2018

Annual Report 2018

Brødrene A & O Johansen A/S

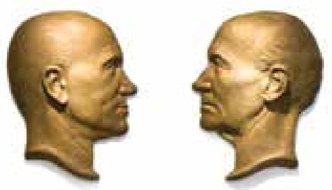
Rørvang 3 - DK-2620 Albertslund
Denmark
CVR No.: 58 21 06 17

WE'LL LEND A HAND
AS YOU BUILD AND MAINTAIN DENMARK

Here at AO, we have now made it possible for customers to use their mobiles to scan goods and complete their orders when shopping in our stores. This is why a bar code decorates the front of this year's annual report. We really mean it when we say "we'll lend a hand", and as an IT, knowledge and logistics company, it's important for us to embrace new technologies and understand how to turn these into services that help to make our customers' everyday lives easier – and ultimately more profitable.

Meet Axel – AO's latest acquisition of modern technology.
In future, you might be lucky to meet him when you pay us a visit. He will appear in all sorts of contexts, and he is able to assist you with information on AO's history, services, and the like.

AXEL



Brødrene A & O Johansen A/S is a Danish-owned company that was founded in 1914 and is currently a leading wholesale supplier to the construction industry. Bearing in mind our customer base, an award-winning e-commerce platform, 50 stores nationwide, a high-tech logistics set-up and our constant focus on services that make life easier for tradespersons working in Denmark today, we consider ourselves well-equipped for the future and ready to fulfil our role as an IT, knowledge and logistics company.

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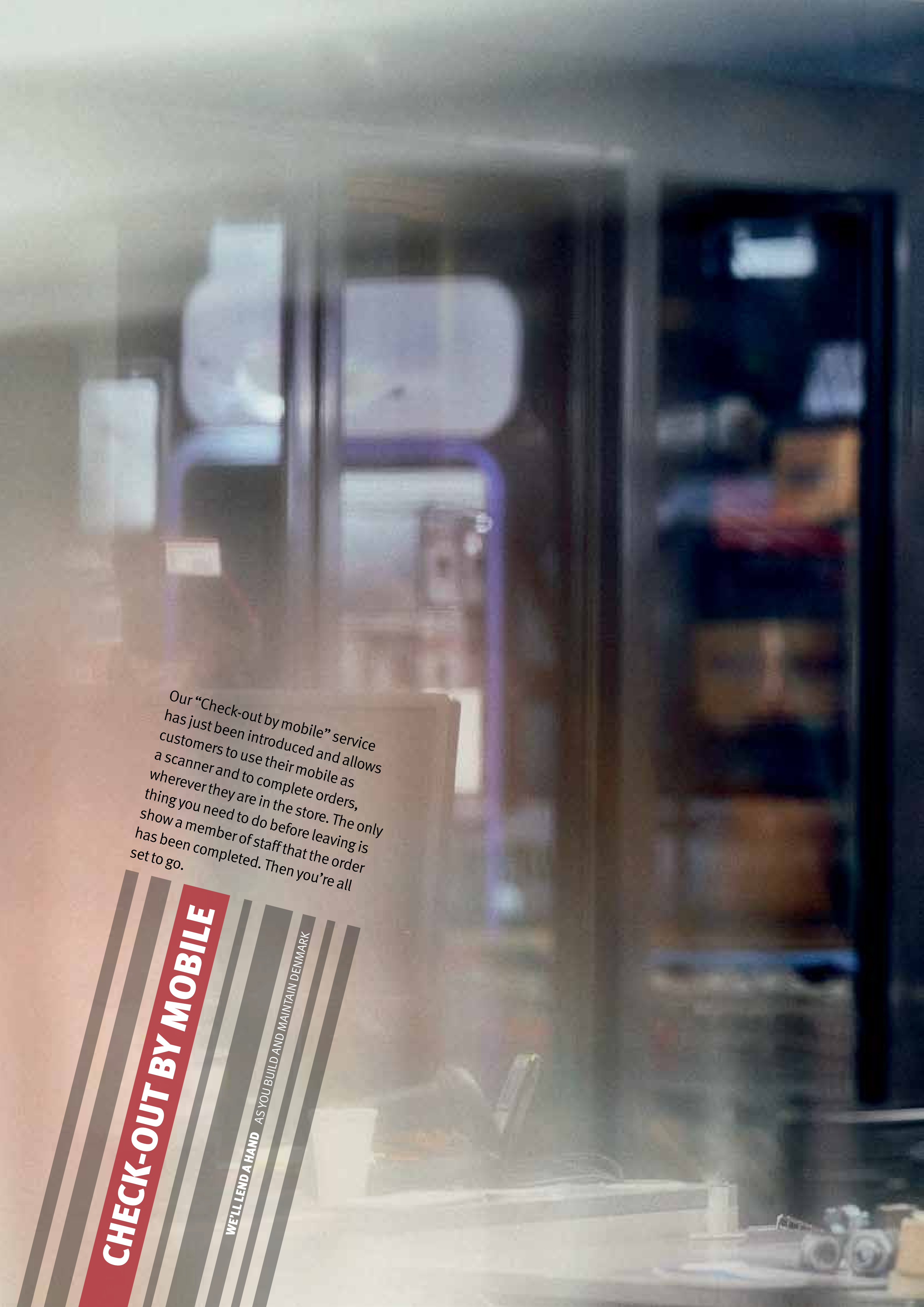
This financial statement is available in Danish and English. In case of doubt, the Danish version shall apply.



CHECK-OUT BY MOBILE

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

Our "Check-out by mobile" service has just been introduced and allows customers to use their mobile as a scanner and to complete orders, wherever they are in the store. The only thing you need to do before leaving is show a member of staff that the order has been completed. Then you're all set to go.

CONSOLIDATED FIVE-YEAR SUMMARY

(DKKm)

Key figures***	2018	2017	2016	2015	2014
Revenue	3,373.4	3,269.1	2,823.4	2,631.2	2,258.7
Gross margin*	805.2	769.8	704.7	629.0	573.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	241.0	223.1	207.5	172.3	144.7
Operating profit or loss (EBIT)	154.8	147.2	143.3	118.8	100.3
Financial income and expenses, net	(4.6)	(1.7)	(8.0)	(3.3)	(2.7)
Profit or loss before tax (EBT)	150.3	145.5	135.4	115.5	97.5
Tax on profit or loss for the year	(31.7)	(30.7)	(30.0)	(27.7)	(23.8)
Net profit or loss for the year	118.5	114.8	105.4	87.8	73.8
Non-current assets	1,300.1	1,304.6	1,266.9	1,180.0	896.7
Current assets	843.8	864.5	727.9	783.1	694.2
Total assets	2,144.0	2,169.1	1,994.8	1,963.2	1,590.9
Share capital	28.0	28.0	57.0	57.0	57.0
Equity	756.7	655.9	732.1	1,024.6	935.7
Non-current liabilities	288.6	230.1	339.1	217.5	204.5
Current liabilities	1,098.7	1,283.1	923.6	721.1	450.7
Cash flow from operating activities	300.8	134.4	235.8	96.1	199.9
Cash flow from investing activities	(82.3)	(164.2)	(129.7)	(301.5)	(197.1)
Of which investments in property, plant and equipment, net	(60.7)	(86.0)	(61.7)	(90.4)	(178.7)
Cash flow from financing activities	(229.8)	52.1	(110.2)	142.3	14.8
Cash flow for the year	(11.3)	22.3	(4.0)	(63.1)	17.5

Financial ratios

Gross profit margin	23.9%	23.5%	25.0%	23.9%	25.4%
Profit margin	4.6%	4.5%	5.1%	4.5%	4.4%
Return on capital employed	7.2%	7.1%	7.2%	6.7%	6.6%
Return on equity	16.8%	16.5%	12.0%	9.0%	8.2%
Solvency ratio	35.3%	30.2%	36.7%	52.2%	58.8%
Book value*	270	234	128	180	164
Share price at the end of the year	294	401	337	175	112
Price Earnings Basic (P/E Basic)	6.7	9.5	12.3	10.9	8.3
Dividend per DKK 10 share	6.0	6.0	6.0	0.0	0.0
Earnings per share (EPS Basic), DKK	44	42	27	16	14
Diluted earnings per share (EPS-D), DKK	44	42	27	16	13
Number of employees (FTE average)**	747	718	680	619	621

Basic EPS and diluted EPS have been calculated in accordance with IAS 33 (note 16 Earnings per share). Other financial ratios have been prepared in accordance with the CFA Society Denmark's "Recommendations and Financial Ratios".

*Financial ratios for the respective periods have been restated retroactively for the share split.

**The number of employees includes external temporary workers. Comparative figures for 2013-2015 have not been restated.

***Comparative figures have not been restated in connection with the implementation of IFRS 9 and IFRS 15.

MANAGEMENT'S REVIEW

THE YEAR IN OUTLINE

Growth characterised the first half of 2018 for Brødrene A & O Johansen A/S (the Group), whereas the second half of the year was marked by stagnant sales. The market change was expected, so already in the spring of 2018 focus was on cost adjustment measures, on protecting the effects of previous investments and on optimising working capital. This resulted in an increase in the gross margin ratio and a decline in expenses in the second half of 2018.

At the end of 2018, the number of employees, including temporary workers, was 731 which is 19 less than in December 2017. In 2018, the average number of employees (FTEs) was 747 against 718 in 2017, which is attributable to an increase in staff in 2017 and a similar staff reduction in 2018.

Consolidated revenue for the fourth quarter of 2018 was DKK 917.6 million which is 1.4% more than in the fourth quarter of 2017. Operating profit (EBIT) for the fourth quarter of 2018 was DKK 47.5 million against DKK 36.9 million for the fourth quarter of 2017. Hence, the profit margin for the fourth quarter was 5.2% against 4.1% in the same period of 2017.

In the whole of 2018, AO realised a pre-tax profit of DKK 150.3 million, which is DKK 4.7 million more than last year and in accordance with previous announcements of a pre-tax profit of DKK 145-155 million.

Cash flow from operating activities amounted to DKK 300.8 million, which is DKK 166.4 million more than last year due to successful working capital management. The major investment programmes of the past five years, implemented to prepare the Group for the considerable changes in the future, were completed in 2018. In 2018, total investments were DKK 82.3 million, which is a 50% reduction compared with 2017. In overall terms, the interest-bearing debt was reduced by DKK 213.3 million in 2018. Net gearing (net interest-bearing debt/EBITDA) was 2.6 compared with 3.7 last year.

At the Company's Annual General Meeting to be held on 20 March 2019, a dividend distribution of DKK 6 per share of DKK 10 will be proposed.

Consolidated revenue for the year was DKK 3,373.4 million against DKK 3,269.1 million in 2017. The increase of DKK 104.3 million, or 3%, is attributable to the Danish market.

Gross profit for the year was DKK 805.2 million, an increase of DKK 35.4 million, or 5%, compared to last year. The gross profit margin of 23.9% is 0.4 percentage point higher than last year. Distribution costs amounted to 3.9% of revenue, which is an increase of 0.1 percentage point compared to 2017.

External expenses of DKK 177.0 million were DKK 1.6 million, or 1%, higher than in 2017.

Staff costs for the year of DKK 387.2 million were DKK 15.9 million, or 4%, higher than in 2017, and must be seen in relation to the growth in revenue of 3% and the general adjustment of salaries.

Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to DKK 241.0 million, corresponding to 7.1% of revenue, and are DKK 17.9 million, or 0.3 percentage point, higher than last year.

Depreciation, amortisation and write-downs of DKK 86.2 million were DKK 10.3 million, or 14%, higher than realised in 2017 due to increased depreciation related to the investment in a new miniload storage system in 2017 and investment in digital solutions and software

Operating profit (EBIT) for the year was DKK 154.8 million against DKK 147.2 million in 2017. The profit margin was 4.6% against 4.5% in 2017.

Financial expenses, net, at DKK 4.6 million were DKK 2.9 million higher than last year due to lower revenue recognition of earn-out in relation to Greenline A/S.

Profit before tax for the year was DKK 150.3 million against DKK 145.5 million in 2017 and is in line with previously announced expectations. The results are considered satisfactory in the light of the competitive situation and the transformation process which the Group is undergoing.

Net profit for the year of DKK 118.5 million was DKK 3.7 million more than in 2017.

As at 31 December 2018, the Group's total assets amounted to DKK 2,144.0 million against DKK 2,169.1 million in 2017. The decrease of DKK 25.1 million is mainly attributable to a reduction in cash and cash equivalents of DKK 11.9 million and a change in working capital.

Equity totalled DKK 756.7 million, equivalent to a solvency ratio of 35.3% against 30.2% last year.

During the year, the interest-bearing debt of DKK 646.5 million was reduced by DKK 213.3 million due to the increase in operating profit and the decrease in working capital caused by optimisation.

In 2018, cash flow from operating activities amounted to DKK 300.8 million, which is DKK 166.4 million more than last year, mainly due to working capital optimisation.

In 2018, investments amounted to net DKK 82.3 million, which is DKK 81.9 million less than last year. In 2018, investments were made in new stores in Farum and Silkeborg and the renovation of a building in connection with the central warehouse in Albertslund. In addition, DKK 20.7 million was invested in digital solutions for online trading and in an ERP system upgrade. Finally, DKK 21.1 million was invested in fixtures and operating equipment.

Management anticipates that profit before tax for 2019 will be in the range of DKK 150-160 million.

The Group's financial objectives have been reached with regard to growth and cash flow from operating activities. The solvency ratio is close to its target, whereas the profit margin is below target.

DEVELOPMENT IN THE FOURTH QUARTER OF 2018

Consolidated revenue for the fourth quarter of 2018 was 917.6 million, which is DKK 12.7 million, or 1%, more than reported for the fourth quarter of last year. The increase is attributable to the Danish market.

Gross profit for the quarter amounted to DKK 216.2 million, which is DKK 7.0 million more than reported for the fourth quarter of 2017. The gross profit margin was 23.6%, which is 0.5 percentage point higher than last year.

Total operating expenses, before depreciation and amortisation, for the last quarter of 2018 totalled DKK 146.9 million, which is DKK 2.9 million, or 2%, down on last year's figures for the same period. Depreciation and amortisation amounted to DKK 21.9 million, which is DKK 0.7 million less than in the fourth quarter of 2017.

Operating profit (EBIT) was DKK 47.5 million, which is DKK 10.6 million more than last year. The profit margin of 5.2% is 1.1 percentage points higher than last year, partly due to an increase in the gross margin ratios, partly due to lower expenses.

Financial income and expenses, net, were negative at DKK 3.1 million, which is DKK 9.3 million more than in 2017, where DKK 8.9 million was gained from an earn-out adjustment.

ACTIVITIES OF THE YEAR

The Group's activities are targeted at managing and developing a modern knowledge, IT and logistics company with focus on selling and distributing technical installation materials and tools by means of a wide product range, a high level of service, and reliable deliveries at market prices.

AO's investments in the future continued in 2018. In that connection, the warehouse building located at Herstedvang underwent an extensive renovation, and AO's logistics centre in Horsens was bought out of a sale and leaseback agreement. In Farum, a new store was established in rented premises, and the store in Silkeborg was moved to a new location owned by AO. The store in Nyborg was closed as the customers shop much more in the recently established store in Odense SØ.

Online sales continued to develop positively, and today this revenue category is AO's biggest and supports the stores that are the backbone of AO. The considerable investments in IT and e-commerce initiatives continued and have, among other things, resulted in interesting self-service solutions.

In Denmark, AO has over the years built-up a national business model with a network of local stores selling plumbing, heating and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools. Concurrently with the increasing level of digitisation the activity level in AO's stores increased in 2018. In Sweden a regional strategy focusing on water supply and drainage products and tools has been chosen. A range of water supply and drainage products is marketed in Estonia.

The Group's B2B online trading platforms on AO.dk and AOnet.se are upgraded on a regular basis, and the same is the case with BilligVVS' various B2C webshops in Denmark, Sweden, and Norway as well as LavprisVVS.dk, LavprisEL.dk and Greenline.dk

The Group's culture is based on sound business practice, readiness for change, and competent employees having the basic attitude that 'the customer is king'. Focus is on meeting the customers' needs by combining a high level of service, a wide product range and local presence supplemented with efficient online trading systems and an effective central warehouse and distribution system. In this way, the lowest costs are achieved without having to compromise on customer needs.

In order to be able to handle customer demands, the product range stocked in the central warehouse is extended on an ongoing basis to include even more plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

BUSINESS FOUNDATION

The company of Brødrene A & O Johansen A/S (the Group) was established in 1914 and listed on the Copenhagen Stock Exchange in 1963.

The Group is a knowledge-based IT and logistics enterprise with a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools. This means that AO aims to offer its customers the most user-friendly and reliable IT systems on the market to handle planning, purchasing and deliveries in accordance with customer needs. Being a knowledge, IT and logistics enterprise means that AO wants to offer its customers the market's most user-friendly and reliable IT systems that are able to handle the planning, purchasing and distribution of the Group's product range.

The Group has more than 20,000 business customers (B2B) and roughly 200,000 private customers (B2C) who are offered a stock of more than 400,000 different items. As the Group wants to stock products required by the customers, the product range is improved continuously in accordance with the customers' needs.

The Group is active in Denmark, Sweden, Norway and Estonia. In 2018, international revenue constituted less than 10% of the Group's total revenue.

The Group supplies goods to the following markets:

- The professional market (the PROF market) served by AO is characterised by being fragmented, with many small customers.
- The private market served by BilligVVS, LavprisVVS, LavprisEL, VVSochBad Sverige AB, BilligVVS Norway and Greenline A/S is characterised by many customers making purchases online.

THE PROFESSIONAL MARKET (THE PROF MARKET)

AO's primary business is directed towards the PROF market in Denmark which is supplied with a wide range of products within the fields of heating, plumbing and sanitary ware, electrical equipment, water supply and drainage, and tools. The above-mentioned market can be divided into the following sectors: new building work and repair, renovation and maintenance work.

The market for repair, renovation and maintenance work is relatively stable, as it is characterised by many small assignments. The assignments are difficult to plan, and the need for materials in connection with each individual assignment is therefore difficult to predict. This market fits into AO's decentral strategy where 50 stores all over Denmark offer their customers a 'one-stop shopping' solution. All stores stock a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

The market for new building work is very sensitive to fluctuations in economy, and it may therefore vary a lot from year to year.

Through an efficient storage and distribution system AO is able to effect prompt deliveries to its customers who are professional tradesmen such as plumbers, electricians, building contractors, sewer contractors, construction companies as well as municipalities, utilities and public institutions.

AO's revenue from the professional market is, in principle, generated via three sales channels:

1. **AO stores**
   With 50 stores in Denmark, AO focuses on the need for local presence. The local stores provide the customers with goods and advice on various products and sales channels. To ensure fast and efficient customer service all stores offer self-service solutions. In addition, the customers are offered the opportunity to make use of AO's facilities in their day-to-day running of their businesses

2. **Online trading (PC, tablet, smartphone and EDI)**
   At AO.dk and through AO's app for smartphones the customers may, among other things, order goods 24 hours a day, see pictures of the goods, and track invoices. AO.dk and the app undergo constant development. AO's online sales amount to approximately DKK 1.2 billion, which is an increase of more than 14% compared with 2017.

3. **The competency centres**
   Through AO's competency centres the customers may place orders and get advice and direction as well as offers over the phone, by email or chat. The competency centre employees attend skills upgrading

programmes on a regular basis to be able to offer the customers the best possible professional service. To get even closer to the customers, several competency centre employees have been based in the individual stores.

The projects department is one of AO's competency centres focusing on major construction and renovation projects as well as 'large customers'. Here expertise of all product areas is assembled so that offers involving all technical lines of business may be optimised.

In Sweden, AO's revenue from the professional market is generated through the five stores in Gothenburg, Borås, Malmö, Helsingborg and Kristianstad plus AOnet.se, and focus is primarily on water supply and drainage products as well as tools.

From the Group's address in Estonia primarily water supply and drainage products are supplied to the professional market.

THE PRIVATE MARKET
The private market is served through BilligVVS, which offers a number of online trading solutions in Denmark, Sweden and Norway, and Greenline A/S which sells products in Denmark.

The customers are primarily private consumers and small business enterprises.

VISION AND STRATEGY

The Group's strategy is to serve the professional market through AO in Denmark and Sweden and through Vaga in Denmark and Estonia and to serve the private market in Denmark, Norway and Sweden through BilligVVS, LavprisVVS, LavprisEL, VVSochBad, and Greenline.

THE PROFESSIONAL MARKET
In the professional market, it is AO's vision to be the tradesmen's preferred supplier of technical installation materials to the market for repairs, renovations and maintenance and one of the preferred suppliers to the market for new building projects.

The key concept is one-stop shopping, both in the stores and online, where the customers are offered a complete product range as part of a collection and delivery system, which is supported by strong IT and online trading systems. AO is engaged in international collaboration through WIM and FEGIME, networks of European wholesalers dealing in plumbing, heating and sanitary ware products and electrical equipment and components. The purpose of this collaboration is to exchange experience and purchase goods at competitive prices.

The basis for AO's ability to remain competitive is competent, dedicated and adaptable employees, combined with a high level of service, innovation and knowledge sharing supported by user-friendly IT and logistics solutions.

AO wants to provide value-added services for its customers, partly by being a trendsetter with new services and concepts, partly by developing the Group's decentralised profile with stores that are close to the customers. This is supported by AO's concepts and culture where the employees with their extensive product knowledge and reliable customer service are key to the performance of the Group.

AO has developed a number of IT concepts and online trading solutions to strengthen the customers' ability to compete and streamline their business procedures. Through AO.dk and apps for iPhones/iPads and Androids customers may access these concepts, just as they may order goods 24 hours a day, see pictures of the goods, and track invoices, etc.

THE PRIVATE MARKET
In the private market, it is AO's vision to be the leading online trading platform for the sale of technical installation materials in Denmark and one of the leading online trading platforms in Sweden and Norway.

The Group's financial objective is:

- to realise a pre-tax profit of approximately 6% of revenue
- to generate a positive cash flow from operating activities of approximately 6% of revenue
- to achieve profitable growth both organically and through acquisitions
- to maintain a solvency ratio of approximately 40%.

FINANCIAL REVIEW

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
In 2018, AO achieved revenue of DKK 3,373.4 million against DKK 3,269.1 million in 2017, corresponding to a growth of DKK 104.3 million, or 3%. The increase is attributable to Brødrene A & O Johansen A/S' sales in the Danish market. International revenue decreased by DKK 8.3 million to DKK 290.5 million, or 3%, mainly due a fall in the exchange rate of the Swedish krona. In local currency, revenue increased by 1%.

The Group consists of the following companies:
All subsidiaries are 100% owned by Brødrene A & O Johansen A/S.

Brødrene A & O Johansen A/S
Rørvang 3
DK-2620 Albertslund
Danmark
CVR No. 58210617

AO Invest A/S
Denmark
CVR No. 51031113

AO Sverige AB
Sweden
Org. No. 556586-3148

Vaga Tehnika Eesti OÜ
Estonia
Registry Code 10365671

VVSochBAD Sverige AB
Sweden
Org. No. 556840-1029

Billig VVS AS
Norway
Org. No. 811807052

Greenline A/S
Denmark
CVR No. 29632820

Parent company

Subsidiaries

SELF-SERVICE

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

Self-service became a reality in AO's stores during 2018, making it possible for customers to bypass any queues. Use the display screens to complete your order and quickly get back on the road.

AO realised a gross profit of DKK 805.2 million against DKK 769.8 million in 2017. The growth of DKK 35.4 million, or 5%, is mainly attributable to an increase in the gross profit margin by 0.4 percentage point to 23.9%. The increase in the gross profit margin is attributable to a changed customer and product mix as well as a price adjustment of products with low profitability. The gross profit includes customer distribution costs of DKK 130.1 million, or 3.9% of revenue. In 2017, distribution costs amounted to DKK 122.6 million, or 3.8% of revenue.

Total operating expenses, excluding depreciation, amortisation and write-downs, amounted to DKK 564.2 million, which is DKK 17.5 million or 3% more than the year before. The increase is attributable to external expenses of DKK 1.6 million and staff costs of DKK 15.9 million. AO's transformation from a traditional wholesaler to a knowledge-based IT and logistics enterprise continues. At the end of 2018, AO had 731 employees, which is 19 less than at the end of 2017.

External expenses totalled DKK 177.0 million, which is DKK 1.6 million, or 1 %, more than last year. Bad debts amounted to DKK 5.5 million, which is DKK 0.8 million more than realised in 2017.

Staff costs of DKK 387.2 million are DKK 15.9 million, or 4%, higher than in 2017. During the year, the average number of full-time employees (FTEs), including temporary workers, increased by 29 persons, or 4%, to 747. The development in the number of employees at year-end, where AO employed 19 persons less than at the end of 2017, will result in a declining number of FTEs in 2019.

Earning before interest, taxes, depreciation and amortisation (EBITDA) amounted to 241.0 million against DKK 223.1 million in 2017. The EBITDA margin was 7.1% against 6.8% in 2017.

Depreciation, amortisation and write-downs of DKK 86.2 million are DKK 10.3 million higher than last year due to the current and previous years' investments in new stores, a new miniload storage system, an upgrade of the online trading platform, a new pricing tool, and PIM and CRM systems.

Operating profit (EBIT) for the year was DKK 154.8 million against DKK 147.2 million in 2017. The profit margin was 4.6% against 4.5% in 2017.

Net financial expenses of DKK 4.6 million are DKK 2.9 million higher than last year and contain an adjustment of liabilities related to acquisitions of DKK 6.1 million. In 2017, the adjustment of liabilities related to acquisitions was DKK 8.9 million, so the actual financial expenses for the year are DKK 10.7 million against DKK 10.6 million in 2017.

In 2018, the Group recorded a pre-tax profit of DKK 150.3 million against DKK 145.5 million in 2017, corresponding to an increase of DKK 4.8 million.

In 2018, the Group's foreign operations reported a pre-tax profit of DKK 19.6 million, compared to DKK 19.8 million in 2017.

Tax on net profit for the year amounted to DKK 31.7 million against DKK 30.7 million in 2017.

The Group's post-tax profit for the year was DKK 118.5 million, compared to DKK 114.8 million in 2017.

Profit before tax for 2018 of DKK 150.3 million is satisfactory in the light of the market situation, and the result is in accordance with the latest interim financial report where profit before tax for the year was expected to be in the range of DKK 145-155 million.

BALANCE SHEET

As at 31 December 2018, Group assets amounted to DKK 2,144.0 million against DKK 2,169.1 million in 2017.

Non-current assets totalled DKK 1,300.1 million, which is DKK 4.4 million less than in 2017. The change is mainly attributable to land and buildings of DKK 663.6 million, which increased by DKK 22.8 million as a result of a new store in Silkeborg and the renovation of a central warehouse building. Software of DKK 42.2 million decreased by DKK 9.5 million due to investments of DKK 20.7 million counterbalanced by depreciation of DKK 29.9 million. Fixtures and operating equipment of DKK 171.7 million is DKK 15.5 million lower than last year, due to an investment of DKK 21.1 million counterbalanced by depreciation of DKK 36.7 million.

Current assets amounted to DKK 843.8 million against DKK 864.5 million in 2017, a decrease of DKK 20.7 million. Trade receivables of DKK 370.0 million decreased by DKK 11.4 million, and the Group's cash and cash equivalents of DKK 16.6 million were reduced by DKK 11.9 million. Inventories of DKK 435.4 million increased by DKK 21.3 million compared to last year due to a wider product range.

As at 31 December 2018, AO's equity totalled DKK 756.7 million corresponding to a solvency ratio of 35.3%. Equity is DKK 100.8 million higher than at the end of 2017 due to profit for the year of DKK 118.5 million counterbalanced by a translation adjustment of DKK 1.2 million and dividend distribution of DKK 16.3 million.

Non-current liabilities of DKK 288.6 million are DKK 58.5 million higher than in 2017. The increase is due to the incurrence of mortgage debt. Compared to last year, deferred tax decreased by DKK 1.5 million to DKK 60.5 million.

AO's current liabilities of DKK 1,098.7 million decreased by DKK 184.5 million, mainly due to the fact that short-term debt owed to credit institutions of DKK 418.3 million decreased by DKK 273.2 million. Trade payables of DKK 589.3 million increased by DKK 72.7 million as a result of agreements with suppliers. Agreements have been entered into where Supply Chain Finance programmes are used. Other payables increased by DKK 10.2 million to DKK 85.0 million due to timing difference.

CASH FLOW STATEMENT

Cash flow from operating activities was positive at DKK 300.8 million, which is DKK 166.4 million more than last year. The deviation is attributable to an increased EBITDA of DKK 17.9 million, whereas working capital decreased over the year by DKK 85.4 million. In 2017, working capital increased by DKK 48.1 million. Trade payables increased by DKK 72.6 million through improved agreements with suppliers containing Supply Chain Finance programmes.

Net investments, including acquisitions, totalled DKK 82.3 million, compared to DKK 164.2 million in 2017. During the year, software investments totalled DKK 20.7 million, which is attributable to an upgrade of the ERP system, the development of self-service solutions and the Group's e-commerce solutions. Investment in land and buildings of DKK 39.6 million is attributable to a new store in Silkeborg and the renovation of a central warehouse building. Investment in operating equipment of DKK 21.1 million is mainly attributable to the payment of the remaining balance for the miniload storage system as well as tools and equipment for the new stores in Silkeborg and Farum.

Cash flow from financing activities comprise reduced drawing on the Group's credit facilities of DKK 213.3 million net. Dividends of DKK 16.3 million have been distributed.

Total cash flow was negative at DKK 11.3 million, and therefore the Group's cash totalled DKK 16.6 million as at 31 December 2018.

EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date that could have a material effect on the financial position of the Group and the Company at 31 December 2018.

OUTLOOK

Management expects that the activity in relevant markets will be unchanged or slightly rising in 2019 compared to 2018.

In 2019, the Group will focus on streamlining and adapting the enterprise to the future market, where digitisation and transparency will increase competition.

Management expects a profit before tax for 2019 in the range of DKK 150-160 million.

CORPORATE GOVERNANCE

The Board of Directors/Audit Committee and the Executive Board have overall responsibility for the Group's internal controls and risk management in connection with the financial reporting process, including compliance with applicable legislation and other regulation in relation to financial reporting.

AO has established internal control and risk management systems to ensure that financial reporting is carried out in accordance with IFRS and other accounting regulations applicable to listed Danish companies. In addition, the systems increase the certainty that the internal and external financial reporting provides a true and fair presentation that is free from material misstatement.

On an ongoing basis, the Audit Committee monitors the control and risk management systems in the Group. In this context risks that may affect the Group's financial reporting process are assessed on an ongoing basis. The risk assessment is based on significant items and other business-critical areas.

RECOMMENDATIONS FOR CORPORATE GOVERNANCE

On 23 November 2017, the Danish Committee on Corporate Governance issued updated recommendations for corporate governance based on the "comply-or-explain" principle. The revised recommendations have been implemented by NASDAQ Copenhagen A/D and they apply to all listed companies.

All recommendations have been analysed and considered by the Board of Directors and the Executive Board of Brødrene A & O Johansen A/S, and the Board of Directors still finds that the management of Brødrene A & O Johansen A/S complies with the most important recommendations.

Listed below is a summary of the most important areas, where the Group has decided to follow another practice:

- In the light of the Company's owner structure the Board of Directors reserves the right, in certain cases, to reject takeover bids without them being submitted to the shareholders.

- The CEO is a member of the Board of Directors.

- A majority of the members of the Board of Directors elected by the General Meeting are not independent, as they have been members for more than 12 years.

- Only information about the total shareholding of the Board of Directors is disclosed. It is considered a breach of privacy to disclose information about the shareholding of each individual member.

- A majority of the members of the Audit Committee are not independent. The Audit Committee consists solely of members of the Board of Directors of the Company, and therefore there are no independence requirements according to Danish law.

- The chairman of the Board of Directors is also the chairman of the Audit Committee.

- On the basis of the size of the Board of Directors and the skills of the Board members, it has been decided neither to establish a nomination committee nor a remuneration committee. Instead, the chairmanship is responsible for the recommended preparatory tasks.

- An actual remuneration policy applicable to the Board of Directors and the Executive Board has not been adopted. General guidelines for incentive remuneration for the Executive Board have, however, been adopted.

- The individual members of the Executive Board may be granted share options, and one year after the options have been granted, one-third of the share options is exercisable. Two years after the options have been granted, another third of the share options is exercisable, and three years after the granting of the share options, the remaining third is exercisable. The Company has no right, in exceptional cases, to claim back in full or in part variable components of remuneration that have been awarded on the basis of data, which subsequently are found to be incorrect.

- The final implementation of the EU Shareholders' Rights Directive into Danish law is awaited. Until then it is considered a breach of privacy to disclose information about the remuneration of each individual member of the Board of Directors and the Executive Board. Information on the remuneration to the entire Board of Directors and Executive Board is available in the annual report.

- The Board of Directors has decided that there is no need for establishing a whistleblower scheme, as the Company's internal control environment is at a high level.

Pursuant to section 107b of the Danish Financial Statements Act, Brødrene A & O Johansen A/S has prepared a complete report on corporate governance for the 2018 financial year, which can be viewed or downloaded from https://ao.dk/globalassets/download/regnskabsdata/2018/corporate_governance_2018_report.pdf.

SPECIFIC RISK FACTORS

Intangible assets:
The most significant risk in connection with intangible assets relates to a decline in the carrying amount of goodwill caused by a considerable and continued negative development of the Group's operations in Denmark and Sweden. In addition, there is risk of software impairment and impairment of intellectual property rights as a result of changed use or technical obsolescence. Goodwill and other intangible assets are assessed against the Group's operating activities on a regular basis.

Land and buildings:
AO's properties are primarily used in connection with the Group's operations. Fluctuations in the market value of properties will not have any influence on the use of the properties and thus the valuation of the carrying amount. A changed use of AO's properties could affect the valuation of the carrying amount.

Inventories:
The main risk in connection with inventories is if the products become obsolete. AO's inventories are therefore assessed on a regular basis in relation to the Group's business activities. Continuous impairment is made on products having low marketability.

Other business-critical areas:
AO's business is built on an efficient warehouse and logistics system as well as well-functioning IT systems. An extensive and prolonged breakdown in these areas will be business-critical for AO. An insurance programme and contingency plans have been drawn up to minimise the financial risk related thereto.

CORPORATE SOCIAL RESPONSIBILITY

AO complies with current legislation and international conventions in the countries and communities in which the Group operates. AO operates primarily in Denmark, and most purchases are made in Europe.

We respect and comply with competition rules, environmental legislation, labour market legislation, agreements and safety requirements, and other regulations that provide the framework for how we conduct business in the countries in which we operate.

We want to be a responsible company that, on a general level, supports the UN Global Compact's ten principles on human rights, labour standards, the environment and anti-corruption.

In our work with corporate social responsibility we have chosen to focus primarily on the environment and climate, plus social conditions and working conditions as the most important areas.

ENVIRONMENT AND CLIMATE

AO has an environmental and climate policy, which focuses on the continued improvement of the company's environmental and climate performance. AO acknowledges that an active consideration for the environment is important, and through our purchases, investments and other operations we will help to protect the environment, so that the development of society may take place in a sustainable way.

We focus on reducing the most significant environmental and climate impacts and have identified

- waste – reduction and recycling
- energy consumption – electricity and heat
- transport – bigger consignments, less haulage, and less driven kilometres in the service of the company

as the most significant.

AO is environmentally certified according to DS/EN ISO 14001:2015 in Denmark.

SOCIAL CONDITIONS AND WORKING CONDITIONS

AO wants to be a socially responsible business focusing on competent and respectful management, motivation, development/training, and work environment.

The employees are our most important asset and vital to our success and results. It is therefore important for AO that the employees' personal and professional skills are developed to cope with the changing market requirements and that a responsible, safe and healthy working environment is ensured.

AO has no written comprehensive policy regarding social conditions and working conditions. Management believes that AO's intentions and policies are communicated to each individual employee through the daily management, the employee handbook and the policies contained herein, and the work of the Working Environment Committee.

AO has set target figures for the gender composition of the supreme management body and prepared a policy to increase the proportion of the underrepresented gender at the Company's other management levels.

In the long term, it is AO's plan that the gender composition at the Company's management levels shall reflect the overall gender composition of the workforce.

The full statutory report on the gender composition of management, cf. section 99b of the Danish Financial Statements Act, can be viewed or downloaded from https://ao.dk/globalassets/download/regnskabsdata/2018/gender_composition_of_management_report_2018.pdf.

RESPECT FOR HUMAN RIGHTS, AND ANTI-CORRUPTION AND BRIBERY

AO wants to comply with current legislation and international conventions regarding human rights and sound business practice, including anti-corruption and bribery, in the countries and local communities where we operate.

We have assessed that we only operate in countries where human rights and rules against corruption and bribery are an integral part of the countries' local legislation, and where this legislation is both recognised and respected by both businesses and the civilian population.

In our opinion, AO's current policies and practices related to working conditions are in compliance with locally and internationally recognised human rights. We do, however, recognise that the boundaries of bribery and corruption can be blurred even in a well-regulated country like Denmark. Consequently, we have internal rules and procedures to ensure our independence from customers and suppliers.

We are aware of the fact that our trade with suppliers may constitute a potential risk in relation to the observance of human rights and generally accepted rules on corruption and bribery, especially when it comes to direct and indirect purchases from countries where local legislation on the area is not clear, or where such legislation is not recognised, respected and enforced.

In order to obtain an overall picture of AO's risk in relation to the procurement of goods, we track, on a regular basis, AO's purchases by country of origin. Our analyses show that only 12% of AO's total purchases has a country of origin outside of Europe.

On these grounds, we have drawn up a Supplier Code of Conduct, which is discussed with the supplier prior to the conclusion of a business agreement or in connection with the renewal of an agreement, and which is an integral part of the business agreement. This set of rules is available at https://ao.dk/om-ao/investor-relations/in-english/company-profile/supplier-code-of-conduct.

AO assesses on an ongoing basis the need for further action in this area.

The full statutory report on corporate social responsibility for the 2018 financial year, cf. section 99a of the Danish Financial Statements Act, can be viewed or downloaded from https://ao.dk/globalassets/download/regnskabsdata/2018/corporate_social_responsibility_2018_report.pdf.

SHAREHOLDER INFORMATION

DIVIDEND

The Board of Directors proposes that a dividend of DKK 6 per DKK 10 share be distributed for 2018.

SHAREHOLDERS, CAPITAL AND VOTING RIGHTS

In 1963, AO was introduced on the Copenhagen Stock Exchange with an ownership structure consisting of a combination of ordinary shares and preference shares. The Board of Directors wants to maintain this owner structure, which among other things means that the Company only can be taken over if the takeover has been accepted by the holders of ordinary shares. Ordinary shares cannot be negotiated without the approval of the Board, whereas preference shares are freely negotiable. In addition, this share class carries special rights in the form of payment of cumulative dividends.

The Company's nominal share capital is DKK 28 million. Of this, DKK 5,640,000 are in the form of ordinary shares and DKK 22,360,000 are in the form of preference shares. Each ordinary share of DKK 100 carries 100 votes, whereas each preference share of DKK 10 carries one vote. In addition to the difference in the number of votes, the two share classes differ in the following respects:

The ordinary shares are nonnegotiable instruments whereas the preference shares are listed on NASDAQ Copenhagen under ID code DK0060803831.

The preference shares have a preferential cumulative dividend right of 6%. This means that no dividend will be paid for ordinary shares until the preference shares have achieved a cumulative dividend of 6%.

In case of liquidation, preference shares take precedence over ordinary shares.

Changes to the Company's Articles of Association require that two thirds of cast votes and two thirds of the represented capital at a general meeting are in favour of the change.

The Company's Board of Directors consists of eight members who do not have to be shareholders. Five members are elected by the general meeting, and three members are elected by the staff. Holders of preference shares are entitled to appoint and elect one member of the Board of Directors while holders of ordinary shares elect the remaining Board members.

THE SHAREHOLDER COMPOSITION AT THE PRESENTATION OF THE ANNUAL REPORT IS SHOWN BELOW:

	Number of ordinary shares (DKK 100)	Number of preference shares (DKK 10)	Number of shares –nominal value	Capital in %	Votes in %
Evoleska Holding AG	56,220	20,800	5,830,000	20.82 %	71.64 %
Niels A. Johansen	160	270,640	2,722,400	9.72 %	3.64 %
Nordea Funds Ltd.	0	222,675	2,226,750	7.95%	2.83%
UCITS/ Investeringsforeningen Bankinvest	0	193,904	1,939,040	6.93%	2.46%
Other registered shares	20	1,112,806	11,130,060	39.75%	14.15%
Unregistered shares	0	332,785	3,327,850	11.89%	4.23%
Total, excl. own shares	56,400	2,153,610	27,176,100	97.06 %	98.95 %
Own shares	0	82,390	823,900	2.94 %	1.05 %
Total	56,400	2,236,000	28,000,000	100.00 %	100.00 %

SHARES OWNED BY TOP MANAGEMENT IN BRØDRENE A & O JOHANSEN A/S AT THE END OF DECEMBER 2018

According to the Company's internal policy about the purchase and sale of securities issued by Brødrene A & O Johansen A/S, members of the Company's Board of Directors, Executive Board and other individuals specified on the Company's insider list may buy and sell such securities during a period of four weeks following the publication of the Company's annual or interim financial report.

ID code: DK0060803831	Total holding of preference shares	Share price 1)
Board of Directors 2) + 4)	17,070	5,018,580
Executive Board 2) + 3) + 4) + 6)	336,450	98,916,300
Other insiders 2)	590	173,460
Total insiders 2)	354,110	104,108,340

NOTE:

1) The calculated share price of DKK 294 is based on the closing price on 28 December 2018.

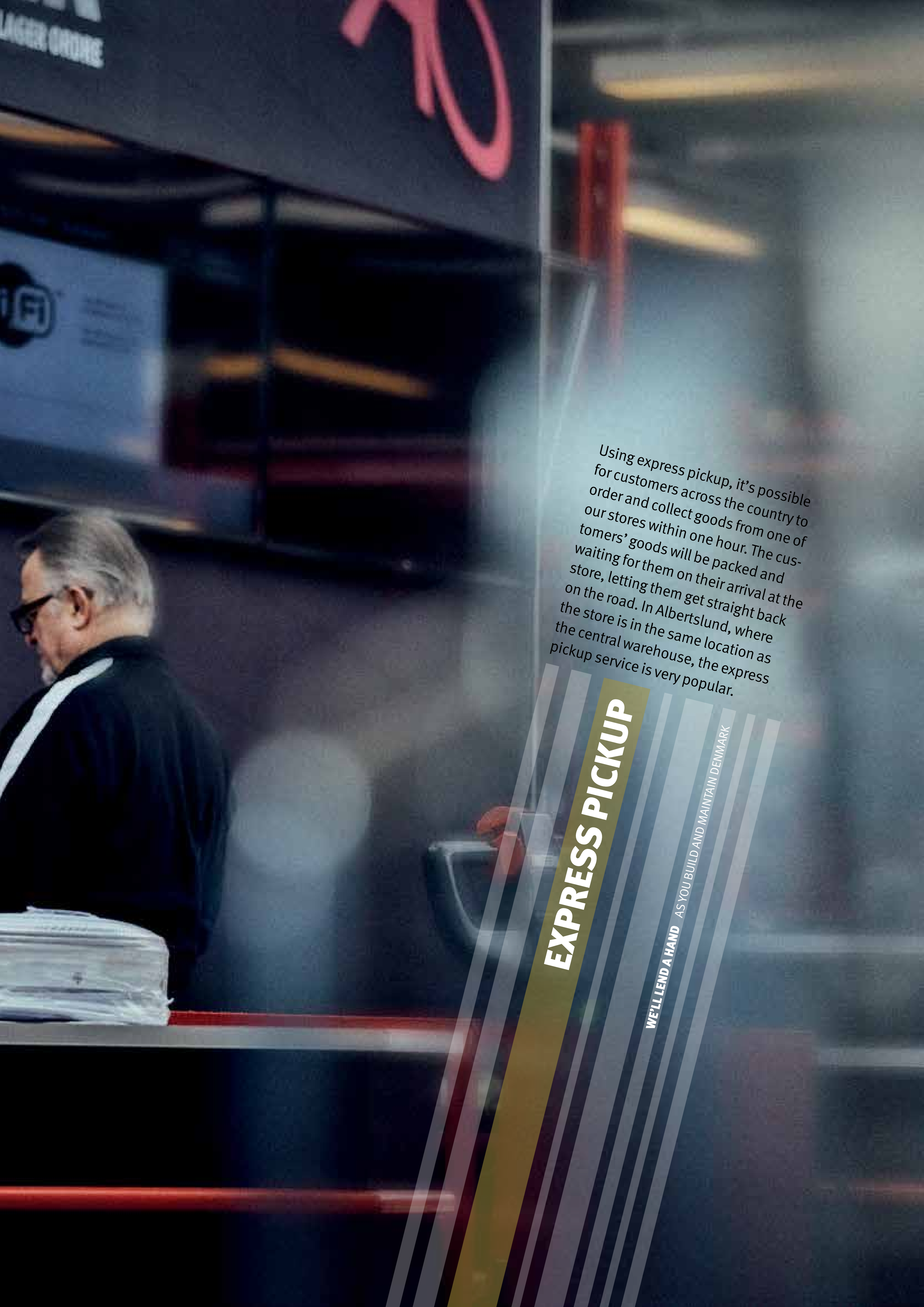
2) The statement includes information about the shareholdings of related parties of the mentioned individuals.

3) Shares owned by individuals who are members of both the Board of Directors and the Executive Board have been included as part of the shareholdings of the Executive Board.

4) In addition, the Board of Directors, the Executive Board and the related parties of the mentioned individuals own ordinary shares at a nominal value of DKK 5,638,000.-. The total capital in the form of ordinary shares amounts to nominally DKK 5,640,000.-.

5) As at 31 December 2018 the Company's holding of own shares totalled 82,390 shares.

6) Lili and Niels A. Johansen's direct and indirect ownership in the Company totals 31.46% of the Company's share capital.



EXPRESS PICKUP

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

Using express pickup, it's possible for customers across the country to order and collect goods from one of our stores within one hour. The customers' goods will be packed and waiting for them on their arrival at the store, letting them get straight back on the road. In Albertslund, where the store is in the same location as the central warehouse, the express pickup service is very popular.

BOARD MEETINGS HELD IN 2018

DATE	TEXT
22 February 2018	Annual report for 2017.
24 March 2018	Annual General Meeting and constituent Board meeting.
25 May 2018	Interim financial report for the first quarter of 2018 and strategy.
24 August 2018	Interim financial report for the first half of 2018.
19 November 2018	Interim financial report for the first three quarters of 2018.
6 December 2018	Budget for 2019.

In addition, five Audit Committee meetings have been held.

PARTICIPATION IN BOARD MEETINGS IN 2018

PARTICIPANTS	22 February	AGM 23 March	23 March	25 May	Strategy 25 May	24 August	19 November	6 December
BOARD OF DIRECORS								
Henning Dyremose	YES	YES	YES	YES	YES	YES	YES	YES
Michael Kjær	YES	YES	YES	YES	YES	YES	YES	YES
Erik Holm	YES	YES	YES	YES	YES	YES	YES	YES
Preben Damgaard	YES	YES	YES	YES	YES	YES	YES	YES
Niels A. Johansen	YES	YES	YES	YES	YES	YES	YES	YES
René Alberg	YES	YES	YES	YES	YES	YES	YES	YES
Carsten Jensen	NO	YES	YES	YES	YES	NO	YES	NO
Jonas Kvist	–	–	YES	YES	YES	YES	YES	YES
NOT RE-ELECTED EMPLOYEE REPRESENTATIVE								
Leif Hummel	YES	YES	–	–	–	–	–	–
EXECUTIVE BOARD								
Stefan F. Jensen	YES	YES	YES	YES	YES	YES	YES	YES
Lili Johansen	YES	YES	YES	YES	YES	YES	YES	YES
Henrik T. Krabbe	YES	YES	YES	YES	YES	YES	YES	YES
Gitte Lindeskov	YES	YES	YES	YES	YES	YES	YES	YES
AUDITOR								
Peter Gath	YES	YES	–	–	–	–	–	–

PARTICIPATION IN AUDIT COMMITTEE MEETINGS IN 2018

PARTICIPANTS	9 February	25 May	24 August	19 November	6 December
AUDIT COMMITTEE					
Henning Dyremose	YES	YES	YES	YES	YES
Michael Kjær	YES	YES	YES	YES	YES
Erik Holm	NO	YES	YES	YES	YES
Preben Damgaard	NO	YES	YES	YES	YES
EXECUTIVE BOARD					
Niels A. Johansen	YES	YES	YES	YES	YES
Henrik T. Krabbe	YES	YES	YES	YES	YES
AUDITOR					
Peter Gath	YES	YES	YES	YES	NO

BOARD EVALUATION PROCEDURE

Once a year the Board of Directors perform an evaluation on the basis of a questionnaire regarding the following:

- Board management and composition
- Board experience and competencies
- Work method of the Board of Directors
- Board chemistry
- The Board's evaluation of the Executive Board.

The conclusion of the evaluation is that the Board of Directors and the Executive Board possess the competencies and qualifications deemed sufficient and necessary to run AO both in the short and long term.

COMPANY ANNOUNCEMENTS IN 2018

DATE	NO.	TEXT
22 February 2018	1	Annual report for 2017.
22 February 2018	2	Notice convening the Annual General Meeting of Brødrene A & O Johansen A/S.
19 March 2018	3	Election of employee representatives to the Board of Directors of Brødrene A & O Johansen A/S.
23 March 2018	4	Result of Annual General Meeting.
23 March 2018	5	Articles of Association.
23 March 2018	6	Revised financial calendar for 2018.
25 May 2018	7	Interim financial report for the first quarter of 2018.
24 August 2018	8	Interim financial report for the first half of 2018.
19 November 2018	9	Interim financial report for the first three quarters of 2018.
6 December 2018	10	Financial calendar for 2019.

FINANCIAL CALENDAR FOR 2019

DATE	TEXT
5 February 2019	Deadline for shareholders to propose items for the agenda of the Annual General Meeting.
22 February 2019	Annual report for 2018.
20 March 2019	The Annual General Meeting of Brødrene A & O Johansen A/S will be held at 11 a.m. at the Company's head office.
22 May 2019	Interim financial report for the first quarter of 2019.
23 August 2019	Interim financial report for the first half of 2019.
15 November 2019	Interim financial report for the first three quarters of 2019.

PROPOSALS FOR THE ANNUAL GENERAL MEETING
The Company's Annual General Meeting will be held on Wednesday, 20 March 2019, at 11.00 a.m. at the offices of Brødrene A & O Johansen A/S, Rørvang 3, DK-2620 Albertslund, Denmark.

1. ALLOCATION OF PROFITS

Brødrene A & O Johansen A/S' result for the year amounts to DKK 118,514,000.

In accordance with article 3, paragraph 10, cf. article 18, paragraph 2, of the Articles of Association, the preferred stock holders are entitled to an advance cumulative dividend of 6%. Subsequently, the percentage dividend for the ordinary share capital holders is determined, and if additional dividend is declared, the ordinary shareholders and the preference shareholders are entitled to receive the same percentage dividend.

The Board of Directors proposes to distribute a dividend of DKK 6 per DKK 10 share, corresponding to 60% of the share capital.

2. AUTHORISATION TO ACQUIRE OWN SHARES

The Board of Directors proposes as usual that it be authorised by the General Meeting during the period until 1 May 2020 to let the Company acquire own preference shares equivalent to a total of 10% of the Company's share capital at the time of being granted authorisation, provided that the Company's total holding of own shares at no point exceeds 10% of the Company's share capital. The consideration must not deviate by more than 10% from the official price quoted at Nasdaq Copenhagen at the time of acquisition.

MANAGEMENT'S STATEMENT

Today the Board of Directors and the Executive Board have discussed and approved the annual report of Brødrene A & O Johansen A/S for 2018.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 December 2018 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2018.

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

The annual report is submitted to the Annual General Meeting for approval.

Albertslund, 22 February 2019

EXECUTIVE BOARD

Niels A. Johansen
CEO

Henrik T. Krabbe
CFO

Stefan Funch Jensen
CDO

Lili Johansen
CHRO

Gitte Lindeskov
CIO

BOARD OF DIRECTORS

Henning Dyremose
Chairman of the Board

Michael Kjær
Deputy Chairman

René Alberg*

Erik Holm

Carsten Jensen*

Niels A. Johansen

Jonas Kvist*

Preben Damgaard Nielsen

* Staff-elected Board member

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Brødrene A & O Johansen A/S

OPINION

We have audited the consolidated financial statements and the parent company financial statements of Brødrene A & O Johansen A/S for the financial year 1 January – 31 December 2018, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

We were initially appointed as auditor of Brødrene A & O Johansen A/S before 1995 and must therefore withdraw from the audit no later than at the annual general meeting in 2021. We have been reappointed annually by resolution of the general meeting for a total consecutive period of more than 24 years up until the financial year

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of goodwill and other IP rights acquired in connection with acquisitions

In the financial year 2018, the Group and the Company has recognised goodwill and other IP rights acquired in connection with acquisitions totalling DKK 420,944 thousand and 302,407 thousand. According to International Financial Reporting Standards as adopted by the EU, an impairment test of goodwill is required at least once a year. The yearly impairment test is key to our audit as the test includes, among other things, assumptions and estimates relating to future earnings.

In connection with our audit, we tested the impairment test prepared by Management, which was performed in accordance with the discounted cash flow model, and assessed whether the assumptions made by Management are fair and reasonable. We assessed whether the calculation model is relevant and assessed the discount factor level and growth rate applied for extrapolation. The expected net cash flows are based on budgets for the years 2019 - 2023 and a terminal value. We examined procedures for the budget preparation and compared budgets with the Group's strategic work within the individual areas. Furthermore, we have assessed the adequacy of information on goodwill and other IP rights in note 12.

Valuation of inventories

The Group and the Company have recognised inventories totalling DKK 435,364 thousand and DKK 402,731 thousand, respectively in the balance sheet at 31 December 2018. Inventories are measured at the lower of cost and net realisable value. The valuation of inventories involves significant estimates and assessments, and consequently, the area is key to our audit.

In connection with our audit, we examined the Group's business procedures for the area just as we assessed the cost calculations made by Management. We examined the analysis made by Management of age distribution and writedown for obsolescence on inventories. Moreover, we verified on a test basis whether there are any inventories that are expected to be sold at a value lower than the carrying amount.

Valuation of trade receivables

The Group and the Company have recognised trade receivables totalling DKK 370,008 thousand and DKK 347,036 thousand, respectively in the balance sheet as assets. Trade receivables are measured at amortised cost less writedown for bad debt losses. The valuation of trade receivables involves significant estimates and assessments, and consequently, the area is key to our audit.

During our audit, we examined the Group's business procedures for the area, including credit rating. We examined the age-specific analysis prepared by Management, obtained documentation evidencing payments received after the balance sheet date. Moreover, we examined payment patterns and checked documentation available for payment agreements. Furthermore, we have assessed the adequacy of information on trade receivables, including writedowns, in note 15.

STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so..

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, February 22, 2019

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

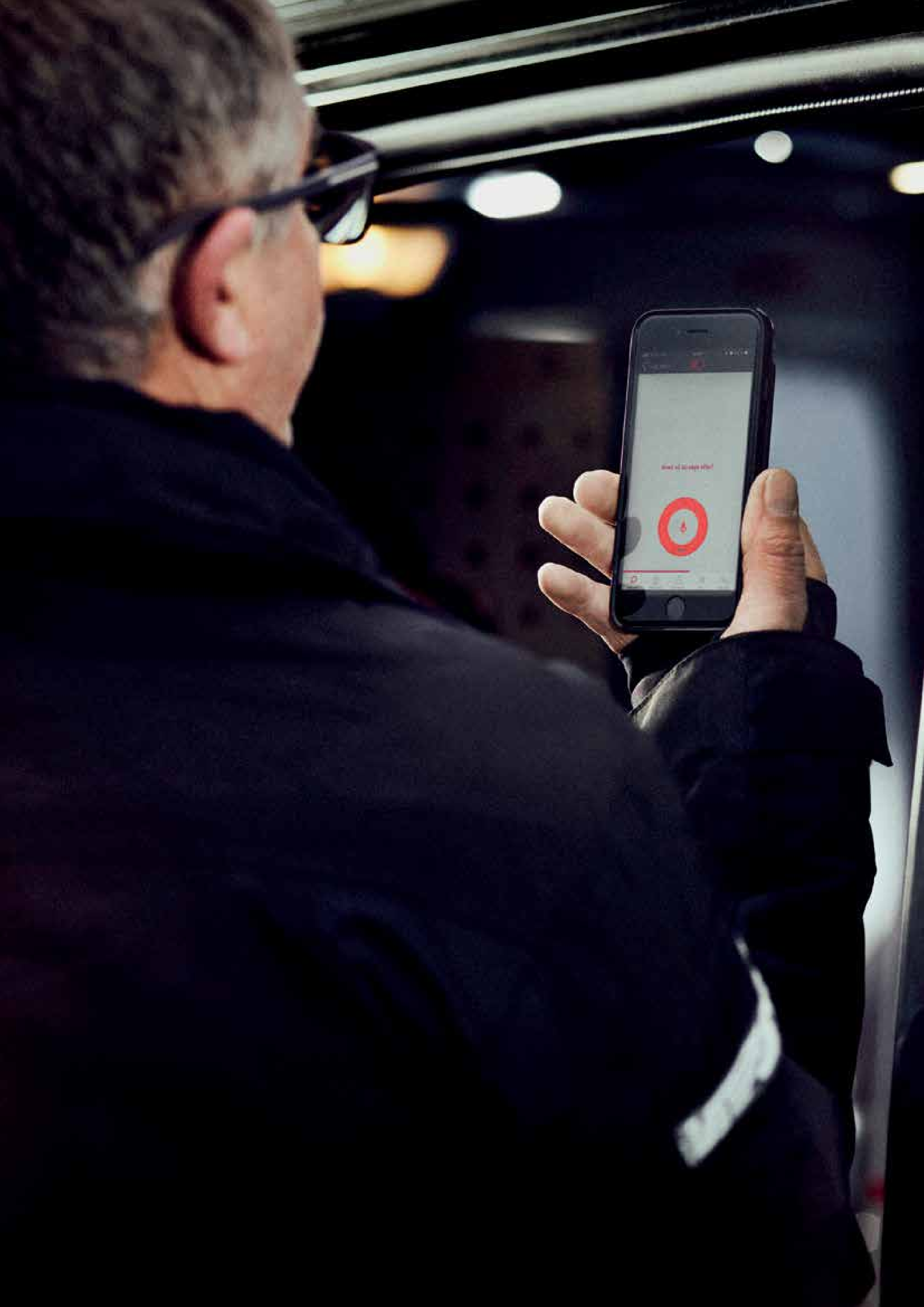
Peter Gath
State Authorised Public Accountant
mne19718

Kennet Hartmann
State Authorised Public Accountant
mne40036

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR 1 JANUARY - 31 DECEMBER

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		KONCERN 2018	KONCERN 2017
2,994,805	**3,128,533**		**Revenue**	**3,373,373**	**3,269,081**
(2,306,478)	(2,409,925)	4	Cost of sales	(2,569,594)	(2,501,004)
688,327	718,609		Gross profit	803,779	768,077
0	0	5	Other operating income	1,454	1,714
688,327	**718,609**		**Gross margin**	**805,234**	**769,792**
(184,751)	(191,024)	6	External expenses	(177,024)	(175,384)
(342,512)	(352,476)	7	Staff costs	(387,211)	(371,315)
161,064	**175,108**		**Earnings before interest, taxes, depreciation and amortisation (EBITDA)**	**240,999**	**223,093**
(60,833)	(71,864)	8	Depreciation, amortisation and impairment of property, plant and equipment as well as intangible assets	(86,161)	(75,875)
100,232	**103,245**		**Operating profit or loss (EBIT)**	**154,838**	**147,218**
34,828	39,103		Subsidiaries' profit after tax	0	0
11,543	8,734	9	Financial income	8,061	10,967
(10,551)	(11,276)	10	Financial expenses	(12,646)	(12,671)
136,052	**139,806**		**Profit or loss before tax (EBT)**	**150,253**	**145,513**
(21,239)	(21,292)	11	Tax on profit or loss for the year	(31,739)	(30,701)
114,812	**118,514**		**Net profit or loss for the year**	**118,514**	**114,812**
			Other comprehensive income		
			Items reclassified to the income statement		
(1,692)	(1,175)		Foreign currency translation adjustment relating to foreign entities	(1,175)	(1,692)
0	0		Tax on other comprehensive income	0	0
(1,692)	(1,175)		Other comprehensive income after tax	(1,175)	(1,692)
113,120	**117,339**		**Total comprehensive income**	**117,339**	**113,120**
			Proposal for the distribution of net profit		
16,800	16,800		Proposed dividend		
98,012	101,714		Retained earnings		
114,812	118,514				
		16	**Earnings per share**		
			Earnings per share (EPS)	44	42
			Diluted earnings per share (EPS-D)	44	42



Whenever we develop services, we do so on the basis of our customers' needs and with an eye to the opportunities offered by the newest technology. This is why you as our customer can make use of the voice search on your mobile when looking for products at AO.dk. You don't need to worry about how things are spelt, which makes it easier to find what you're looking for.

VOICE SEARCH

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

BALANCE SHEET AS AT 31 DECEMBER
ASSETS

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		CONSOLIDATED 2018	CONSOLIDATED 2017
			Non-current assets		
		12	**Intangible assets**		
258,269	258,269		Goodwill	371,334	371,334
46,800	44,138		Intellectual property rights	49,609	52,579
50,786	41,538		Software	42,168	51,685
355,855	343,945			463,111	475,598
		12	**Property, plant and equipment**		
157,857	154,790		Land and buildings	663,803	640,966
688	419		Leasehold improvements	517	797
184,727	169,501		Fixtures and operating equipment	171,717	187,197
343,272	324,710			836,037	828,960
			Other non-current assets		
387,759	411,688	13	Investments in subsidiaries	0	0
0	1,000		Securities and other investments	1,000	0
387,759	412,688			1,000	0
1,086,887	**1,081,343**		**Total non-current assets**	**1,300,147**	**1,304,559**
			Current assets		
383,991	402,731	14	Inventories	435,364	414,053
358,707	347,036	15	Trade receivables	370,008	381,379
61,049	56,989	20	Receivables from subsidiaries	0	0
12,139	0	17	Corporation tax receivable	0	12,217
45,244	30,438		Other receivables	13,077	27,010
786	8,216		Prepayments and accrued income	8,736	1,332
4,899	12,348		Cash at bank and in hand	16,633	28,553
866,815	**857,759**		**Total current assets**	**843,819**	**864,543**
1,953,702	**1,939,102**		**Total assets**	**2,143,966**	**2,169,102**

BALANCE SHEET AS AT 31 DECEMBER

EQUITY AND LIABILITIES

(All amounts are in DKK thousands)

COMPANY				CONSOLIDATED	
2017	2018	NOTE:		2018	2017
		18	**Equity**		
28,000	28,000		Share capital	28,000	28,000
173,520	211,448		Reserve according to the equity method	0	0
30,370	46,078		Reserve for development costs	0	0
0	0		Reserve for foreign currency translation adjustments	(1,407)	(232)
423,977	471,173		Retained earnings	730,107	628,099
655,867	**756,699**		**Total equity**	**756,699**	**655,867**
			Non-current liabilities		
32,149	29,601	19	Deferred tax	60,472	61,963
11,655	61,802	20	Credit institutions	228,129	168,152
43,804	**91,403**		**Total non-current liabilities**	**288,601**	**230,115**
			Current liabilities		
683,107	408,193	20	Credit institutions	418,339	691,568
498,549	565,898		Trade payables	589,259	516,620
8,163	36,914	20	Amounts owed to subsidiaries	0	0
0	4,516	17	Corporation tax payable	6,107	0
64,212	75,480		Other payables	84,961	74,773
0	0		Accruals and deferred income	0	158
1,254,032	**1,091,000**		**Total current liabilities**	**1,098,666**	**1,283,119**
1,297,835	**1,182,403**		**Total liabilities**	**1,387,266**	**1,513,235**
1,953,702	**1,939,102**		**Total equity and liabilities**	**2,143,966**	**2,169,102**
		3	Segment information		
		21	Contingent liabilities, security, etc.		
		22-26	Notes without reference		

CASH FLOW STATEMENT

(All amounts are in DKK thousands)

COMPANY				KONCERN	
2017	2018	NOTE:		2018	2017
			Cash flow from operating activities		
100,232	103,245		Operating profit or loss	154,838	147,218
(7,945)	(8,644)		Financial income and expenses, net (interest paid)	(10,687)	(10,644)
92,285	94,602		Profit or loss before tax	144,151	136,574
60,833	71,864	8	Depreciation, amortisation and write-downs:	86,161	75,875
			Change in working capital:		
(76,361)	11,672		Change in trade receivables	11,371	(75,417)
(6,655)	7,378		Change in other receivables	6,531	(2,732)
(26,265)	(18,740)		Change in inventories	(21,312)	(25,934)
49,314	67,348		Change in trade payables	72,639	48,417
3,277	17,368		Change in other current liabilities	16,132	7,539
(56,689)	85,027			85,360	(48,128)
(28,383)	(7,187)		Corporation tax paid	(14,912)	(29,911)
68,046	**244,306**		**Cash flow from operating activities**	**300,761**	**134,411**
			Cash flow from investing activities		
(28,589)	(20,203)		Software	(20,653)	(28,589)
(621)	(642)		Land and buildings	(39,775)	(37,646)
(400)	0		Leasehold improvements	0	(400)
(47,637)	(20,570)		Fixtures and operating equipment	(21,106)	(48,054)
51	23		Disposal of property, plant and equipment	225	51
0	(1,000)		Other securities	(1,000)	0
(49,571)	0		Acquisition of Greenline A/S	0	(49,571)
(126,767)	**(42,392)**		**Cash flow from investing activities**	**(82,309)**	**(164,209)**
			Cash flow from financing activities		
(2,509)	(167,810)		Repayment of debt to credit institutions	(176,244)	(8,145)
257,938	(56,956)		Raising of loans with credit institutions	(37,008)	254,036
(65,141)	32,809		Change in receivables from subsidiaries	0	0
(16,306)	(16,306)		Dividends paid	(16,306)	(16,306)
61,959	14,000		Dividends received	0	0
0	(202)		Adjustment related to previous years	(202)	0
(185,513)	0		Aquisition of own shares	0	(185,513)
7,989	0		Disposal of own shares	0	7,989
58,417	**(194,465)**		**Cash flow from financing activities**	**(229,761)**	**52,061**
(304)	**7,449**		**Net change in cash and cash equivalents**	**(11,309)**	**22,263**
5,203	4,899		Cash and cash equivalents at beginning of year	28,553	7,303
0	0		Foreign currency translation adjustment	(609)	(1,013)
4,899	**12,348**		**Cash and cash equivalents at end of year**	**16,633**	**28,553**

PERSONAL CONTACT

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

Customers shopping in our stores can choose the kind of service that suits them best. Some choose self-service because they like the freedom it offers. Others continue to swear by personal service and direct contact with our shop staff. It's simply a matter of the customers deciding which option they prefer.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are in DKK thousands)

	Share capital	Foreign currency translation adjustment	Restained earnings	Total equity
Equity at 1 January 2018	**28,000**	**(232)**	**628,099**	**655,867**
Net profit for the year	0	0	118,514	118,514
Foreign currency translation adjustment	0	(1,175)	0	(1,175)
Total comprehensive income	0	(1,175)	118,514	117,339
Dividend distribution	0	0	(16,306)	(16,306)
Adjustment related to previous years	0	0	(201)	(201)
Total transactions with owners	0	0	(16,507)	(16,507)
Equity at 31 December 2018	**28,000**	**(1,407)**	**730,106**	**756,699**
Equity at 1 January 2017	**57,000**	**1,460**	**673,611**	**732,071**
Net profit for the year	0	0	114,812	114,812
Foreign currency translation adjustment	0	(1,692)	0	(1,692)
Total comprehensive income	0	(1,692)	114,812	113,120
Capital reduction	(29,000)	0	29,000	0
Merger adjustment	0	0	(199)	(199)
Share option exercise	0	0	12,694	12,694
Dividend distribution	0	0	(16,306)	(16,306)
Acquisition of own shares	0	0	(185,513)	(185,513)
Total transactions with owners	(29,000)	0	(160,324)	(189,324)
Equity at 31 December 2017	**28,000**	**(232)**	**628,099**	**655,867**

COMPANY STATEMENT OF CHANGES IN EQUITY

(All amounts are in DKK thousands)

	Share capital	Equity method	Reserve for development costs	Retained earnings	Total equity
Equity at 1 January 2018	**28,000**	**173,520**	**30,370**	**423,976**	**655,867**
Net profit for the year	0	39,103	15,708	63,703	118,514
Foreign currency translation adjustment	0	(1,175)	0	0	(1,175)
Total comprehensive income	0	37,928	15,708	63,703	117,339
Dividend distribution	0	(14,000)	0	(2,306)	(16,306)
Adjustment related to previous years	0	0	0	(201)	(201)
Total transactions with owners	0	(14,000)	0	(2,506)	(16,506)
Equity at 31 December 2018	**28,000**	**197,448**	**46,078**	**485,173**	**756,699**
Equity at 1 January 2017	**57,000**	**202,542**	**10,623**	**461,905**	**732,071**
Net profit for the year	0	34,828	19,747	60,237	114,812
Foreign currency translation adjustment	0	(1,692)	0	0	(1,692)
Total comprehensive income	0	33,136	19,747	60,237	113,120
Capital reduction	(29,000)	0	0	29,000	0
Share option exercise	0	0	0	12,694	12,694
Dividend distribution	0	(62,158)	0	45,653	(16,505)
Acquisition of own shares	0	0	0	(185,513)	(185,513)
Total transactions with owners	(29,000)	(62,158)	0	(98,166)	(189,324)
Equity at 31 December 2017	**28,000**	**173,520**	**30,370**	**423,976**	**655,867**

EXPRESS DELIVERY

Express delivery has quickly become a popular alternative to express pickup. When a customer working on a job suddenly discovers they are short of something, they can place an express order and continue to work on something else. Before long, AO will deliver the goods. Convenience and time saving in one and the same service.

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

NOTES

NOTE:

1 ACCOUNTING POLICIES

Brødrene A & O Johansen A/S is a limited company domiciled in Denmark. The financial part of the annual report for the period 1 January to 31 December 2018 comprises both the consolidated financial statements of Brødrene A & O Johansen A/S and its subsidiaries and separate annual financial statements for the parent company.

The consolidated financial statements of Brødrene A & O Johansen A/S for 2018 are presented in accordance with International Financial Reporting Standards (IFRS) as approved by the EU and additional disclosure requirements in the Danish Financial Statements Act.

On 22 February 2019, the Board of Directors and the Executive Board discussed and approved the annual report for 2018 for Brødrene A & O Johansen A/S. The annual report will be presented to the shareholders of Brødrene A & O Johansen A/S for approval at the annual general meeting on 20 March 2019.

BASIS OF PREPARATION

The annual report is presented in Danish kroner, rounded to the nearest DKK 1,000.

The annual report has been prepared in accordance with the historical cost principle.

The accounting policies as described below have been applied consistently throughout the financial year and to the comparative figures, with the exception of IFRS 9 and IFRS 15, which have been implemented without the adjustment of the comparative figures, with effect on equity as of 1 January 2018. The comparative figures have not been corrected for standards that are implemented proactively.

CHANGES IN ACCOUNTING POLICIES

Effective as of 1 January 2018, Brødrene A & O Johansen A/S has implemented:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4
- Amendments to IAS 40 Transfers of Investment Property, IFRIC 22 Foreign Currency Transactions and Advance Consideration, sections of Annual Improvements to IFRSs 2014-2016.

In Annual Improvements to IFRSs 2014-2016, the remaining section relating to IFRS 1 and IAS 28 came into effect as of 1 January 2018.

The effect of the changed standards has only a negligible impact on profit and diluted earnings per share, and no impact on the cash flow statement. In addition, the effect on the balance sheet is insignificant, which is why no third balance (opening balance in the comparison year) has been presented in the opening statements.

Effect of IFRS 9

IFRS 9 Financial Instruments, which replaces IAS 39, introduces a more logical approach to the classification of financial assets as motivated by the company's business model and the underlying cash flow characteristics. At the same time, a new impairment model is introduced for all financial assets.

The implementation of IFRS 9 has had not significant effect, so no changes have been made to the Group's equity as of 1 January 2018.

Effect of IFRS 15

IFRS 15 Revenue from Contracts with Customers, which replaces the current revenue standards (IAS 11 and IAS 18) with related interpretations, introduces a new model for the recognition and measurement of sales related to sales contracts with customers.

The Group has implemented IFRS 15 using the modified retrospective method, without restatement of comparative figures.

The most significant changes in IFRS 15 are in relation to current practice:

- A sales transaction must be recognised as revenue in the income statement as the control (which can take place either at a certain time or over time) over the goods or the service is transferred to the customer. The current "risk and rewards" concept is thus replaced by a control concept.
- New and more detailed guidance is provided on how to identify sub-transactions in a sales contract, and how to recognise and measure the individual components.

The new standard, including estimates and assessments of, for example, variable remuneration, has not had any effect on the Group's equity as at 1 January 2018.

NOTES

NOTE:

1 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements consist of the parent company Brødrene A & O Johansen A/S and subsidiaries in which Brødrene A & O Johansen A/S has a controlling influence.

The Group has a controlling influence over a company if the Group is exposed or entitled to variable returns from its involvement in the company and has the opportunity to influence these returns through its control over the company.

In assessing whether the Group has controlling influence, account is taken of de facto control and potential voting rights, which are real and have substance at the balance sheet date.

A Group chart can be found on page 11.

The consolidated financial statements have been prepared as a summary of the parent company's and the individual subsidiaries' financial statements, prepared according to the Group's accounting policies, with intra-group income and expenses, shareholdings, internal balances and dividends, as well as realised and unrealised gains on transactions between the consolidated companies, all eliminated.

BUSINESS COMBINATIONS

Newly acquired or newly established companies are recognised in the consolidated financial statements as of the date of acquisition. Companies sold or liquidated are recognised in the consolidated financial statements as of the date of disposal. Comparative figures are not corrected for newly acquired companies. Discontinued activities are presented separately.

The acquisition method is applied when the Group acquires a controlling influence over the newly acquired company. The acquired companies' identifiable assets, liabilities, and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they can be segregated or arise from a contractual right. Deferred tax is recognised on the revaluations made.

The acquisition date is the point at which control is actually gained over the acquired company.

Positive differences (goodwill) between the purchase price and the fair value of acquired identifiable assets, and the liabilities and contingent liabilities, are recognised as goodwill under intangible assets. Goodwill is not amortised but is tested for impairment at least annually. The first impairment test is performed before the end of the year of acquisition.

Upon acquisition, goodwill is allocated to cash-generating units, which subsequently form the basis for impairment testing. Negative differences (negative goodwill) are recognised in profit/(loss) for the year as at the acquisition date.

The purchase price for a company consists of the fair value of the agreed price. If parts of the purchase price are contingent on future events, this part of the price is recognised at fair value as at the acquisition date and is classified as either a financial liability or equity according to its content. A contingent purchase price, which is classified as a financial liability, is regularly remeasured at fair value and adjusted directly in the income statement.

Costs attributable to business combinations are recognised in profit/(loss) for the year when incurred.

If, at the time of acquisition, there is uncertainty about the measurement of the acquired identifiable assets, liabilities, and contingent liabilities, initial recognition takes place on the basis of preliminarily calculated fair values. If subsequently it turns out that identifiable assets, liabilities, and contingent liabilities had a different fair value at the time of acquisition than first assumed, goodwill is adjusted for up to 12 months after the acquisition. The effect of the adjustments is recognised in opening equity and the comparative figures are adjusted.

Gains or losses on the disposal or liquidation of subsidiaries are calculated as the difference between the sales price or the settlement amount, and the carrying amount of net assets including goodwill at the time of sale and costs of the sale or liquidation.

FOREIGN CURRENCY TRANSLATION

A functional currency is set for each of the reporting companies in the Group. The functional currency is the currency used in the primary economic environment in which each reporting company operates. Transactions in currencies other than the functional currency are foreign currency transactions.

Foreign currency transactions are initially translated into the functional currency at the exchange rate on the transaction date.

Receivables, payables, and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate at the balance sheet date. The difference between the exchange rate at the balance sheet date and the exchange rate at the time of the occurrence or recognition of the receivable or payable in the latest annual report is recognised in the income statement under cost of goods sold.

When recognised in the consolidated financial statements of companies with a functional currency other than Danish kroner, the income statements are translated at the exchange rate on the transaction date, and the balance sheet items are trans-

NOTE:

1 lated at the exchange rates at the balance sheet date. The average rate for the individual month in question is used for the exchange rate on the transaction date to the extent that this does not give a significantly different picture.

Exchange rate differences arising from the translation of the equity of these companies at the beginning of the year at the exchange rates at the balance sheet date and when translating income statements from average exchange rates to the exchange rates at the balance sheet date are recognised in other comprehensive income on a separate provision for exchange rate adjustments under equity.

Exchange rate adjustments of outstanding balances which are considered part of the total net investment in companies with a functional currency other than Danish kroner are recognised in the consolidated financial statements in other comprehensive income on a separate provision for exchange rate adjustments under equity.

Derivative financial instruments are recognised on the trade date and measured at fair value in the balance sheet. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively, and the offsetting of positive and negative values is only made when the company is entitled to and intends to settle several financial instruments net. Fair values of derivative financial instruments are calculated on the basis of current market data and recognised valuation methods.

Hedge accounting is not used.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Revenue
Revenue consist of the sale of merchandise that is recognised in the income statement. Revenue is recognised when the control of the individual identifiable delivery obligation is transferred to the customer, and if the income can be calculated reliably and is expected to be received. The recognised revenue is measured at the fair value of the agreed consideration excluding VAT and taxes, and after the deduction of discounts made in connection with the sale.

Revenue consists of contracts with a single delivery obligation, and where the individual components of the transaction price are separately identifiable.

Discounts are deducted from the consideration based on an estimate of the total discounts during the measurement period.

Cost of sales
Cost of sales consists of the cost price of goods sold during the financial year, as well as distribution costs, which are variable in direct relation to revenue.

External expenses
External expenses include costs for internal transport, administration, advertising and exhibition costs, etc., including costs for the operation of real estate and losses to debtors.

Financial income and expenses
Financial income and expenses include interest and realised and unrealised capital gains and losses, as well as write-downs on securities and debt, the amortisation of financial assets and liabilities, including financial lease commitments, and supplements and reimbursements under the advance tax scheme, etc.

Borrowing costs from general or specific loans attributable to the construction period of qualifying assets are recognised at the cost price of the relevant assets.

Result of investments in subsidiaries
In the parent company's income statement, the proportionate share of the individual subsidiaries' profit/(loss) after tax is recognised after the full elimination of internal gains/losses.

Tax on profit/(loss) for the year
Brødrene A & O Johansen A/S is taxed jointly with all Danish subsidiaries.

The current Danish corporation tax is distributed by settling joint tax contributions between the jointly taxed companies in proportion to their taxable income. In connection with this, companies with a tax loss receive a joint tax contribution from companies that have been able to use these losses to reduce their own taxable profits. (Full distribution). The jointly taxed companies are included in the Danish Tax Prepayment Scheme.

Tax for the year, which consists of the current tax for the year and changes in deferred tax, is recognised in the income statement for tax attributed to profit/(loss) for the year, and in equity for tax attributable to items directly in equity.

NOTES

NOTE:

1 BALANCE SHEET

Intangible assets
Goodwill is initially recognised in the balance sheet at cost price as described under “Business combinations”. Goodwill is subsequently measured at cost price less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group’s cash-generating units at the acquisition date. The determination of cash-generating units follows the management structure and internal financial management.

Rights are measured at cost price less accumulated amortisation and impairment losses. Rights are amortised on a straight-line basis over their expected useful life, for a maximum of 20 years.

Software is measured at cost price less accumulated amortisation and impairment losses. Software is amortised on a straight-line basis over its expected useful life, for a maximum of 10 years.

Property, plant and equipment
Land and buildings, leasehold improvements, operating equipment, and fixtures and fittings are measured at their cost price less accumulated depreciation and impairment losses.

The cost price consists of the acquisition price and costs directly related to the acquisition until the time when the asset is ready for use. The cost price of a total asset is divided into separate components, which are depreciated separately if the useful life of the individual component is different.

For financially leased assets, the cost price is calculated at the lower of the fair value of the assets or the present value of the future minimum lease payments. When calculating the present value, the leasing agreement’s internal interest rate is used as a discount factor or the Group’s alternative loan rate.

Subsequent costs, such as when replacing components of a tangible asset, are recognised in the carrying amount of the asset in question when it is probable that the holding will result in future economic benefits for the Group. All other general repair and maintenance costs are recognised in the income statement as they are incurred.

The asset is depreciated on a straight-line basis over its expected useful life, based on the following assessment of the expected life of assets:

- Buildings: 50 years
- Installations: 10 years
- Leasehold improvements: Maximum 5 years
- Fixtures and operating equipment: Normally 5 years. 10 years for mini-load storage systems and high bay systems.

Land is not depreciated.

The basis for depreciation is calculated by taking into account the asset’s scrap value and is reduced by any impairment losses. The depreciation period and the scrap value are determined at the time of acquisition and are reviewed annually. If the scrap value exceeds the carrying amount, depreciation ceases.

Gains and losses on the disposal of property, plant, and equipment are calculated as the difference between the sale price less selling costs and the carrying amount at the time of sale. Gains or losses are recognised in the income statement under depreciation.

Investments in subsidiaries in the parent company’s financial statements
Investments in subsidiaries are measured according to the equity method.

Investments in subsidiaries are measured at the proportionate share of the companies’ net worth calculated according to the Group’s accounting policies with the addition or deduction of unrealised intra-group profits and losses, and the addition or deduction of the remaining value of positive or negative goodwill calculated according to the acquisition method.

Impairment of non-current assets
Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, the first time before the end of the year of acquisition.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which goodwill is allocated, and is written down over the income statement if the carrying amount is higher than the recoverable amount.

The recoverable amount is generally calculated as the present value of the expected future net cash flow from the activity to which goodwill is linked. The impairment of goodwill is recognised in a separate item in the income statement.

Deferred tax assets are assessed annually and recognised only to the extent that it is probable that they will be utilised.

EVENING DELIVERY

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

In recognition of the fact that it can be difficult for people to be home during the day, BilligVVS has introduced a same-day evening delivery service for goods ordered before 2.00 pm. The service has been provided in order to meet the modern consumer's ever-increasing demand for flexibility.


BilligVVS

NOTES

NOTE:

1 The carrying amount of the other non-current assets is assessed annually to determine whether there is any indication of impairment. When such an indication is present, the asset's recoverable amount is calculated. The recoverable amount is the asset's fair value less the expected cost of disposal or net present value. The net present value is calculated as the present value of expected future cash flows from the asset or the cash-generating unit which the asset is part of.

An impairment loss is recognised when the carrying amount exceeds the asset's recoverable amount. Impairment losses are recognised in the income statement under depreciation.

Impairment losses on goodwill are not reversed. Impairment losses on other assets are reversed to the extent that changes have occurred in the assumptions and estimates that led to the impairment. Impairment losses are reversed only to the extent that the new carrying amount does not exceed the carrying amount after depreciation if an impairment loss has not been recognised for the asset.

Inventories
Inventories are measured at cost price, which is calculated on the basis of average prices. If the net realisable value is lower than the cost price, an impairment loss is made to the net realisable value.

The cost price includes the acquisition price plus the cost of repatriation.

The net realisable value is calculated as the expected sale price less costs to execute the sale and is determined on the basis of marketability, obsolescence, and expected development in the sales price.

Receivables

Receivables as of 1 January 2018

Receivables are measured at their amortised cost price. Impairment to counter losses is conducted according to the simplified expected credit loss model, after which the total loss is recognised immediately in the income statement at the same time as the receivable is recognised in the balance sheet on the basis of the expected loss over the total life of the receivable.

Receivables prior to 1 January 2018

Receivables are measured at their amortised cost price less impairment to counter expected losses. Impairment is conducted when there is an objective indication that a receivable has gone down in value. Impairment is conducted on an individual level.

Prepayments
Prepayments recognised under assets consist of costs paid for subsequent financial years and are measured at cost price.

Securities and other investments
Shares and bonds are recognised on the trade date under current assets and are subsequently measured at fair value corresponding to the market price of listed securities. Changes in the fair value are recognised in the income statement on an ongoing basis under financial items.

Other investments that are shares in unlisted companies are recognised under non-current assets at fair value plus costs on the trade date and measured at fair value. Dividends are recognised in the income statement unless the dividend clearly represents the recovery of a portion of the cost of the investment. Remaining value adjustments are recognised in other comprehensive income under the provision for fair value adjustments. Upon realisation, the accumulated value adjustment is reclassified from the provision for fair value adjustments to transferred comprehensive income without affecting the income statement.

The fair value is calculated at an estimated fair value calculated on the basis of current market data and recognised valuation methods for unlisted securities.

Equity

Dividend
Proposed dividend is recognised as a liability at the time of adoption at the annual general meeting. Dividend that is expected to be paid for the year is shown as a separate item under equity.

Own shares
Acquisition and disposal amounts and dividends for own shares are recognised directly in retained earnings under equity. Gains and losses on sales are thus not recognised in the income statement.

Proceeds from the sale of own shares in connection with the exercise of share options are recognised directly in equity.

Reserve for foreign currency translation adjustments
The reserve for foreign currency translation adjustments consists of exchange rate differences arising on translation of the financial statements of foreign companies from their functional currency to DKK.

NOTES

NOTE:

1 **Employee benefits**
The Group has entered into agreements to provide defined contribution pension schemes for the majority of the Group's employees.

Liabilities relating to defined contribution pension schemes for which the Group regularly pays fixed pension contributions to independent pension companies are recognised in the income statement during the period in which they are earned, and payments due are recognised in the balance sheet under other liabilities.

Share options are measured at fair value at the date of issue and are recognised in the income statement under staff costs. The counter item is recognised directly in equity. The fair value of the granted share options is calculated using the option price model (Black & Scholes).

Corporation tax and deferred tax
Current tax liabilities and receivables are recognised in the balance sheet as calculated tax on taxable income for the year, adjusted for tax on previous years' taxable income and tax paid on account.

Deferred tax is measured according to the balance sheet liability method of all temporary differences between the net asset value and tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to non-deductible goodwill and other items where temporary differences - other than business acquisitions - have arisen at the time of acquisition without affecting profit/(loss) or taxable income.

Deferred tax is measured on the basis of the tax rules and at the tax rate that will apply as per the legislation on the balance sheet date when the tax liability is expected to be triggered as current tax. Changes in deferred tax as a result of changes in the tax rate are recognised in the income statement.

Deferred tax assets are recognised under non-current assets at the value that is expected to be realised, either by set-off against deferred tax liabilities or by offsetting tax on future earnings.

Financial liabilities
Debt to mortgage-credit institutions and credit institutions is recognised at the time of borrowing at the value of the proceeds received less transaction costs incurred. In subsequent periods, the financial liabilities are measured at amortised cost corresponding to the capitalised value using the effective interest rate, so that the difference between the proceeds and the nominal value is recognised in the income statement over the loan period.

Financial liabilities also include the capitalised residual lease obligation on finance leases, measured at their amortised cost price.

Other payables, which include debt to suppliers, are measured at their amortised cost price, and other liabilities at net realisable value.

Leasing
Lease commitments are accounted for in financial and operating leases.

A lease is classified as financial when it essentially transfers the risks and benefits of owning the leased asset. Other leases are classified as operational.

The treatment of financially leased assets and the related liability from an accounting perspective is described in the sections on tangible assets and financial liabilities.

Lease payments for operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Accruals and deferred income
Accrued expenses recognised under liabilities consist of deferred income and are measured at their cost price.

CASH FLOW STATEMENT
The cash flow statement shows cash flows from operating, investing, and financing activities for the year, the change in cash and cash equivalents for the year, and cash and cash equivalents at the beginning and end of the year.

The liquidity effect of business acquisitions and sales is shown separately under cash flow from investing activities. Cash flow from acquired companies is recognised in the cash flow statement from the date of acquisition, and cash flows from sold companies are recognised up to the point of sale.

Cash flow from operating activities
Cash flows from operating activities are calculated as profit/(loss) before tax adjusted for non-cash operating items, changes in working capital, interest received and paid, and corporate taxes paid.

NOTES

NOTE:

1 **Cash flow from investing activities**
Cash flows from investing activities include payments in connection with: the purchase and sale of companies and activities; the purchase and sale of intangible, tangible, and other non-current assets; and the purchase and sale of securities that are not included as cash and cash equivalents.

The conclusion of finance leases is considered a non-cash transaction.

Cash flow from financing activities
Cash flows from financing activities include changes in the size or composition of share capital and related costs, as well as the raising of loans, the repayment of interest-bearing debt, the purchase and sale of own shares, and the payment of dividends to shareholders.

Cash flows from assets held under finance leases are recognised as the payment of interest and repayment of debt.

Cash and cash equivalents
Cash and cash equivalents consist of liquid holdings.

Segment information
The Group's activities relating to the trade of technical installation materials (Technical Installation: electrical equipment and components as well as plumbing, heating and sanitary ware) and construction materials (Construction: water supply and drainage, Vaga, and tools) are operated in an integrated manner and assessed as a total operating segment.

Financial ratios
Financial ratios have been prepared in accordance with IAS 33 and the CFA Society Denmark's "Recommendations and Financial Ratios".

When presenting figures, parentheses are used to indicate negative results and deductions.

2 SIGNIFICANT ESTIMATED UNCERTAINTIES AND ASSUMPTIONS

When calculating the carrying amount of certain assets and liabilities, estimates are made of how future events affect the value of these assets and liabilities at the balance sheet date.

The estimates made are based on historical experience and other factors that the management considers reasonable in the circumstances, but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. Furthermore, the company is subject to risks and uncertainties that may cause actual results to differ from those estimates. Special risks for Brødrene A & O Johansen A/S are addressed in the management's review and in note 22.

It may be necessary to change previous estimates due to changes in the circumstances underlying them or due to new knowledge or subsequent events.

Estimates that are of significance to financial reporting are made, inter alia, by valuing the impairment testing of goodwill, receivables, and inventories and by calculating depreciation and impairment.

Land and buildings
AO's properties are primarily used in connection with the Group's operating activities. Fluctuations in the market value of the properties will not affect their use nor thus the accounting valuation.

A change of use of AO's properties could affect the carrying amount.

Impairment testing for goodwill and other intangible assets
In the annual impairment tests of intangible assets, including goodwill and rights, estimates are made of how the parts of the business (cash-generating units) to which goodwill and rights are attributed will be able to generate sufficient positive net cash flows in the future to support the value of the goodwill and rights.

Due to the nature of the business, expected cash flows must be estimated for many years to come, leading to some uncertainty. This uncertainty is reflected by the chosen discount rate.

Impairment testing and the special sensitive conditions in this regard are described in more detail in note 12.

Receivables
Estimates are used when assessing the probability of receivables. Due to the financial situation in society, the risk of losses on doubtful receivables remains high, which has been taken into account when assessing new customers, by way of impairment losses at the balance sheet date, and in the day-to-day governance and control of the receivables as described in note 22.

Inventories
The estimated uncertainty of inventories relates primarily to slow-moving goods and thus to impairment to the net realisable value.

Impairment requirements are continuously assessed on inventories based on historical sales and the assessment of future sales.

NOTES

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		KONCERN 2018	KONCERN 2017
		3	**Segment information**		

The Group's activities relating to the trade of technical installation materials (Technical Installation: electrical equipment and components as well as plumbing, heating and sanitary ware) and construction materials (Construction: water supply and drainage, Vaga, and tools) with private and corporate customers are operated in an integrated manner and assessed as a total operating segment. According to IFRS 15, the 2018 revenue can be categorised as Technical Installation of DKK 2,401.0 million (2017: DKK 2,302.4 million) and Construction of DKK 972.2 million (2017: DKK 966.7 million).

Geographical information

The Group operates primarily in Denmark and less than 10% of its revenue relates to foreign countries, and the same applied in 2017.

Important customers

The Group has not traded with any individual customer representing more than 10% of the Group's total revenue for 2018, and the same applied in 2017.

Private segment revenue constitutes 11% against 10% i 2017.

COMPANY 2017	COMPANY 2018	NOTE		KONCERN 2018	KONCERN 2017
		4	**Cost of sales**		
2,219,391	2,306,259		Cost of goods purchased during the year	2,454,916	2,404,740
113,654	115,273		Distribution costs	130,113	122,584
2,333,045	2,421,532			2,585,028	2,527,325
			Change in inventories:		
357,726	383,991		Inventory at beginning of the year	414,053	388,118
49	1,985		Change in cost during the year	1,991	(61)
(351)	5,147		Inventory writedown, net	3,886	(326)
(383,991)	(402,731)		Inventory at end of the year	(435,364)	(414,053)
(26,567)	(11,608)		Change in inventory for the year	(15,435)	(26,321)
2,306,478	**2,409,925**		**Cost of sales for the year**	**2,569,594**	**2,501,004**
			Cost of sales includes:		
(1,489)	1,603		Realised foreign exchange gains, total	1,650	(1,305)
7,327	571		Unrealised foreign exchange gains, total	(78)	6,796

Reversal of inventory writedown relates to the sale/scrapping of written-down inventory.

5 **Other operating income**

The item includes property rental income.

SMARTHOME

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

As the first wholesaler in Denmark, AO has launched a dedicated SmartHome range. We are not simply responding to a demand for these products: we also believe that our customers, with our help, should be able to enjoy their share of this rapidly expanding market – one which is set to grow enormously and lucratively in the years ahead.

NOTES

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		KONCERN 2018	KONCERN 2017
		6	**External expenses**		
			Remuneration for the auditor elected by the annual general meeting:		
			Total remuneration may be specified as follows:		
590	600		Statutory audit	908	885
50	50		Tax and VAT related advisory services	50	50
0	0		Other declarations relating to security	0	0
152	347		Other services	405	386
792	**997**			**1,363**	**1,321**
			External expenses of the Company include rent paid to subsidiaries totalling DKK 43,425,000 (2017: DKK 41,139,000).		
		7	**Staff costs**		
315,039	323,443		Wages and salaries	351,722	337,650
22,011	23,167		Pension contributions	25,509	24,105
3,398	3,847		Other social security costs	7,913	7,409
2,064	2,020		Other staff expenses	2,067	2,152
342,512	**352,476**			**387,211**	**371,315**
			Wages and salaries include remuneration for:		
2,250	2,250		Board of Directors	3,225	3,225
16,625	22,722		Executive Board	22,722	16,625
660	684		Average number of full-time employees	747	718

The Group only has defined contribution plans of which DKK 2,741,000 (2017: DKK 1,988,000) relates to remuneration for the Board of Directors.

The Executive Board of the Company may be granted share options. The value of the granted share options may not exceed the individual executive's annual salary. The value is determined by the Board of Directors according to resolution by the Company's general meeting. There are no unexercised share options at 31 December 2018.

NOTES

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		CONSOLIDATED 2018	CONSOLIDATED 2017
		8	**Depreciation, amortisation and impairment**		
25,270	32,111		Intangible assets	32,873	26,586
35,503	39,682		Property, plant and equipment	53,417	49,386
60	70		Gains from the disposal of assets	(128)	(98)
60,833	**71,864**			**86,161**	**75,875**
		9	**Financial income**		
1,993	1,919		Interest income from current assets	1,959	2,028
8,939	6,102		Earn-out adjustment	6,102	8,939
613	713		Interest income from subsidiaries	0	0
11,542	**8,734**			**8,061**	**10,967**
		10	**Financial expenses**		
10,271	11,018		Interest expenses on liabilities	12,524	12,471
(2)	0		Other financial expenses	22	8
108	12		Other interest expenses	101	192
174	246		Interest expense to subsidiaries	0	0
10,551	**11,276**			**12,646**	**12,671**
		11	**Tax on profit or loss for the year**		
(18,076)	(23,840)		Current tax for the year	(33,195)	(23,073)
(459)	0		Adjustment related to previous years	(1)	(459)
(18,535)	(23,840)			(33,196)	(23,532)
(2,731)	2,380		Adjustment of deferred tax for the year	1,266	(7,196)
27	168		Adjustment of deferred tax for previous years	191	26
(21,239)	**(21,292)**		Total	**(31,739)**	**(30,701)**
			Tax on profit/loss for the year can be explained as follows:		
(22,270)	(22,154)		Calculated tax on profit/loss before tax, not incl. subsidiaries' profits	(32,664)	(31,730)
			Tax effect of:		
2,036	1,345		Non-taxable income	1,345	2,037
(574)	(651)		Other non-deductible costs	(610)	(575)
(431)	168		Adjustment of tax for previous years	190	(433)
(21,239)	**(21,292)**			**(31,739)**	**(30,701)**
21.0%	21.1%		Effective tax rate, not incl. subsidiaries' profits	21.1%	21.1%
(28,383)	(7,187)		Taxes paid during the financial year	(14,912)	(29,911)

NOTES

(All amounts are in DKK thousands)

NOTE:

12 Non-current assets: (Consolidated)

2018	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold improve-ments	Fixtures and operating equipment
Cost at 1 January	371,334	59,397	213,516	800,024	10,787	382,322
Foreign currency translation adjustment	0	0	(4)	(510)	(3)	(33)
Reclassification	0	0	0	(8)	0	8
Additions during the year	0	0	20,653	39,775	0	21,105
Disposals during the year	0	0	(706)	0	(1,731)	(16,934)
Cost at 31 December	371,334	59,397	233,459	839,281	9,053	386,468
Amortisation and depreciation at 1 January	0	(6,818)	(161,831)	(159,058)	(9,990)	(195,125)
Foreign currency translation adjustment	0	0	0	(6)	0	(6)
Reclassification	0	0	(265)	57	0	208
Amortisation and depreciation for the year	0	(2,970)	(29,901)	(16,471)	(277)	(36,669)
Disposals during the year	0	0	706	0	1,731	16,841
Amortisation and depreciation at 31 December	0	(9,788)	(191,291)	(175,478)	(8,536)	(214,751)
Carrying amount at 31 December	**371,334**	**49,609**	**42,168**	**663,803**	**517**	**171,717**

2017	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold improve-ments	Fixtures and operating equipment
Cost at 1 January	371,526	59,397	185,510	763,065	10,319	345,656
Foreign currency translation adjustment	7	0	(14)	(687)	89	(160)
Reclassification	0	0	0	0	0	0
Additions during the year	0	0	28,589	37,646	400	48,054
Disposals during the year	(199)	0	(569)	0	(21)	(11,228)
Cost at 31 December	371,334	59,397	213,516	800,024	10,787	382,322
Amortisation and depreciation at 1 January	0	(3,848)	(138,783)	(142,160)	(9,515)	(174,233)
Foreign currency translation adjustment	0	0	0	(2)	0	(2)
Amortisation and depreciation for the year	0	(2,970)	(23,616)	(16,896)	(487)	(32,003)
Disposals during the year	0	0	568	0	12	11,113
Amortisation and depreciation at 31 December	0	(6,818)	(161,831)	(159,058)	(9,990)	(195,125)
Carrying amount at 31 December	**371,334**	**52,579**	**51,685**	**640,966**	**797**	**187,197**
Carrying amount of assets held under finance leases				**94,522**		**0**

Apart from goodwill, all intangible assets are considered to have limited useful lives. No significant changes have been made in estimates relating to property, plant and equipment. Intellectual property rights relate to trademarks of BilligVVS and Greenline A/S, domain names, etc.
The call option in the Company's finance lease agreement was exercised in 2018.

NOTES

(All amounts are in DKK thousands)

NOTE:

12 Non-current assets: (Company)

2018	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold Improve-ments	Fixtures and operating equipment
Cost at 1 January	258,269	52,123	207,981	187,477	10,393	365,566
Additions relating to merger during the year	0	0	0	0	0	0
Additions during the year	0	0	20,202	643	0	20,569
Disposals during the year	0	0	(706)	0	(1,731)	(16,704)
Cost at 31 December	258,269	52,123	227,477	188,120	8,662	369,431
Amortisation and depreciation at 1 January	0	(5,323)	(157,195)	(29,620)	(9,705)	(180,839)
Amortisation and depreciation for the year	0	(2,662)	(29,450)	(3,710)	(269)	(35,703)
Disposals during the year	0	0	706	0	1,731	16,612
Amortisation and depreciation at 31 December	0	(7,985)	(185,939)	(33,330)	(8,243)	(199,930)
Carrying amount at 31 December	**258,269**	**44,138**	**41,538**	**154,790**	**419**	**169,501**

2017	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold Improve-ments	Fixtures and operating equipment
Cost at 1 January	258,269	52,123	179,961	186,856	10,014	329,146
Foreign currency translation adjustment	0	0	0	0	0	0
Additions during the year	0	0	28,589	621	400	47,648
Disposals during the year	0	0	(569)	0	(21)	(11,228)
Cost at 31 December	258,269	52,123	207,981	187,477	10,393	365,566
Amortisation and depreciation at 1 January	0	(2,661)	(135,156)	(25,536)	(9,298)	(160,952)
Foreign currency translation adjustment	0	0	0	0	0	0
Amortisation and depreciation for the year	0	(2,662)	(22,608)	(4,084)	(419)	(31,000)
Disposals during the year	0	0	569	0	12	11,113
Amortisation and depreciation at 31 December	0	(5,323)	(157,195)	(29,620)	(9,705)	(180,839)
Carrying amount at 31 December	**258,269**	**46,800**	**50,786**	**157,857**	**688**	**184,727**
Carrying amount of assets held under finance leases				**94,522**		**0**

Apart from goodwill, all intangible assets are considered to have limited useful lives. No significant changes have been made in estimates relating to property, plant and equipment. Intellectual property rights relate to trademarks of BilligVVS, domain names, etc.
The call option in the Company's finance lease agreement was exercised in 2018.

PROJECT DEPARTMENT

The Project Department can offer customers expert assistance in the form of our highly professional AO colleagues with their many years of experience. This means you get the correct materials at the right price and delivered on time. The image shows the new CABINN Hotel in Copenhagen. It is the largest in the Nordic region, with 1,300 rooms, and AO supplied all of its bathroom equipment.

NOTES

(All amounts are in DKK thousands)

NOTE:

12 Non-current assets (continued)

Goodwill

At 31 December 2018, Management performed an impairment test of goodwill. Separate cash-generating untis (CGUs) were tested for impairment. The carrying amount of goodwill, key assumptions and sensitivity analysis for future cash flows may be specified per CGU in the following way:

	Goodwill	Pre-tax WACC	Terminal growth rate
AO Danmark	263,183	10%	1.5%
Greenline	61,327	10%	1.5%
AO Sverige	46,824	10%	1.5%

The recoverable amount is based on the value in use, which is determined by means of expected net cash flows on the basis of budgets for 2019 and forecasts for 2020-2023 approved by Management, an unchanged discount rate and a terminal growth rate as in 2017. The applied discount rate reflects the specific risks related to the respective CGUs, including geography, capital structure, etc. The applied terminal growth rate is not expected to exceed the long-term average growth rate of the markets in which the company operates.

In the forecast period, AO Denmark and AO Sverige expect that profit margins and market shares will be at the same level as in 2018, and that the recoverable amount will be consideraby higher than the carrying amount.

Up to 2023 Greenline expects an average annual growth of 9%, which is lower than the expected growth in online sales in general. Earnings are expected to be at the same level as in 2018, and therefore the recoverable amount is higher than the carrying amount.

13 Investments in subsidiaries (Company)

	2018	**2017**
Cost at 1 January	214,239	214,239
Additions during the year	0	0
Cost at 31 December	214,239	214,239
Value adjustment at 1 January	173,521	202,543
Dividends	(14,000)	(62,159)
Currency translation adjustments	(1,175)	(1,692)
Subsidiaries' results	39,103	34,829
Value adjustment at 31 December	197,449	173,521
Carrying amount at 31 December	**411,688**	**387,760**

NOTES

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:			CONSOLIDATED 2018	CONSOLIDATED 2017
		13	**Investments in subsidiaries (Company)**			
Ownership interest	**Ownership interest**		**Name**	**Registered office**		
100%	100%		AO Invest A/S	Albertslund		
100%	100%		Vaga Tehnika Eesti OÜ	Estonia		
100%	100%		AO Sverige AB	Sweden		
100%	100%		VVSochBAD Sverige AB	Sweden		
100%	100%		Billig VVS AS	Norway		
100%	100%		Greenline A/S	Denmark		
		14	**Inventories**			
0	0		Carrying amount of inventories recognised at net selling price		0	0

15 Trade receivables

Trade receivables consist of sale of goods to business customers and which, in essence, have the same risk profile. Provisions for bad debts are made in accordance with the simplified expected credit loss model, taking into account AO's credit policy and debt collection procedure.

Calculated on the basis of a weighted loss ratio, the Group's expected credit losses on trade receivables are as follows:

CONSOLIDATED	Loss ratio	2018 Receivable amount	Expected loss	Total
Not yet due	1.0%	352,247	3,354	348,893
Due within 1-30 days	6.7%	15,090	1,009	14,081
Due within 31-60 days	38.9%	720	280	440
Due in more than 60 days	71.7%	23,317	16,722	6,595
31 December		**391,374**	**21,365**	**370,009**

Realised credit losses are DKK 9,409,000 (2017: 3,837,000). Change in provision for the year is DKK -14,100,000 (2017: DKK -2,833,000).

CONSOLIDATED	2017 Receivable amount	Write-downs	Total
Not yet due	361,507		361,507
Due within 1-30 days	17,541		17,541
Due within 31-60 days	1,097		1,097
Due in more than 60 days	27,290		27,290
31 December	**407,435**	**26,056**	**381,379**

NOTES

(All amounts are in DKK thousands)

NOTE:

15 Trade receivables (continued)

Calculated on the basis of a weighted loss ratio, the Company's expected credit losses on trade receivales are as follows:

COMPANY	Loss ratio	2018 Received amount	Expected loss	Total
Not yet due	1.2%	335,679	4,114	331,565
Due within 1-30 days	4.9%	10,001	495	9,506
Due within 31-60 days	35.1%	359	126	233
Due in more than 60 days	71.6%	20,190	14,459	5,731
31 December		**366,229**	**19,194**	**347,035**

Realised credit losses are DKK 9,348,00 (2017: DKK 3,857,000). Change in provision for the year is DKK -14,541,00C (2017: DKK -2,973,000).

COMPANY	2017 Receivable amount	Write-downs	Total
Not yet due	345,081		345,081
Due within 1-30 days	11,710		11,710
Due within 31-60 days	626		626
Due in more than 60 days	25,677		25,677
31 December	**383,094**	**24,387**	**358,707**

Historically, the Group has incurred no losses on debt extinguishment, and is not expected to in future.

16 Earnings per share	**2018**	**2017**
Net profit or loss for the year	118,514	114,812
Average number of shares in circulation	2,800,000	3,283,333
Average number of own shares	(82,390)	(573,836)
Average number of shares in circulation	2,717,610	2,709,497
The average dilution effect of outstanding share options	0	0
Diluted average number of outstanding share options	2,717,610	2,709,497
Earnings per share (EPS) of DKK 10.	44	42
Diluted earnings per share (EPS-D) of DKK 10	44	42

(All amounts are in DKK thousands)

COMPANY 2017	COMPANY 2018	NOTE:		CONSOLIDATED 2018	CONSOLIDATED 2017
		17	**Corporation tax receivable/payable**		
28,656	24,826		Corporation tax paid on account during the year	26,916	30,793
(21,252)	(29,342)		Tax on taxable profit for the year	(33,195)	(23,073)
4,705	0		Tax on equity items	0	4,705
30	0		Tax payable relating to previous years	172	(210)
12,139	(4,516)		Total corporation tax receivable/payable	(6,107)	12,216

18 Equity

Capital management

The Group regularly assesses the need for adapting the capital structure with a view to balancing a higher required rate of return on equity with the increased uncertainty associated with loan capital. At the end of 2018, the equity share of total equity and liabilities amounted to 35.3% (2017: 30.1%). The target is to obtain an equity interest of approximately 40%. Capital is managed for the Group as a whole.

The share capital consists of the following classes:

Ordinary share capital:		
440 shares of	DKK 100 each	44,000
2340 shares of	DKK 400 each	936,000
180 shares of	DKK 500 each	90,000
220 shares of	DKK 1,000 each	220,000
870 shares of	DKK 5,000 each	4,350,000
		5,640,000
Preference share capital:		
2,236,000 shares of	DKK 10 each	22,360,000
Total share capital		28,000,000

Of the Company's share capital of DKK 28,000,000 DKK 5,640,000 is in the form of ordinary shares and DKK 22,360,000 is in the form of preference shares. Each ordinary share of DKK 100 carries 100 votes whereas each preference share of DKK 10 carries one vote. In addition to the the difference in the number of voting rights, the two share classes differ in the following respects:

The ordinary shares are nonnegotiable securities. The preference shares are listed on NASDAQ Copenhagen. The preference share capital has a preferential dividend right of 6%. In case of liquidation, preference shares take precedence over ordinary shares.

An alteration to the Company's Articles of Association requires that two thirds of cast votes and two thirds of the represented capital at a general meeting are in favour of the alteration.

The Company's Board of Directors consists of five members who do not have to be shareholders. They are elected as follows:

Holders of preference shares are entitled to appoint and elect one member of the Board of Directors, while holders of ordinary shares elect the remaining Board members.

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NOTES

(All amounts are in DKK thousands)

NOTE:

18 Equity (continued)

Own shares	Number of shares 2018	2017	Nominal value (DKK thousands) 2018	2017	% of share capital 2018	2017
1 January	82,390	2,366,230	824	23,662	2.9%	41.5%
Acquisition	0	713,510	0	7,135	0.0%	12.5%
Capital reduction	0	(2,900,000)	0	(29,000)	0.0%	(50.9%)
Sale	0	(97,350)	0	(974)	0.0%	(3.5%)
Holding at 31 December	**82,390**	**82,390**	**824**	**824**	**2.9%**	**2.9%**

All own shares are held by Brødrene A & O Johansen A/S.

According to the authorisation of the annual general meeting, Brødrene A & O Johansen A/S is allowed to acquire own shares up to a total holding of 10% of the share capital.

Dividend

The payment of dividends to the Company's shareholders has no tax implication for Brødrene A & O Johansen A/S.
Proposed dividend for 2018 amounts to DKK 16,800,000.

Other reserves

Reserve for net revaluation according to the equity method contains value adjustments related to investments in subsidiaries.
Included in reserve for development costs is an amount corresponding to capitalised intangible assets meeting the criteria for being defined as a development project.

Reserve for net revaluation according to the equity method and reserve for development costs are unavailable for distribution to shareholders.

Reserve for foreign currency translation adjustment

The reserve for foreign currency translation adjustments includes all translation adjustments that arise as a result of the translation of the financial statements of entities using a functional currency other than Danish kroner.
There are no translation adjustments in connection with assets and liabilities constituting a part of the Group's net investment in such entities.

NOTES

(All amounts are in DKK thousands)

COMPANY				CONSOLIDATED	
2017	2018	NOTE:		2018	2017
		19	**Deferred tax**		
29,445	32,149		Deferred tax at 1 January	61,963	54,810
(0)	0		Foreign currency translation adjustment	(35)	5
2,731	(2,380)		Change in deferred tax for the year	(1,266)	7,174
(27)	(168)		Change in deferred tax relating to previous years	(190)	(26)
32,149	**29,602**		**Deferred tax at 31 December**	**60,472**	**61,963**
			Deferred tax relates to:		
10,864	9,887		Intangible assets	11,888	12,977
45,887	20,924		Property, plant and equipment	49,811	73,608
(986)	(1,209)		Receivables	(1,219)	(997)
(23,616)	0		Liabilities	(8)	(23,625)
32,149	**29,602**		**Deferred tax at the end of the year**	**60,472**	**61,963**
		20	**Financing activities**		
12,309	65,366		Mortgage loans - floating interest rate - 5 years	241,105	177,206
575,297	404,629		Bank loans - floating short-term interest rate	405,362	575,358
107,156	0		Lease commitments - floating interest rate*	0	107,156
(52,885)	(20,076)		Intra-group balances	0	0
641,877	**449,919**			**646,467**	**859,720**
			Payables relating to financing activities:		
451,588	641,877		Beginning-of-year	859,720	613,829
(2,509)	(167,810)		Repayment of debt	(176,244)	(8,145)
257,938	(56,956)		Raising of loans/drawing on credit	(37,008)	252,616
(66,112)	32,786		Cashflows to/from subsidiaries	0	0
972	22		Foreign currency translation adjustment	(1)	1,420
641,877	**449,919**		Year-end	**646,467**	**859,720**

*The lease commitment was paid in full in 2018.

NOTE:

20 Financing activities (continued)

According to the leases there are no contingent rents. The contractual cash flows appear from note 22.

21 Contingent liabilities, security, etc.

Land and buildings with a total carrying amount of DKK 544,368,000 (2017: DKK 485,110,000) are provided as security for the Group's payables to mortgage credit institutions and finance lease obligations.

Land and buildings with a total carrying amount of DKK 119,938,000 (2017: DKK 121,837,000) are provided as security for the Company's payables to mortgage credit institutions and finance lease obligations.

A bank guarantee totalling DKK 369,000 (2017: DKK 369,000) has been provided for the Group's rent deposits, and for the Company's rent deposits a bank guarantee totalling DKK 313,000 (2017: DKK 313,000) has been provided.

The parent company is jointly taxed with AO Invest A/S and Greenline A/S. Being the administration company, the parent is subject to the Danish scheme of joint taxation and unlimited, jointly and severally liable with AO Invest A/S and Greenline A/S. Payable corporation taxes within the joint taxation group amounted to DKK 4,516,000 at 31 December 2018 (2017: DKK 0).
Any adjustments to the taxable income subject to joint taxation might entail an increase in the parent company's liability.
Group companies are not subject to withholding tax on dividends. Transactions appear from note 24.

22 Currency and interest rate risks

The Group's risk management policies

As a result of its operations, investments and financing, the Group is exposed to changes in exchange rates and interest-rate levels. It is Group policy not to engage in any active speculation in financial risks. The Group's financial management therefore only concentrates on the management of the financial risks that are directly linked to the Group's operations and financing. Financial risks are managed centrally by the Group's finance function. The overall framework for the financial risk management is laid down in the Group's finance policy, which has been approved by the Board of Directors. The finance policy covers the Group's finance policy as well as its policy relating to credit risks associated with financial counterparties and contains a description of the approved risk framework. Management monitors the Group's risk concentration on customers, currencies and other areas on a regular basis.

Currency risks

The Group's currency risk in connection with Danish operations is limited as revenue is generated in Danish kroner, and goods are primarily purchased in DKK or EUR.

(All amounts are in DKK thousands)

NOTE:

22 **Currency and interest rate risks (continued)**

The Group's foreign operations are not much affected by currency fluctuations, as income and expenses are largely paid in local currency. Consolidated results will be affected by exchange differences arising on translation of foreign operations' results and on translation of net assets.

The Group uses derivative financial inustruments to a very limited extent. The derivative financial instruments consist of forward exchange contracts for the purchase of EUR. The fair value of of the forward exchange contracts amounts to DKK 0.1 million at 31 December 2018, and therefore no further information is provided.

With regard to investments in Sweden, the Group's equity at 31 December 2018 would be reduced by DKK 3.8 million (2017: DKK 4.8 million), if the SEK exchange rate was 10% lower than the current rate. Other currency risks relating to investments in foreign entities are insignificant.

The Group had no significant currency risks relating to receivables or payables in foreign currencies at 31 December 2018, and the consolidated results would therefore not be affected to any major extent by changes in exchange rates at 31 December 2018.

The Group has the following currency exposure at 31 December:

	2018			2017		
Consolidated	**EUR**	**OTHER* CURRENCIES**	**TOTAL**	**EUR**	**OTHER* CURRENCIES**	**TOTAL**
Trade payables	27,860	24,396	52,256	26,427	18,884	45,311
Payables to credit institutions	71,061	13,489	84,550	67,068	17,116	84,184
Net exposure	**98,921**	**37,885**	**136,806**	**93,495**	**36,000**	**129,495**
Risk in exchange rate fluctuation	1%	10%		1%	10%	
Estimated effect on income statement and equity	**989**	**3,789**	**4,778**	**935**	**3,600**	**4,535**

The Group's currency exposure related to financial instruments is primarily a result of the Group's financing activities.

The Company's currency exposure is identical to that of the Group.

* Mainly SEK


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CONVENIENT RETURNS

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AO has been thoroughly busy for some time making the return of goods easier for customers. For example, customers can arrange for the collection of return goods from either a workshop address or a construction site. If they return goods in person at one of our stores nationwide, they will receive a credit note there and then.

NOTES

(All amounts are in DKK thousands)

NOTE:

22 Currency and interest rate risks (continued)

Interest rate risks

As a result of its investing and financing activities, the Group has a risk exposure relating to fluctuations in the interest-rate level in Denmark. The main interest rate exposure is related to fluctuations in CIBOR.

In 2018, the Group's interest-bearing debt, determined as payables to credit institutions less negotiable securities and cash decreased to DKK 629.8 million from DKK 831.1 million in 2017. Based on the net debt, a decrease of one percentage point in the general interest-rate level would result in a decrease in the Group's annual interest expenses before tax of approximately DKK 6.3 million (2017: approximately DKK 8.3 million).

Liquidity risks

In connection with borrowing, it is the Group's policy to ensure the greatest possible flexibility by spreading the loans on different maturity/renegotiation dates and on different lenders to ensure the best possible terms. The Group's cash resources comprise cash and cash equivalents, securities and undrawn credit facilities. It is the Group's aim to have sufficient cash resources in order to make appropriate decisions also in connection with unforeseen liquidity fluctuations.

The Group's payables fall due as follows:

	2018				
CONSOLIDATED	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Mortgage loans	241,105	192,888	11,147	44,768	136,973
Bank loans	405,362	405,362	405,362	0	0
Trade payables	589,259	589,259	589,259	0	0
31 December	**1,235,726**	**1,187,509**	**1,005,768**	**44,768**	**136,973**

	2017				
CONSOLIDATED	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Mortgage loans	177,206	188,088	7,991	37,089	143,008
Bank loans	575,358	575,358	575,358	0	0
Lease commitments	107,156	110,260	110,260	0	0
Trade payables	516,620	516,620	516,620	0	0
31 December	**1,376,340**	**1,390,326**	**1,210,229**	**37,089**	**143,008**

(All amounts are in DKK thousands)

NOTE:

22 Currency and interest rate risks (continued)

The Company's payables fall due as follows:

	2018				
COMPANY	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Mortgage loans	65,366	68,748	4,198	15,777	48,773
Bank loans	404,629	404,629	404,629	0	0
Lease commitments	0	0	0	0	0
Trade payables	565,898	565,898	565,898	0	0
Intra-group balances	36,914	36,914	0	36,914	0
31 December	**1,072,806**	**1,076,188**	**974,725**	**52,691**	**48,773**

	2017				
COMPANY	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1 to 5 years**	**More than 5 years**
Mortgage loans	12,309	13,334	776	9,511	3,047
Bank loans	575,297	575,297	575,297	0	0
Lease commitments	107,156	110,260	110,260	0	0
Trade payables	498,549	498,549	498,549	0	0
Intra-group balances	8,163	8,163	0	8,163	0
31 December	**1,201,475**	**1,205,604**	**1,184,882**	**17,674**	**3,047**

Assumptions regarding the maturity analysis:

* The maturity analysis is based on all undiscounted cash flows, including estimated interest payments.

* Interest payments are estimated on the basis of current market conditions.

Based on the Group's expectations for future operations and the Group's current cash resources, no material liquidity risks have been identified. An agreement containing Supply Chain Finance programmes has been concluded.

Group loans and committed credit facilities are not subject to any special terms or conditions (covenants).

22 **Currency and interest rate risks (continued)**

Credit risks

The Group's credit risks relate to receivables and cash at bank and in hand. The maximum credit risk associated with financial assets corresponds to the values recognised in the balance sheet.

The Group has no material risks relating to individual customers or business partners. Credit rating is based on an individual assessment of customers and business partners and their respective financial situation. The management of the credit risk is based on internal credit limits determined according to the customers' credit rating. As a result of the current market conditions, the Group has amended its credit limits for a number of customers. If the credit rating of a customer is assessed as being insufficient, the terms of payment are amended or security is provided.

The Group's credit exposure to customers is monitored on an ongoing basis as part of the Group's risk management.

In general, no security has been received for overdue or impaired receivables.

Categories of financial instruments, and methods and assumptions for determining fair values

The carrying amount and fair value of financial instruments are identical with the exception of loans measured at amortised cost, and where the carrying amount at 31 December 2018 amounts to DKK 646.4 million (2017: DKK 859.7 million).

The methods and assumptions applied in determining fair values of financial instruments are presented below for each class of financial instrument. The methods used have not been changed compared to last year.

The fair value of mortgage debt is determined on the basis of the underlying bonds. Short-term floating-rate bank loans are measured at nominal value.

The fair value of bank loans and finance lease liabilities is determined on the basis of discount models, where all estimated and fixed cash flows are discounted using zero-coupon yield curves.

Trade receivables, cash and cash equivalents, and trade payables are subject to a short credit period and are considered to have a fair value that corresponds to the carrying amount. No further fair value information for financial assets is given when the carrying amount is assumed to be a proper measure of the fair value of the assets.

(All amounts are in DKK thousands)

NOTE:

23 Operating leases

Non-cancellable operating minimum lease payments are determined on a nominal basis and can be specified as follows:

	CONSOLIDATED		COMPANY	
	2018	**2017**	**2018**	**2017**
0-1 year	22,428	22,211	60,736	61,645
1-5 years	42,429	43,134	150,328	187,554
>5 years	12,880	15,016	31,223	36,339
	77,737	**80,361**	**242,287**	**285,538**
Recognised lease payments	**27,077**	**27,935**	**67,261**	**65,145**

The Group leases buildings and operating equipment under operating leases. The lease term varies from six months to 12 years with the possibility of extension at the end of the term. None of the leases contain contingent rent.

24 Related parties

The Group's related parties comprise Avenir Invest ApS, the parent company of Evoleska Holding AG, the Board of Directors, the Executive Board and management employees.

Evoleska Holding AG has a controlling interest in the Company via its ownership of the majority of the votes. Aside from dividend payments, no transactions were carried out with Evoleska Holding AG during the course of the year.

During the year, no significant transactions were carried out with the Board of Directors, the Executive Board, management employees or major shareholders apart from normal management remuneration, cf. note 7, and dividend payments.

In addition, related parties are the Company's subsidiaries to whom letters of subordination have been submitted.

Trading with subsidiaries comprises the following:

	CONSOLIDATED		COMPANY	
	2018	**2017**	**2018**	**2017**
Sale of goods	0	0	136,499	105,736
Rental expenses	0	0	43,425	41,139
Management fee	0	0	4,975	5,162

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The competency centre provides a telephonic lifeline for customers. There will always be someone available to give advice or information on prices and delivery times or to assist with ordering goods. The competency centre is divided into trade areas, such as electrical equipment and components; plumbing, heating and sanitary ware products; water supply and drainage products; tools, etc. to enable us to give callers the most appropriate assistance.

NOTES

(All amounts are in DKK thousands)

NOTE:

24 Related parties (continued)

Transactions with subsidiaries are eliminated in the consolidated financial statements in accordance with the accounting policies.

The Company's balances with subsidiaries at 31 December can be seen in the balance sheet. Balances with subsidiaries comprise ordinary trading balances related to the sale of goods. Ordinary trading balances attract no interest and are subject to the same terms of trade as other customers of the Company. Balances with subsidiaries also comprise the construction and conversion of buildings. Return on balances appears from notes 9 and 10.

The Company has entered into building leases with AO Invest A/S, cf. note 23.

The Company is jointly taxed with AO Invest A/S and Greenline A/S and is unlimited, jointly and severally liable with the other jointly taxed companies for the total corporation tax. No separate guarantee has been provided or received in connection with this liability. Included in the Company's tax on taxable income for the year is an amount of DKK 5,501,000 (2017: DKK 3,176,000) relating to AO Invest A/S and Greenline A/S at the balance sheet date, cf. note 17.

25 Subsequent events

No events have occurred after 31 December 2018 that are considered to have a material effect on the annual report for 2018.

26 New accounting regulation

At the time of publication of this annual report, IASB has issued the following new and amended financial reporting standards and interpretations that are not compulsory for Brødrene A & O Johansen A/S in preparing the annual report for 2018 but may be relevant to Brødrene A & O Johansen going forward:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRS 9 Prepayment Features with Negative Compensation – Amendments to IFRS 9
- IAS 19 Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- IAS 28 Long-term Interests in Associates and Joint Ventures — Amendments to IAS 28
- IFRIC 23 Uncertainty over Income Tax Treatments
- Conceptual Framework — Amendments to References to the Conceptual Framework in IFRS Standards
- Annual Improvements to IFRSs 2015-2017 Cycle

IFRS 16 and Amendments to IFRS 9 have been adopted by the EU.

NOTE:

26 New accounting regulation (continued)

The adopted standards and interpretations that have not yet come into effect will be implemented as they become compulsory for Brødrene A & O Johansen A/S. It has been assessed that, of the above standards and interpretations, only IFRS 16 may potentially affect recognition and measurement to a certain extent for Brødrene A & O Johansen A/S. The Group has analysed the expected effect of IFRS 16. The outcome is described below.

IFRS 16 *Leases* was issued in mid-January 2016. The standard, which is effective for financial years beginning on or after 1 January 2019, implies a substantial change in the way that leases that are currently accounted for as operating leases must be accounted for in future. Thus, the standard requires that all leases regardless of type – with few exceptions – must be recognised in the lessee's balance sheet as an asset with an accompanying lease liability. At the same time, the lessee's income statement will be affected going forward, as the annual lease payment will consist of two elements – a depreciation charge and an interest expense – as opposed to now where the annual operating lease expense is recognised as one amount under operating costs. Moreover, the Group's cash flow statement is also expected to be affected, as the current operating lease payments that are currently presented as cash flows from operating activities, going forward, will be presented as financing activities with respect to the repayment element and as financing activities or operating activities – depending on choice of accounting policies – with respect to the interest element. IFRS 16 requires increased and more comprehensive disclosures than IAS 17 depending on the scope and complexity of the Group's leases.

Transition to IFRS 16

In 2018, Brødrene A & O Johansen A/S analysed the expected impact of the new standard on the Group. The Group plans to implement IFRS 16 using the modified retrospective transitional method according to which the effect of the transition is recognised in the opening equity at 1 January 2019 without restatement of comparative figures.

In accordance with the transitional provisions of IFRS 16, the Group plans to use the following transitional provisions when implementing the standard:

- Not to recognise leases with a term of less than 12 months or of low value.
- To determine a discount rate on a portfolio of leases with similar characteristics.

When assessing the future lease payments, the Group reviewed its operating leases and identified the lease payments related to a lease component that are fixed or variable but change in line with changes in an index or an interest rate.

When assessing the expected lease term, the Group identified the non-cancellable lease term in the lease plus periods covered by an extension option that Management is reasonably likely to exercise and plus periods covered by a termination option that Management is reasonably unlikely to exercise. The non-cancellable lease terms are assessed to be between 3-12 years.

In the assessment of the Group's incremental borrowing rate, the Group determined its incremental borrowing rate for its leases of properties based on an interest rate of a mortgage credit bond with a term corresponding to the term of the lease and denominated in the same currencies in which the lease payments are settled.

NOTES

(All amounts are in DKK thousands)

NOTE:

26 **New accounting regulation (continued)**

The interest rate of the financing of the share for which a mortgage loan cannot be used is estimated based on a reference rate of a credit margin derived from the Group's current credit facilities. The Group has corrected the credit margin for the lessor's right to take back the asset in case of default on lease payments (secured debt).

When discounting the lease payments for operating equipment to present value, the Group used its incremental borrowing rate, which is the costs of obtaining external financing for a corresponding asset with a financing period corresponding to the term of the lease denominated in the currencies in which lease payments are settled. The Group has documented the incremental borrowing rate of each portfolio of leases with similar characteristics

Based on the analysis made, the Group expects to recognise leased assets and a corresponding lease commitment of approx. DKK 88 million, corresponding to approx. 4% of total assets. The Company expects to recognise a lease liability of approx. DKK 250 million, corresponding to approx. 13% of total liabilities. The effect on equity at 1 January 2019 is expected to be DKK 0.

When measuring the lease commitment, the Group used an average incremental borrowing rate rate for discounting future lease payments of 1.2% p.a.

Moreover, the expected lease payment in 2019 of approx. DKK 23.6 million (interest and repayment) pursuant to IFRS 16 will be presented as depreciation and amortisation (DKK 23.0 million) and interest (DKK 0.6 million). Based on the current portfolio of leases, the effect on results for 2019 will be immaterial in relation to the expected results for 2019.

COMPANY INFORMATION

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Henning Dyremose, Chairman
Michael Kjær, Deputy Chairman
René Alberg
Erik Holm
Carsten Jensen
Niels A. Johansen
Jonas Kvist
Preben Damgaard Nielsen

Executive Board

Niels A. Johansen, Chief Executive Officer
Henrik T. Krabbe, Chief Financial Officer
Stefan Funch Jensen, Chief Development Officer
Lili Johansen, Chief Human Resources Officer
Gitte Lindeskov, Chief Information Officer

Auditors

Ernst & Young
Godkendt Revisionspartnerselskab

Annual General Meeting

The Annual General Meeting is scheduled for 20 March 2019.

AO's STORES AND OFFICES

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AO NYKØBING F • HERNINGVEJ 23 • DK-4800 NYKØBING F
DENMARK • TELEPHONE: +45 70 28 07 32

AO NÆSTVED • HOLSTED PARK 6 • DK-4700 NÆSTVED
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AO NØRREBRO • GLASVEJ 11 • DK-2400 KØBENHAVN NV
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AO RINGSTED • INDUSTRIPARKEN 1 • DK-4100 RINGSTED
DENMARK • TELEPHONE: +45 70 28 07 28

AO ROSKILDE • INDUSTRIVEJ 40B • DK-4000 ROSKILDE
DENMARK • TELEPHONE: +45 70 28 07 29

AO RØDOVRE • ISLEVDALVEJ 142, ST. TH. • DK-2610 RØDOVRE
DENMARK • TELEPHONE: +45 70 28 07 08

AO RØNNE • SANDEMANDSVEJ 10 • DK-3700 RØNNE
DENMARK • TELEPHONE: +45 70 28 07 31

AO SLAGELSE • JAPANVEJ 16 • DK-4200 SLAGELSE
DENMARK • TELEPHONE: +45 70 28 07 26

AO SØBORG • SYDMARKEN 32C • DK-2860 SØBORG
DENMARK • TELEPHONE: +45 70 28 07 15

AO VESTERBRO • INGERSLEVSGADE 54 • DK-1705 KØBENHAVN V
DENMARK • TELEPHONE: +45 70 28 07 09

AO VORDINGBORG • KRONDREVET 1 • DK-4760 VORDINGBORG
DENMARK • TELEPHONE: +45 70 28 07 36

AO ØSTERBRO • ØSTBANEGADE 169 • DK-2100 KØBENHAVN Ø
DENMARK • TELEPHONE: +45 70 28 07 03

STORES, WEST

AO ESBJERG • KATTEGATVEJ 1 • DK-6705 ESBJERG Ø
DENMARK • TELEPHONE: +45 70 28 07 41

AO FREDERICIA • PRANGERVEJ 143 • DK-7000 FREDERICIA
DENMARK • TELEPHONE: +45 70 28 07 42

AO HADERSLEV • NORGESVEJ 41 • DK-6100 HADERSLEV
DENMARK • TELEPHONE: +45 70 28 07 67

AO HERNING • LOLLANDSVEJ 1 • DK-7400 HERNING
DENMARK • TELEPHONE: +45 70 28 07 43

AO HJØRRING • LÆSØVEJ 3 • DK-9800 HJØRRING
DENMARK • TELEPHONE: +45 70 28 07 63

AO HOBRO • SMEDEVEJ 4 • DK-9500 HOBRO
DENMARK • TELEPHONE: +45 70 28 07 44

AO HOLSTEBRO • MADS BJERRES VEJ 1 • DK-7500 HOLSTEBRO
RENTAL SERVICE +45 70 28 07 45

AO HORSENS • ALLÉGADE 40 • DK-8700 HORSENS
DENMARK • TELEPHONE: +45 70 28 07 46

AO KOLDING • MØNTEN 5 • DK-6000 KOLDING
DENMARK • TELEPHONE: +45 70 28 07 47

AO ODENSE CITY • MIDDELFARTVEJ 8 • DK-5000 ODENSE C
DENMARK • TELEPHONE: +45 70 28 07 50

AO ODENSE SØ • OVE GJEDDES VEJ 18 • DK-5220 ODENSE SØ
DENMARK • TELEPHONE: +45 70 28 07 49

AO RANDERS • TOLDBODGADE 24 • DK-8930 RANDERS NØ
DENMARK • TELEPHONE: +45 70 28 07 52

AO RISSKOV • RAVNSØVEJ 7 • DK-8240 RISSKOV
DENMARK • TELEPHONE: +45 70 28 07 55

AO SILKEBORG • LILLEHØJVEJ 42 • DK-8600 SILKEBORG
DENMARK • TELEPHONE: +45 70 28 07 53

AO SKIVE • VIBORGVEJ 21 C • DK-7800 SKIVE
DENMARK • TELEPHONE: +45 70 28 07 68

AO SØNDERBORG • NØRREKOBBEL 7 D • DK-6400 SØNDERBORG
DENMARK • TELEPHONE: +45 70 28 07 54

AO VEJLE • IBÆK STRANDVEJ 12 • DK-7100 VEJLE
DENMARK • TELEPHONE: +45 70 28 07 58

AO VIBORG • VÆVERVEJ 4 C • DK-8800 VIBORG
DENMARK • TELEPHONE: +45 70 28 07 62

AO VIBY • JENS JUULS VEJ 7 • DK-8260 VIBY J
DENMARK • TELEPHONE: +45 70 28 07 69

AO AABENRAA • NÆSTMARK 21 • DK-6200 AABENRAA
DENMARK • TELEPHONE: +45 70 28 07 34

AO AALBORG • SØNDERBRO 2 A • DK-9000 AALBORG
DENMARK • TELEPHONE: +45 70 28 07 40

AO AARHUS • SØREN FRICHS VEJ 24 • DK-8000 AARHUS C
DENMARK • TELEPHONE: +45 70 28 07 70

AO VAGA

VAGA TEKNIK • MOSSVEJ 2 • DK-8700 HORSENS
DENMARK • TELEPHONE: +45 70 28 07 77

VAGA TEHNIKA EESTI OÜ

VAGA TEHNIKA EESTI OÜ • AKADEEMIA TEE 39 •
EE-12618 TALLINN • ESTONIA
TELEPHONE: +372 67 10 300

AO SVERIGE AB

AO SVERIGE AB • BRODALSVÄGEN 15 •
SE-433 38 PARTILLE • SWEDEN
TELEPHONE: +46 10 480 96 00

AO SVERIGE AB • BRONSYXEGATAN 6A •
SE-213 75 MALMØ • SWEDEN
TELEPHONE: +46 10 480 95 00

AO SVERIGE AB • REGEMENTSGATAN 24 •
SE-504 31 BORÅS • SWEDEN
TELEPHONE: +46 10 480 96 50

AO SVERIGE AB • SVETSAREVÄGEN 1 •
SE-291 36 KRISTIANSTAD • SWEDEN
TELEPHONE: +46 10 480 95 50

AO SVERIGE AB • DEPÅGATAN 125 •
SE-254 64 HELSINGBORG • SWEDEN
TELEPHONE: +46 10 480 95 30

RENTAL SERVICE

BRØDRENE A & O JOHANSEN A/S • RENTAL SERVICE • HERSTED-
VANG 6 • DK-2620 ALBERTSLUND
DENMARK • TELEPHONE: +45 70 28 05 61

REPAIR WORKSHOP

BRØDRENE A & O JOHANSEN A/S • REPAIR WORKSHOP •
DK-HERSTEDVANG 6 • 2620 ALBERTSLUND
DENMARK • TELEPHONE: +45 70 28 02 45

LASER WORKSHOP

BRØDRENE A & O JOHANSEN A/S • LASER WORKSHOP •
KATTEGATVEJ 1 • DK-6705 ESBJERG Ø
DENMARK • TELEPHONE: +45 70 28 06 61

BILLIGVVS

BILLIGVVS.DK • HTTP://WWW.BILLIGVVS.DK •
TELEPHONE: +45 70 10 66 88

LAVPRISEL.DK • HTTP://WWW.LAVPRISEL.DK •
TELEPHONE: +45 70 60 29 88

LAVPRISVVS.DK • HTTP://WWW.LAVPRISVVS.DK •
TELEPHONE: +45 86 77 00 44

VVSOCHBAD.SE • HTTP://WWW.VVSOCHBAD.SE •
TELEPHONE: +46 8 55803010

BILLIGVVS.NO • HTTP://WWW.BILLIGVVS.NO •
TELEPHONE: +47 21 64 88 20

GREENLINE A/S

GREENLINE.DK • HTTP:///WWW.GREENLINE.DK •
TELEPHONE: +45 70 22 20 26

EQUIPMENT HIRE

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

Our customers can hire equipment they do not own (or do not wish to own) themselves. This enables them to take jobs they would otherwise have to decline. In addition, they can always be assured of having equipment that has been tested and approved, thereby avoiding the hassle of equipment that doesn't work.


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INFORMATION ABOUT THE BOARD OF DIRECTORS' MANAGERIAL POSTS

• Henning Baunbæk Dyremose

Chairman of the Board

- Manager of Henning Dyremose ApS
  HD Invest, Virum ApS
  HCE Invest, Virum ApS
  CD Invest, Virum ApS
  Elly Dyremose ApS.
- Born 1945.
- Nationality: Danish.
- Chairman of the Board since 2007.
- Member of the Board since 1997.
- Chairman of Brødrene A & O Johansen A/S' Audit Committee.
- Elected by the ordinary shareholders.
- As Henning Dyremose has been a member of the Board for more than 12 years, he cannot, according to the 'Danish Recommendations on Corporate Governance', be characterised as being independent of special interests.

Qualifications

- Broad leadership experience in business, finance and politics.
- Experience as managing director of a wholesale company with the same customers as Brødrene A & O Johansen A/S.
- Former Minister of Finance.

Managerial Posts

- Deputy Chairman of the boards of:
  Aveny-T Fonden.
  AO Invest A/S

• Michael Kjær

Deputy Chairman of the Board

- Managing Director of Invest Group A/S.
- Born 1956.
- Nationality: Danish.
- Deputy Chairman of the Board since 2007.
- Member of the Board since 2002.
- Member of Brødrene A & O Johansen A/S' Audit Committee.
- Elected by the ordinary shareholders.
- As Michael Kjær has been a member of the Board for more than 12 years, he cannot according to the 'Danish Recommendations on Corporate Governance', be characterised as being independent of special interests.

Qualifications

- Expertise in strategy, sales, marketing and finance.
- Management experience/competence at CEO level within retail.
- Experience with business organisations and employers' associations.

Managerial Posts

- Chairman of the boards of:
  Artha Holding A/S
  Investeringsselskabet Artha Max A/S
  Investeringsselskabet Artha Optimum A/S
  Investeringsselskabet Artha Safe A/S
  Kraks Fond
  Realfiction Holding AB
  MenuCard AB
  CORE Leasing A/S.
- Deputy Chairman of the board of:
  AO Invest A/S.
- Member of the boards of:
  Jacobsgaard Investment Advisory ApS
  MMP Invest af 1988 A/S
  Invest Group A/S
  Kjær 11-11-11 ApS
  Paul Kjær Invest A/S
  Paul Kjær af 1991 ApS.
- Ad hoc expert judge at the Danish Maritime and Commercial Court.

• René Alberg

- Product Manager.
- Born 1971.
- Nationality: Danish.
- Staff-elected member of the Board.
- Member of the Board since 2006.
- Re-elected in 2018, term expires in 2022.

• Erik Holm

- Managing Director of Maj Invest Equity A/S
  Manager of Maj Invest Holding A/S
  Fondsmæglerselskabet Maj Invest A/S
  Erik Holm Holding ApS
  MIE5 Holding 4 ApS
  MIE5 Holding 1 ApS.
- Born 1960.
- Nationality: Danish.
- Member of the Board since 2009.
- Member of Brødrene A & O Johansen A/S' Audit Committee.
- Elected by the ordinary shareholders.
- Considered to be independent of special interests.

Qualifications

- Experience as managing director of a wholesale company with the same customers as Brødrene A & O Johansen A/S.
- Broad leadership experience in sales, finance and logistics, both in Denmark and internationally.
- Experience of Board work in other listed companies.

Managerial Posts

- Chairman of the boards of:
  Sticks'n'Sushi Holding A/S
  Sticks'n'Sushi A/S
  Sticks'n'Sushi UK Limited, Great Britain
  Sticks'n'Sushi Germany GmbH, Germany
  Victor Gruppen Restauranter Holding A/S
  Cenex ApS
  VGRH II ApS.
- Deputy Chairman of the boards of:
  SP Group A/S
  SP Moulding A/S
  Arvid Nilssons Fond.
- Member of the boards of:
  Fonden Maj Invest Equity General Partner
  Maj Invest Equity A/S
  Maj Invest South America S.A.
  Maj Invest Singapore Private Ltd.
  Wendelbo Møbel Design A/S
  AO Invest A/S.

• Carsten Jensen

- Logistics Coordinator.
- Born 1955.
- Nationality: Danish.
- Staff-elected member of the Board.
- Member of the Board since 1990.
- Re-elected in 2018, term expires in 2022.

• Niels Axel Johansen

- Chief Executive Officer of A & O Johansen A/S.
- Born 1939.
- Nationality: Danish.
- Member of the Board since 1979.
- Elected by the ordinary shareholders.
- As Niels A. Johansen has been a member of the Board for more than 12 years and is a member of the Executive Board, he cannot, according to the 'Danish Recommendations of Corporate Governance', be characterised as being independent of special interests.

Qualifications

- Long-time managerial experience as CEO.
- In-depth knowledge of the wholesale industry of installation materials in Denmark and the rest of Europe.

Managerial Posts

- Chairman of the board of:
  Avenir Invest ApS.
- CEO and member of the board of AO Invest A/S.

• Jonas Kvist

- Sales Manager.
- Born 1986.
- Nationality: Danish.
- Staff-elected member of the Board.
- Member of the Board since 2018.
- Elected in 2018, term expires in 2022.

• Preben Damgaard Nielsen

- Managing Director of Damgaard Company A/S
  Damgaard Group A/S
  Damgaard Group Holding A/S
  Ejendomsselskabet Oktanten ApS
  The Closet ApS
  Katrine Damgaard Invest ApS
  Olivia Damgaard Invest ApS
  Markus Damgaard Invest ApS
  Damgaard Family Invest ApS
  Damgaard Family Invest II ApS
  Damgaard Family Invest III ApS
  Galleri Bo Bjerggaard International ApS
  PD International Invest ApS
  Ejendomsselskabet Tesch Alle ApS
  DGH I ApS
  DGH II ApS.
- Born 1963.
- Nationality: Danish.
- Member of the Board since 2007.
- Member of Brødrene A & O Johansen A/S' Audit Committee.
- Elected by the preference shareholders.
- Considered to be independent of special interests.

Qualifications

- Broad leadership experience.
- Long-time experience as CEO.
- Long-time experience as board member.
- Worked as CEO of a listed company from 1999 to 2003.
- In-depth knowledge of accounting and IT systems.
- In-depth knowledge and experience of business acquisitions and disposals.

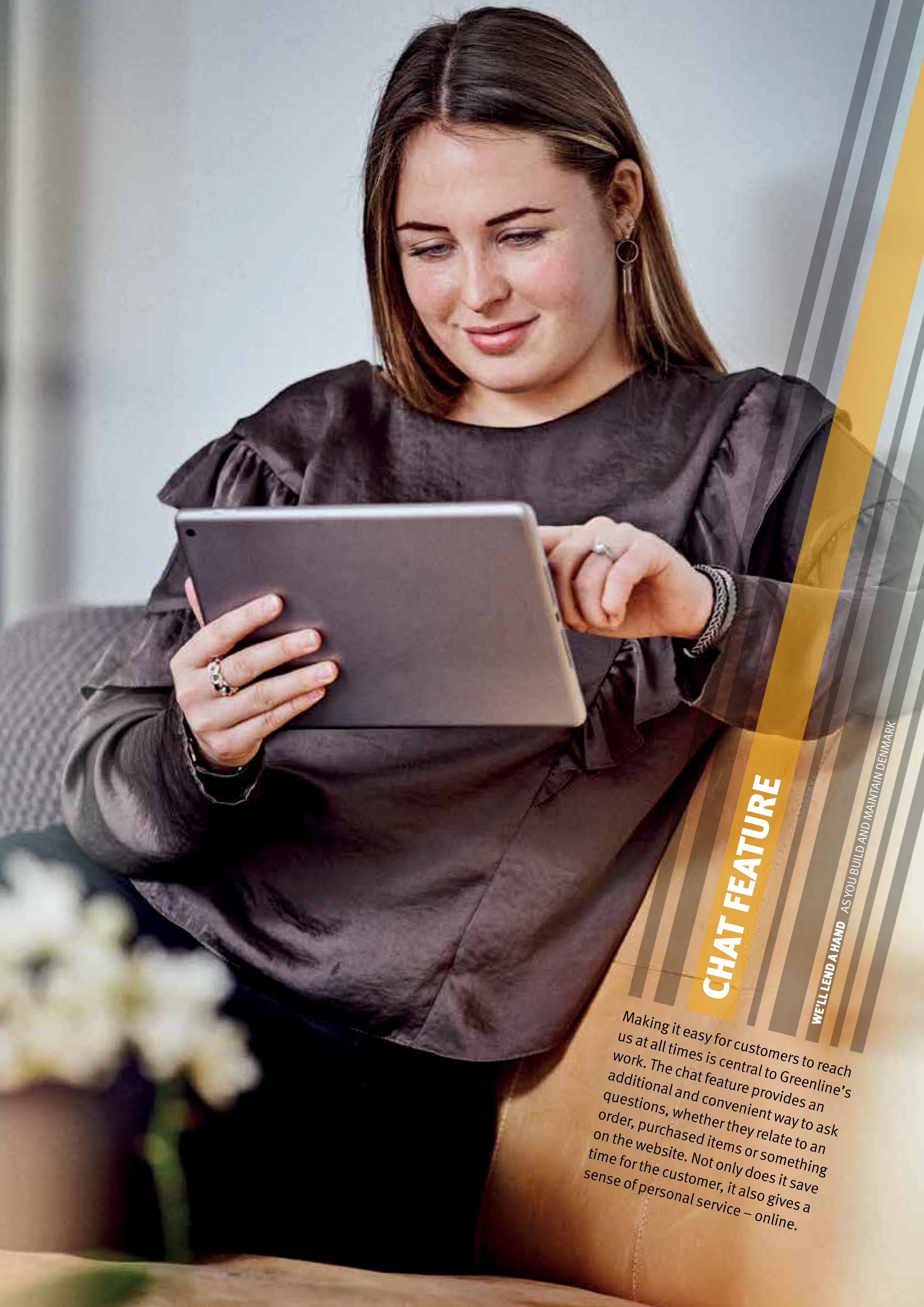
Managerial Posts

- Chairman of the boards of:
  Proactive A/S
  Proactive Holding 2008 A/S
  7N A/S
  Too Good To Go ApS
  Too Good To Go Holding A/S
  Templafy ApS
  Dixa ApS.
- Member of the boards of:
  Skolebordet.dk ApS
  Damgaard Company A/S
  Damgaard Group A/S
  Damgaard Group Holding A/S
  Scalepoint Technologies Holding A/S
  Scalepoint Technologies Denmark A/S
  Configit A/S
  Configit Holding A/S
  OrderYOYO ApS
  Saxo Bank A/S
  AO Invest A/S.
- Member of the Investment Committee for Seed Denmark.

MEETING ROOMS

WE'LL LEND A HAND AS YOU BUILD AND MAINTAIN DENMARK

To help its smaller customers in particular, AO has made it possible for them to hire meeting rooms in its stores nationwide for the purpose of meeting with customers, suppliers or staff, etc. No more worries about finding space and funds for meeting facilities. AO will even provide the coffee.



CHAT FEATURE

Making it easy for customers to reach us at all times is central to Greenline's work. The chat feature provides an additional and convenient way to ask questions, whether they relate to an order, purchased items or something on the website. Not only does it save time for the customer, it also gives a sense of personal service – online.

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CVR (Central Business Register)
No.: 58 21 06 17

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