receivable		0	14,777	4,014
Other receivables		21,533	19,019	21,583
Prepayments		9,740	10,705	10,832
Cash at bank and in hand		33,321	59,469	55,082
Total current assets		655,333	755,302	709,545
Total assets		1,435,990	1,406,280	1,431,263

Balance sheet as at 30 June

(All amounts are in DKK thousands)

EQUITY AND LIABILITIES	Note:	H1 2014	H1 2013	Full Year 2013
Equity				
Share capital		57,000	57,000	57,000
Other reserves		200,000	200,000	200,000
Reserve for foreign currency translation adjustments		2,760	4,619	3,763
Retained earnings		628,559	549,103	602,252
Proposed dividend		0	0	0
Total equity		888,320	810,722	863,015
Non-current liabilities				
Deferred tax	8	30,520	28,209	30,506
Credit institutions		168,283	170,112	169,209
Total non-current liabilities		198,803	198,321	199,715
Current liabilities				
Credit institutions		4,863	3,550	2,280
Trade payables		289,195	338,789	315,488
Corporation tax		241	0	0
Other payables		52,038	52,213	48,415
Deferred income		2,526	2,684	2,351
Total current liabilities		348,864	397,237	368,533
Total liabilities		547,667	595,559	568,248
Total equity and liabilities		1,435,987	1,406,280	1,431,263

Statement of changes in equity

<i>(All amounts are in DKK thousands)</i>	Share capital	Other reserves	Foreign currency translation adjustment	Retained earnings	Total Equity
Equity at 1 January 2014	57,000	200,000	3,763	602,252	863,015
Net profit or loss for the period	0	0	0	26,302	26,302
Foreign currency translation adjustment relating to foreign entities	0	0	(997)	0	(997)
Total comprehensive income	0	0	(997)	26,302	25,305
Share-based payment	0	0	0	0	0
Dividends paid	0	0	0	0	0
Total transactions with owners	0	0	0	0	0
Equity at 30 June 2014	57,000	200,000	2,766	628,553	888,320
Equity at 1 January 2013	57,000	200,000	5,647	503,609	766,256
Net profit or loss for the period	0	0	0	45,494	45,494
Foreign currency translation adjustment relating to foreign entities	0	0	(1,028)	0	(1,028)
Total comprehensive income	0	0	(1,028)	45,494	44,466
Share-based payment	0	0	0	0	0
Dividends paid	0	0	0	0	0
Total transactions with owners	0	0	0	0	0
Equity at 30 June 2013	57,000	200,000	4,619	549,103	810,722
Equity at 1 January 2013	57,000	200,000	5,647	503,609	766,256
Net profit or loss for the period	0	0	0	98,642	98,642
Foreign currency translation adjustment relating to foreign entities	0	0	(1,884)	0	(1,884)
Total comprehensive income	0	0	(1,884)	98,642	96,759
Share-based payment	0	0	0	0	0
Dividends paid	0	0	0	0	0
Total transactions with owners	0	0	0	0	0
Equity at 31 December 2013	57,000	200,000	3,763	602,252	863,015

Consolidated cash flow statement

(All amounts are in DKK thousands)

	H1 2014		H1 2013		Full Year 2013	
Cash flow from operating activities						
Operating profit or loss		36,712		55,903		127,090
Financial income and expenses, net (interest paid)		(1,455)		(745)		(1,884)
Profit or loss before tax		35,257		55,158		125,205
Adjustment of non-cash operating items		0		0		0
Depreciation and amortisation:						
Intangible assets		8,887		5,936		14,395
Property, plant and equipment		13,402	22,289	11,036	16,972	22,560
						36,955
Change in working capital:						
Change in trade receivables		18,441		(35,078)		7,656
Change in other receivables		1,146		3,297		607
Change in inventories		8,855		(16,385)		(25,823)
Change in trade payables		(26,293)		79,884		56,583
Change in other current liabilities		3,799	5,947	(49)	31,669	(4,181)
						34,842
Corporation tax paid		(4,770)		(28,053)		(31,971)
Cash flow from operating activities		58,723		75,746		165,032
Cash flow from investing activities						
Goodwill		0		(1,625)		(1,902)
Software		(8,195)		(8,916)		(14,660)
Land and buildings		(64,237)		(10,745)		(59,654)
Leasehold improvements		(234)		(4,910)		(1,643)
Fixtures and operating equipment		(10,001)		(14,345)		(54,220)
Disposal of property, plant and equipment		768		5,722		6,025
Cash flow from investing activities		(81,899)		(34,819)		(126,054)
Cash flow from financing activities						
Repayment of debt to/raising of loans with credit institutions, net		1,658		(191)		(2,363)
Acquisition/sale of treasury shares		0		0		0
Cash flow from financing activities		1,658		(191)		(2,363)
Cash flow for the period		(21,518)		40,737		36,616
Cash and cash equivalents at beginning of period		55,082		19,202		19,202
Foreign currency translation adjustment		(244)		(469)		(736)
Cash and cash equivalents at end of period		33,321		59,469		55,082

Notes

1 Accounting policies

The interim financial report has been prepared in accordance with IAS 34 'Preparation of Interim Financial Statements' as adopted by the EU and Danish disclosure requirements for listed companies. Except for the changes mentioned below, the accounting policies are unchanged from the accounting policies applied in the consolidated and company financial statements for 2013. Reference is made to note 1, which contains a full description of the accounting policies.

Changes in accounting policies

With effect from 1 January 2014, the Group has implemented IFRS 10-12 (including amendments), IAS 27 (2011), IAS 28 (2011), amendments to IAS 27 (2011), amendments to IAS 32, amendments to IAS 39 and IFRIC 21. The new accounting standards and interpretations have not had any effect on recognition and measurement.

2 Accounting estimates and judgements

Estimation uncertainty

The preparation of the interim financial statements requires Management to make accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant estimates made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated and company financial statements for 2013. For a more detailed description of the estimation uncertainty, reference is made to the consolidated and company financial statements for 2013.

3 Segment information

Group activities relating to the trade in technical installation materials take place in an integrated manner and are dealt with as one segment.

4 Impairment test

The annual impairment test of intangible assets, including goodwill, is performed at 31 December 2014, after the completion of budgets and strategy plans for the coming period. At 30 June 2014, Management is of the opinion that there has been no indication of impairment of the carrying amount of goodwill, and therefore no impairment test of goodwill has been performed at 30 June 2014. For a more detailed description of impairment tests, reference is made to the consolidated and company financial statements for 2013.

5 Non-current assets

Acquisition and disposal of non-current assets

During the reporting period the Group has invested DKK 82.7 million (H1 2013: DKK 40.5 million) in non-current assets. Investments in progress total DKK 113.3 million (H1 2013: DKK 21.5 million). Planned investments of approximately DKK 100 million are still to be made.

6 Inventories

No unusual inventory write-downs or reversals of inventory write-downs have been recorded in the period.

7 Trade receivables

An estimate is used to assess the recoverability of receivables according to the same principles as applied in the financial statements for 2013.

8 Deferred tax

At 30 June 2014 net deferred tax liabilities were DKK 30.5 million, compared to DKK 28.2 million at 30 June 2013.