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Annual Report 2017  
Brødrene A & O Johansen A/S  
Rørvang 3 - DK-2620 Albertslund  
Denmark  
CVR No.: 58 21 06 17



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



# CONSOLIDATED FIVE-YEAR SUMMARY

(DKKm)

Key figures	2017	2016	2015	2014	2013
Revenue	3,269.1	2,823.4	2,631.2	2,258.7	2,309.7
Gross margin*	769.8	704.7	629.0	573.2	624.8
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	223.1	207.5	172.3	144.7	164.0
Operating profit or loss (EBIT)	147.2	143.3	118.8	100.3	127.1
Financial income and expenses, net	(1.7)	(8.0)	(3.3)	(2.7)	(1.9)
Profit or loss before tax (EBT)	145.5	135.4	115.5	97.5	125.2
Tax on profit or loss for the year	(30.7)	(30.0)	(27.7)	(23.8)	(26.6)
Net profit or loss for the year	114.8	105.4	87.8	73.8	98.6
Non-current assets	1,304.6	1,266.9	1,180.0	896.7	721.7
Current assets	864.5	727.9	783.1	694.2	709.5
Total assets	2,169.1	1,994.8	1,963.2	1,590.9	1,431.3
Share capital	28.0	57.0	57.0	57.0	57.0
Equity	655.9	732.1	1,024.6	935.7	863.0
Non-current liabilities	230.1	339.1	217.5	204.5	199.7
Current liabilities	1,283.1	923.6	721.1	450.7	368.5
Cash flow from operating activities	134.4	235.8	96.1	199.9	165.0
Cash flow from investing activities	(164.2)	(129.7)	(301.5)	(197.1)	(126.1)
Of which investments in property, plant and equipment, net	(86.0)	(61.7)	(90.4)	(178.7)	(109.5)
Cash flow from financing activities	52.1	(110.2)	142.3	14.8	(2.4)
Cash flow for the year	22.3	(4.0)	(63.1)	17.5	36.6
<b>Financial ratios</b>					
Gross profit margin	23.5%	25.0%	23.9%	25.4%	27.1%
Profit margin	4.5%	5.1%	4.5%	4.4%	5.5%
Return on capital employed	7.1%	7.2%	6.7%	6.6%	9.4%
Return on equity	16.5%	12.0%	9.0%	8.2%	12.1%
Solvency ratio	30.2%	36.7%	52.2%	58.8%	60.3%
Book value**	234	128	180	164	151
Share price at the end of the year	401	337	175	112	134
Price Earnings Basic (P/E Basic)	9.5	12.3	10.9	8.3	7.4
Dividend per DKK 100 share	6.0	6.0	0.0	0.0	0.0
Earnings per share (EPS Basic), DKK	42	27	16	14	18
Diluted earnings per share (EPS-D), DKK	42	27	16	13	18
Number of employees***	718	680	619	621	650

Basic EPS and diluted EPS have been calculated in accordance with IAS 33 (note 17). Other financial ratios have been calculated in accordance with the Danish Finance Society's "Recommendations and Financial Ratios".

\*Distribution costs have been reclassified from other external expenses to cost of sales. Comparative figures have been restated accordingly, as described in the accounting policies.

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

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



“We’ll lend a hand” builds on Brødrene A & O Johansen A/S’ genuine and heartfelt interest in understanding the needs of our customers and being able to help them.

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# MANAGEMENT'S REVIEW

## THE YEAR IN OUTLINE

Brødrene A & O Johansen A/S (the Group) realised a pre-tax profit of DKK 145.5 million for 2017, which is DKK 10.1 million higher than last year and in accordance with previous announcements of a pre-tax profit of DKK 140-150 million. As a result of increased competition, the profit margin of 4.5% has decreased by 0.6 percentage point compared with 2016.

At the beginning of 2017, a major and important milestone was reached through the buy-back of own preference shares from J-F. Lemvig-Müller Holding A/S and the subsequent reduction of the share capital by DKK 29.0 million to DKK 28.0 million. At the Annual General Meeting in 2017, it was decided to make a share split in the ratio of 1:10 so that the denomination of the preference shares was reduced from DKK 100 per share to DKK 10.

The Group continued to make new investments. In Odense another store opened – number 50 in the row, and AO's store in Roskilde was moved to a new location. At the central warehouse in Albertslund a new miniload storage system with more than 80,000 boxes was implemented, and at the same time an outdoor storage area of 17,000 square metres was established.

At the Company's Annual General Meeting to be held on 23 March 2018, a dividend distribution of DKK 6 per share of DKK 10 will be proposed.

Consolidated revenue for the year was DKK 3,269.1 million against DKK 2,823.4 million in 2016. The increase of DKK 445.7 million, or 16%, is attributable to the Danish market, where revenue increased by DKK 366.6 million, or 14%, and to the overseas market, where revenue increased by DKK 64.4 million, or 28%. In both Denmark and abroad, revenue growth is attributable to major projects, where margins are under more pressure.

Gross profit, which now includes distribution costs, was DKK 769.8 million, an increase of DKK 65.1 million, or 9%, compared to last year. The gross profit margin of 23.5% is 1.5 percentage points lower than last year. The decline is due to higher distribution costs and increased competition in the market. Distribution costs amount to 3.8% of revenue, which is an increase of 0.5 percentage point compared to 2016.

Total operating expenses, depreciation and amortisation are growing, as the transformation to a digital enterprise generates additional investments and expenses, and, in addition, the

expenses of the traditional enterprise are necessary in the transition phase.

External expenses of DKK 175.4 million are DKK 17.7 million, or 11%, higher than realised in 2016.

Staff costs of DKK 371.3 million are DKK 31.8 million, or 9%, higher than realised in 2016 and must be seen in relation to the growth in revenue of 16% and the above-mentioned transition.

Earnings before interest, tax, depreciation and amortisation (EBITDA) amount to DKK 223.1 million, which is DKK 15.6 million higher than last year.

Depreciation, amortisation and write-downs of DKK 75.9 million are DKK 11.7 million, or 18%, higher than realised in 2016 due to increased depreciation related to investment in the new miniload storage system and increased investment in digital solutions and software.

Operating profit (EBIT) for the year was DKK 147.2 million against DKK 143.3 million in 2016. The profit margin was 4.5% against 5.1% in 2016.

Financial expenses, net, at DKK 1.7 million are DKK 6.3 million lower than last year due to a revenue recognition of DKK 8.9 million related to an adjustment of earn-out in connection with Greenline A/S.

Profit before tax of DKK 145.5 million is in line with previously announced expectations and is DKK 10.1 million higher than realised in 2016. The results are considered acceptable in the light of the competitive situation.

Net profit for the year of DKK 114.8 million is DKK 9.4 million more than in 2016.

As at 31 December 2017, the Group's total assets amounted to DKK 2,169.1 million against DKK 1,994.8 million in 2016. The increase of DKK 174.3 million is mainly attributable to increased inventories of DKK 25.9 million, trade receivables of DKK 75.4 million and the investment in a new miniload storage system, which increase non-current assets by DKK 37.6 million.

Equity totalled DKK 655.9 million, corresponding to a solvency ratio of 30.2%.

During the year, the interest-bearing debt of DKK 859.7 million increased by DKK 245.9 million, which is attributable to the buyback of own shares from J-F. Lemvig-Müller Holding A/S in the amount of DKK 185.5 million, the final instal-

ment payment of DKK 49.6 million for the acquisition of Greenline A/S and a total dividend payment of DKK 16.3 million.

Cash flow from operating activities amounted to DKK 134.4 million, which is DKK 101.4 million less than last year due to an improved EBITDA of DKK 15.6 million, whereas working capital increased by DKK 52.9 million during the year. In 2016, working capital was reduced by DKK 65.9 million.

In 2017, investments amounted to net DKK 164.2 million, which is DKK 34.5 million more than last year, primarily due to an investment of DKK 28.6 million in digital solutions related to online trading systems, a pricing tool based on artificial intelligence, PIM and CRM systems, where investment is DKK 14.5 million higher than last year. In addition, DKK 48.1 million was invested in fixtures and operating equipment mainly for the new miniload storage system. DKK 37.6 million was invested in land and buildings mainly in relation to new stores in Roskilde and Odense and extensions to the central warehouse in Albertslund.

In 2017, AO's total workforce, including temporary workers, numbered an average of 718 employees against 680 the year before.

Management anticipates that profit before tax for 2018 will be in the range of DKK 145-155 million.

The Group's financial objectives have been reached with regard to growth. Realised cash flow from operating activities and profit margin are below target. The solvency ratio is also under target due to the acquisition of own shares.

## DEVELOPMENT OF THE SECOND HALF OF 2017

Consolidated revenue for the second half of 2017 was 1,718.1 million, which is DKK 249.3 million, or 17%, more than reported for the second half of last year. The increase is attributable to activities both in Denmark and abroad.

Gross profit for the last six months amounted to DKK 393.0 million, which is DKK 39.3 million more than reported for the last six months of 2016. The gross profit margin was 23.0%, which is 1.5 percentage points lower than last year. This result is adjusted for distribution costs.

Total operating expenses, before depreciation and amortisation, for the last six months of 2017 totalled DKK 279.6 million, which is DKK

30.8 million, or 12%, up on last year's figures for the same period. Depreciation and amortisation amounted to DKK 42.2 million, which is DKK 10.7 million more than in the second half of 2016.

Operating profit (EBIT) was DKK 72.7 million, which is DKK 6.7 million less than last year. The profit margin of 4.2% is 1.2 percentage points lower than last year, partly due to increased pressure on gross profit margins, partly due to costs for digitisation.

A pre-tax profit of DKK 76.1 million was recorded for the second half of 2017. It is DKK 1.0 million more than for the same period last year.

## 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.

The first half of 2017 was characterised by a number of financial transactions. Firstly, own shares at a nominal value of DKK 7,135,100 (corresponding to 13.89% of the Company's preference share capital and 12.52% of the Company's total share capital) were acquired from J-F. Lemvig-Müller Holding A/S. The purchase sum amounted to DKK 185.5 million, which corresponds to a price of DKK 2,600 per nominal preference share of DKK 100. During the same period, all share options granted to members of the Executive Board were fully exercised, and presently there are no ongoing share option schemes.

The denomination of the Company's preference shares was reduced from nominally DKK 100 per share to nominally DKK 10, and the denomination of the Company's ordinary shares was reduced from nominally DKK 1,000 per share to nominally DKK 100.

In immediate continuation hereof, the preference share capital was reduced by nominally DKK 29,000,000 from nominally DKK 51,360,000 to nominally DKK 22,360,000 through the cancellation of a portion of the Company's holding of own shares. After the capital reduction, the Company's share capital is nominally DKK 28,000,000 divided into an ordinary share capital of nominally DKK 5,640,000 and a preference share capital of nominally DKK 22,360,000.

In the first half of 2017, the new miniloading storage system was put into operation, and together with the investment in a fully automated high-bay warehouse in 2015 it has led to a warehouse efficiency improvement of approximately 15%. Further efficiency improvements are expected in 2018.

In May 2017, AO's store no. 50 opened in Odense SØ. AO's stores and online trading systems are still the core of the local customer service. Apart from ensuring proximity to its customers, the stores are used for the marketing of new products and installation methods towards the local installers.

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. In 2017, the pace of digitisation picked up, just as the activity in AO's stores increased. In Sweden a regional strategy focusing on water supply and drainage products and tools has been chosen.

The Group's B2B online trading platforms on AO.dk and AO.net.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 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 the Group's growth, 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. Due to the growth of the Group, the warehouse at the logistics centre was reopened. About 1/3 of the warehouse and the offices are rented out externally.

In the second half of 2017, the Executive Board was enlarged by three new members in order to strengthen the company's transition process from being a traditional wholesaler to becoming a modern digital enterprise with focus on the AO culture, IT and e-commerce. Subsequently, the Executive Board consists of five members, of whom 40% are women and 60% are men.

## 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.

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 2017, 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 fragmented, with many small customers.
- The private market served by BilligVVS, LavprisVVS, VVSochBad Sverige AB, BilligVVS Norway and Greenline 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.





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up buildings in Denmark**

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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. 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. Revenue through AO's webshop and EDI integration solutions amounts to approximately DKK 1 billion, which is an increase of more than 30% compared with 2016.

### 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.

The DIY market is served by the competency centres.

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 local tradesmen.

### 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, 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 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 the key communicators of the Group's philosophy.

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 Group consists of the following companies:

All subsidiaries are 100% owned by Brødrene A & O Johansen A/S.



## 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, 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 2017, AO achieved revenue of DKK 3,269.1 million against DKK 2,823.4 million in 2016, corresponding to a growth of DKK 445.7 million, or 16%. The increase is attributable to Brødrene A & O Johansen A/S where revenue increased by DKK 366.6 million, or 14%. International revenue increased by DKK 64.4 million to DKK 298.8 million, or 28%, due to growth in AO Sverige AB.

AO realised a gross profit of DKK 769.8 million against DKK 704.7 million in 2016. The increase of DKK 65.1 million, or 9%, is attributable to a growth in revenue counterbalanced by a decline in the gross profit margin by 1.5 percentage points to 23.5%. The decline in the gross profit margin is attributable to higher distribution costs and increased competition in a market characterised by major projects both in Denmark and abroad. The gross profit is offset by customer distribution costs of DKK 122.6 million, or 3.8% of revenue. In 2016, distribution costs amounted to DKK 92.0 million, or 3.3% of revenue.

Total operating expenses, excluding depreciation, amortisation and write-downs, amounted to DKK 546.7 million, which is DKK 49.5 million or 10% more than the year before. The increase is attributable to external expenses of DKK 17.7 million and staff costs of DKK 31.8 million. AO is in a transition phase from being a traditional wholesaler to becoming a knowledge-based IT and logistics enterprise, and in this phase costs associated with digitisation will increase, and traditional costs will be maintained at the same level as earlier.

External expenses, now including bad debts, totalled DKK 175.4 million, which is DKK 17.7 million more than last year. DKK 7.6 million of these expenses is related to Greenline A/S, which in

2017 contributed to the operations of the Group throughout the whole year, as opposed to only three months in 2016. Purified of the expenses relating to Greenline A/S, external expenses increased by DKK 10.1 million, or 6%. Bad debts amounted to DKK 4.7 million, which is DKK 2.8 million less than realised in 2016.

Staff costs of DKK 371.3 million are DKK 31.8 million, or 9%, higher than in 2016 and five percentage points less than the growth in revenue. During the year, the average number of employees, including temporary workers, increased by 38 persons, or 6%, to 718.

Depreciation, amortisation and write-downs of DKK 75.9 million are DKK 11.7 million higher than last year due to investments in 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 147.2 million against DKK 143.3 million in 2016. The profit margin was 4.5% against 5.1% in 2016.

Net financial expenses of DKK 1.7 million are DKK 6.3 million lower than last year due to the fact that DKK 8.9 million is recognized as income under this item. This amount relates to an adjustment of liabilities in connection with an earn-out/contingent consideration regarding the acquisition of Greenline A/S. Actual financial expenses increased by DKK 2.6 million in 2017.

In 2017, the Group recorded a pre-tax profit of DKK 145.5 million against DKK 135.4 million in 2016, corresponding to an increase of DKK 10.1 million.

In 2017, the Group's foreign operations reported a pre-tax profit of DKK 19.8 million, compared to a profit of DKK 7.5 million in 2016.

Tax on net profit for the year amounted to DKK 30.7 million against DKK 30.0 million in 2016.

The Group's post-tax profit for the year was DKK 114.8 million, compared to DKK 105.4 million in 2016.

Profit before tax for 2017 of DKK 145.5 million is acceptable and in accordance with the latest interim financial report where profit before tax for the year was expected to be in the range of DKK 140-150 million.

### BALANCE SHEET

As at 31 December 2017, Group assets amounted to DKK 2,169.1 million against DKK 1,994.8 million in 2016.

Non-current assets totalled DKK 1,304.5 million, which is DKK 37.6 million more than in 2016.

The increase is mainly attributable to land and buildings of DKK 641.0 million, which increased by DKK 20.1 million as a result of new stores in Odense and Roskilde, a building for a new miniload storage system, and the establishment of a major outdoor storage area in Albertslund. Fixtures and operating equipment of DKK 187.2 million is DKK 15.8 million higher than last year, mainly due to the investment in a new miniload storage system. Software of DKK 51.7 million increased by net DKK 5 million due to investments of DKK 28.6 million counterbalanced by depreciation of DKK 23.6 million.

Current assets amounted to DKK 864.5 million against DKK 727.9 million in 2016. The increase of DKK 136.7 million is mainly attributable to trade receivables of DKK 381.4 million, which improved by DKK 75.4 million due to growth in revenue. Inventories of DKK 414.1 million increased by DKK 26.0 million compared to last year. The Group's cash and cash equivalents increased by DKK 28.6 million to DKK 21.3 million.

As at 31 December 2017, AO's equity totalled DKK 655.9 million corresponding to a solvency ratio of 30.2%. Equity is DKK 76.2 million lower than at the end of 2016 mainly due to the acquisition of own shares worth DKK 177.5 million net, dividend distribution of DKK 16.3 million plus profit for the year of DKK 114.8 million.

Non-current liabilities of DKK 230.1 million are DKK 109.0 million lower than in 2016. The decline is attributable to the lease on the property on Mossvej, which will be settled in 2018. Compared to last year, deferred tax increased by DKK 7.2 million to DKK 62.0 million.

AO's current liabilities of DKK 1,283.1 million increased by DKK 359.5 million, mainly due to the fact that short-term debt owed to credit institutions of DKK 691.6 million increased by DKK 362.1 million in relation to the financing of the acquisition of own shares from J-F. Lemvig-Müller Holding A/S and that the lease commitment related to the property on Mossvej turned out to be short-term. Trade payables of DKK 516.6 million increased by DKK 48.4 million, and other payables decreased by DKK 50.8 million to DKK 74.8 million, partly due to the final instalment payment of DKK 49.6 million in relation to the investment in Greenline A/S, partly due to the adjustment of a liability of DKK 8.9 million.

### CASH FLOW STATEMENT

Cash flow from operating activities was positive at DKK 134.4 million, which is DKK 101.4 million less than last year. The deviation is primarily attributable to an increased EBITDA of DKK 15.6 million, whereas working capital increased by DKK 52.9 million during the year. In 2016, working capital was reduced by DKK 65.9 million.



Net investments, including acquisitions, totalled DKK 164.2 million, compared to DKK 129.7 million in 2016. During the year, software investments totalled DKK 28.6 million, which is attributable to the development of a new pricing tool based on artificial intelligence and a PIM system (Product Information Management System), continued development of the CRM and ERP systems and the Group's e-commerce solutions. Investment in land and buildings of DKK 37.6 million is attributable to the extension of the central warehouse, i.e. a new outdoor storage area and a miniload storage system. In addition, investments have been made in new stores in Odense and Roskilde. Investment of DKK 48.1 million in operating equipment is primarily attributable to a new miniload storage system and hardware for ERP and Windows upgrades, which will be carried out in 2018. In addition, tools and equipment have been acquired for the new stores in Roskilde and Odense. In 2017, an instalment payment of DKK 49.6 million was made in relation to the acquisition of Greenline A/S.

Cash flow from financing activities includes increased drawing on the Group's credit facilities of DKK 245.9 million net. Own shares of DKK 177,5 million net have been acquired, and dividends of DKK 16.3 million have been distributed.

Total cash flow was positive at DKK 22.3 million, and the Group's cash totalled DKK 28.6 million as at 31 December 2017.

#### 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 2017.

#### OUTLOOK

Management expects a continued increase in relevant market activities in 2018 compared to 2017.

In 2018 and 2019, the Group will focus on developing, boosting and adapting the enterprise to the future market, where digitisation and transparency will increase competition.

Management expects a profit before tax for 2018 in the range of DKK 145-155 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 re-

porting 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

In May 2013, the Danish Committee on Corporate Governance issued updated recommendations for corporate governance based on the "comply-or-explain" principle. The revised recommendations, with the most recent upgrade in November 2014, have been implemented by NASDAQ Copenhagen 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 Danish law, the requirement to publish quarterly reports has been abolished, and the Company therefore only publishes annual reports and semi-annual reports.
- 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 Company sees no need for fixing a retirement age for members of the Board of Directors, as the company attaches great importance to the fact that the Board consists of members with relevant professional experience.
- 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 and the Board of Directors 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 prove to have been misstated.


- The remuneration of the Board of Directors is disclosed in the annual report which is approved by the Annual General Meeting. It is considered a breach of privacy to disclose information about the remuneration granted to each individual member of the Board of Directors and the Executive Board.

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 2017 financial year, which can be viewed or downloaded from <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2017/statutory-report-on-corporate-governance-2017.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 impair-



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ment 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 wants to comply 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 the EU.

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.

In addition, we want to be a responsible company, 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 policy, which focuses on the continued improvement of the company's environmental performance. AO acknowledges that an active consideration for the environment is important, and through our purchases, investments and other operations we will help to pro-

tect 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

- transport – larger consignments and fewer transports (costs and deliveries to customers through AO stores)
- waste – reduction and recycling
- energy consumption – electricity and heat.

as the most significant.

AO is environmentally certified according to DS/EN ISO 14001 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/1-om-ao/investor-relations/english/financial-statements/2017/statutory-report-on-gender-composition-of-management-2017.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 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 11% 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 2017 financial year, cf. section 99a of the Danish Financial Statements Act, can be viewed or downloaded from <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2017/statutory-report-on-corporate-social-responsibility-2017.pdf>.



## SHAREHOLDER INFORMATION

### DIVIDEND

The Board of Directors proposes that a dividend of DKK 6 per DKK 10 share be distributed for 2017.

### 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	238,507	2,385,070	8.52 %	3.03 %
Investeringsforeningen Bankinvest	0	151,728	1,517,380	5.42 %	1.92 %
Other registered shares	20	1,067,398	10,675,980	38.13 %	13.58 %
Unregistered shares	0	404,527	4,045,270	14.45 %	5.14 %
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 2017

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 <sup>4)</sup>	Share price <sup>1)</sup>
Board of Directors <sup>2) + 4) + 6)</sup>	18,370	7,357,185
Executive Board <sup>2) + 3) + 4) + 5) + 6)</sup>	336,450	134,748.225
Other insiders <sup>2) + 4)</sup>	590	236,295
Total insiders <sup>2)</sup>	355,410	142,341,705

### NOTE:

- 1) The calculated share price of DKK 400.50 is based on the closing price on 29 December 2017.
- 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 2017 the Company's holding of own totalled 82,390 shares.
- 6) Lili and Niels A. Johansen's direct and indirect ownership in the Company totals 31.45% of the Company's share capital.

## BOARD MEETINGS HELD IN 2017

DATE	TEXT
6 January 2017	Completion of buy-back of own shares from J-F. Lemvig-Müller Holding A/S.
13 January 2017	Decision to implement the merger of Brødrene A & O Johansen A/S with Billig VVS ApS and Lavpris VVS ApS.
20 February 2017	Annual report for 2016.
24 March 2017	Decision to carry out a share split.
24 March 2017	Annual General Meeting and constituent Board meeting.
23 May 2017	Management accounts for the first quarter of 2017 and strategy.
24 August 2017	Interim financial report for the first half of 2017.
24 October 2017	Management accounts for the first three quarters of 2017.
8 December 2017	Budget for 2018.

In addition, four Audit Committee meetings have been held.

## COMPANY ANNOUNCEMENTS IN 2017

DATE	NO.	TEXT
4 January 2017	1	Result of Extraordinary General Meeting of Brødrene A & O Johansen A/S, including fulfilment of condition for the approval by the General Meeting of acquisition of own shares from J-F. Lemvig-Müller Holding A/S.
6 January 2017	2	Brødrene A & O Johansen A/S' acquisition of own shares from J-F. Lemvig-Müller Holding A/S is complete.
6 January 2017	3	Major shareholder announcement – Brødrene A & O Johansen A/S' holding of treasury shares.
6 January 2017	4	Major shareholder announcement – J-F. Lemvig-Müller Holding A/S.
20 February 2017	5	Annual report for 2016.
20 February 2017	6	Notice convening the Annual General Meeting of Brødrene A & O Johansen A/S.
22 February 2017	7	Notification of transactions of persons discharging managerial responsibilities.
22 February 2017	8	Notification of transactions of persons discharging managerial responsibilities.
23 February 2017	9	Notification of transactions of persons discharging managerial responsibilities.
24 March 2017	10	Result of Annual General Meeting.
24 March 2017	11	Articles of Association.
24 March 2017	12	Articles of Association – CORRECTION.
24 March 2017	13	Implementation of share split in Brødrene A & O Johansen A/S.
28 April 2017	14	Implementation of capital reduction in Brødrene A & O Johansen A/S.
28 April 2017	15	Articles of Association after the capital reduction.
28 April 2017	16	Major shareholder announcement – Brødrene A & O Johansen A/S' holding of treasury shares.
28 April 2017	17	Major shareholder announcement – Avenir Invest ApS.
28 April 2017	18	Major shareholder announcement – Niels A. Johansen.
28 April 2017	19	Total number of voting rights and total share capital in Brødrene A & O Johansen A/S.
3 May 2017	20	Major shareholder announcement – Investeringsforeningen Bankinvest.
8 May 2017	21	Major shareholder announcement – Nordea Funds Ltd.
24 May 2017	22	Revised financial calendar for 2017.
24 August 2017	23	Interim financial report for the first half of 2017.
29 August 2017	24	Notification of transactions of persons discharging managerial responsibilities.
8 December 2017	25	Financial calendar for 2018.
18 December 2017	26	Revised financial calendar for 2018.

## FINANCIAL CALENDAR FOR 2018

DATE	TEXT
8 February 2018	Deadline for shareholders to propose items for the agenda of the Annual General Meeting.
22 February 2018	Annual report for 2017.
23 March 2018	The Annual General Meeting of Brødrene A & O Johansen A/S will be held at 11 a.m. at the Company's head office.
24 August 2017	Interim financial report for the first half of 2018.

## PROPOSALS FOR THE ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held on Friday, 23 March 2018, 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 114,812 thousand.

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. Articles of Association

The Board of Directors will, at the Annual General Meeting, propose to alter the Articles of Association, so that the ordinary shares can be dematerialised.

### 3. 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 2019 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.



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# 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 2017.

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 2017 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 2017.

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 2018

## 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



Rene Alberg\*



Erik Holm



Leif Hummel\*



Carsten Jensen\*



Niels A. Johansen



Preben Damgaard Nielsen



# 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 2017, 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 2017 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 2017 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 23 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 2017. 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 2017, the Group and the Company has recognised goodwill and other IP rights acquired in connection with acquisitions totalling DKK 371,334 and 258,269 thousand. According to International Financial Reporting Standards as adopted by the EU, a yearly impairment test of goodwill is required. 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 - 2022 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 414,053 thousand and DKK 383,991 thousand, respectively in the balance sheet at 31 December 2016. 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 write-down 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 381,379 thousand and DKK 358,707 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 involve 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 in note 16.

## 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, 2018

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



Peter Gath  
State Authorised Public Accountant  
MNE no.: mne19718



Kennet Hartmann  
State Authorised Public Accountant  
MNE no.: mne40036

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

(All amounts are in DKK thousands)

COMPANY		NOTE:	CONSOLIDATED	
2016	2017		2017	2016
<b>2,628,158</b>	<b>2,994,805</b>		<b>3,269,081</b>	<b>2,823,385</b>
(1,980,784)	(2,306,478)	4	(2,501,004)	(2,121,799)
647,373	688,327		768,077	701,586
0	0	5	1,714	3,120
<b>647,373</b>	<b>688,327</b>		<b>769,792</b>	<b>704,707</b>
(170,610)	(184,751)	6	(175,384)	(157,667)
(316,005)	(342,512)	7	(371,315)	(339,535)
<b>160,758</b>	<b>161,064</b>		<b>223,093</b>	<b>207,504</b>
(53,960)	(60,833)	8	(75,875)	(64,168)
<b>106,798</b>	<b>100,232</b>		<b>147,218</b>	<b>143,336</b>
27,158	34,828		0	0
2,653	11,369	9	10,967	2,482
(8,451)	(10,377)	10	(12,671)	(10,450)
<b>128,157</b>	<b>136,052</b>		<b>145,513</b>	<b>135,368</b>
(22,755)	(21,239)	11	(30,701)	(29,965)
<b>105,403</b>	<b>114,812</b>		<b>114,812</b>	<b>105,403</b>
(1,318)	(1,692)		(1,692)	(1,318)
0	0		0	0
(1,318)	(1,692)		(1,692)	(1,318)
<b>104,085</b>	<b>113,120</b>		<b>113,120</b>	<b>104,085</b>
34,200	16,800			
71,203	98,012			
<b>105,403</b>	<b>114,812</b>			
		17		
			42	27
			42	27





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# BALANCE SHEET AS AT 31 DECEMBER

## ASSETS

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2016	2017	NOTE:	2017	2016
		<b>Non-current assets</b>		
		<b>12 Intangible assets</b>		
258,269	258,269	Goodwill	371,334	371,526
49,462	46,800	Intellectual property rights	52,579	55,549
44,805	50,786	Software	51,685	46,727
<u>352,536</u>	<u>355,855</u>		<u>475,598</u>	<u>473,802</u>
		<b>12 Property, plant and equipment</b>		
161,320	157,857	Land and buildings	640,966	620,905
716	688	Leasehold improvements	797	804
168,194	184,727	Fixtures and operating equipment	187,197	171,423
<u>330,229</u>	<u>343,272</u>		<u>828,960</u>	<u>793,133</u>
		<b>Other non-current assets</b>		
416,781	387,760	13 Investments in subsidiaries	0	0
<u>416,781</u>	<u>387,760</u>		<u>0</u>	<u>0</u>
<b><u>1,099,546</u></b>	<b><u>1,086,887</u></b>	<b>Total non-current assets</b>	<b><u>1,304,559</u></b>	<b><u>1,266,935</u></b>
		<b>Current assets</b>		
357,726	383,991	15 Inventories	414,053	388,118
282,347	358,707	16 Trade receivables	381,379	305,962
0	52,885	21 Receivables from subsidiaries	0	0
0	12,139	18 Corporation tax receivable	12,217	885
39,355	45,244	Other receivables	27,010	24,989
22	786	Prepayments and accrued income	1,332	623
5,203	4,899	Cash at bank and in hand	28,553	7,303
<u>684,652</u>	<u>858,652</u>	<b>Total current assets</b>	<b><u>864,543</u></b>	<b><u>727,880</u></b>
<b><u>1,784,198</u></b>	<b><u>1,945,539</u></b>	<b>Total assets</b>	<b><u>2,169,102</u></b>	<b><u>1,994,815</u></b>

# BALANCE SHEET AS AT 31 DECEMBER

## EQUITY AND LIABILITIES

(All amounts are in DKK thousands)

COMPANY		NOTE:	CONSOLIDATED	
2016	2017		2017	2016
		<b>19</b>	<b>Equity</b>	
57,000	28,000		Share capital	28,000 57,000
202,542	173,520		Reserve according to the equity method	0 0
10,623	30,370		Reserve for development costs	0 0
0	0		Reserve for foreign currency translation adjustments	(232) 1,460
461,906	423,977		Retained earnings	628,099 673,611
<b>732,071</b>	<b>655,867</b>		<b>Total equity</b>	<b>655,867 732,071</b>
			<b>Non-current liabilities</b>	
29,445	32,149	20	Deferred tax	61,963 54,810
119,438	11,655	21	Credit institutions	168,152 284,328
<b>148,882</b>	<b>43,804</b>		<b>Total non-current liabilities</b>	<b>230,115 339,138</b>
			<b>Current liabilities</b>	
319,895	683,107	21	Credit institutions	691,568 329,501
449,235	498,549		Trade payables	516,620 468,204
12,255	0	21	Amounts owed to subsidiaries	0 0
2,415	0	18	Corporation tax payable	0 0
119,444	64,212		Other payables	74,773 125,585
0	0		Accruals and deferred income	158 316
<b>903,245</b>	<b>1,245,868</b>		<b>Total current liabilities</b>	<b>1,283,119 923,606</b>
<b>1,052,128</b>	<b>1,289,672</b>		<b>Total liabilities</b>	<b>1,513,235 1,262,744</b>
<b>1,784,199</b>	<b>1,945,539</b>		<b>Total equity and liabilities</b>	<b>2,169,102 1,994,815</b>
		3	Segment information	
		22	Contingent liabilities, security, etc.	
		23-27	Notes without reference	

# CASH FLOW STATEMENT

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2016	2017	NOTE:	2017	2016
		<b>Cash flow from operating activities</b>		
106,798	100,232	Operating profit or loss	147,218	143,336
(5,798)	(7,945)	Financial income and expenses, net (interest paid)	(10,642)	(7,968)
101,000	92,287	Profit or loss before tax	136,576	135,368
53,960	60,833	8 Depreciation, amortisation and write-downs:	75,875	64,168
		Change in working capital:		
64,694	(76,361)	Change in trade receivables	(75,417)	60,328
5,068	(6,655)	Change in other receivables	(2,732)	7,748
(12,408)	(26,265)	Change in inventories	(25,934)	(2,712)
5,685	49,314	Change in trade payables	48,417	8,247
(6,253)	3,275	Change in other current liabilities	7,538	(9,992)
56,787	(56,691)		(48,129)	63,619
		Corporation tax paid	(29,911)	(27,329)
<b>191,163</b>	<b>68,047</b>	<b>Cash flow from operating activities</b>	<b>134,411</b>	<b>235,826</b>
		<b>Cash flow from investing activities</b>		
(14,109)	(28,589)	Software	(28,589)	(14,111)
0	(621)	Land and buildings	(37,646)	(32,973)
(171)	(400)	Leasehold improvements	(400)	(186)
(32,280)	(47,638)	Fixtures and operating equipment	(48,054)	(33,729)
1,189	51	Disposal of property, plant and equipment	51	5,197
(40,000)	0	Acquisition of Billig VVS ApS	0	(40,000)
(12,000)	(49,571)	14 Acquisition of Greenline A/S	(49,571)	(13,870)
<b>(97,371)</b>	<b>(126,768)</b>	<b>Cash flow from investing activities</b>	<b>(164,209)</b>	<b>(129,672)</b>
		<b>Cash flow from financing activities</b>		
(202,059)	(2,509)	Repayment of debt to credit institutions	(8,145)	(205,278)
367,093	257,938	Raising of loans with credit institutions	254,036	491,657
142,787	(65,140)	Change in receivables from subsidiaries	0	0
0	45,653	Dividends paid	(16,306)	0
(400,844)	(185,513)	Aquisition of own shares	(185,513)	(400,844)
4,272	7,989	Disposal of own shares	7,989	4,272
<b>(88,751)</b>	<b>58,418</b>	<b>Cash flow from financing activities</b>	<b>52,061</b>	<b>(110,193)</b>
<b>5,041</b>	<b>(304)</b>	<b>Net change in cash and cash equivalents</b>	<b>22,263</b>	<b>(4,039)</b>
162	5,203	Cash and cash equivalents at beginning of year	7,303	10,368
0	0	Foreign currency translation adjustment	(1,013)	974
<b>5,203</b>	<b>4,899</b>	<b>Cash and cash equivalents at end of year</b>	<b>28,553</b>	<b>7,303</b>





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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts are in DKK thousands)

	Share capital	Other reserves	Foreign currency translation adjustment	Retained earnings	Total equity
<b>Equity at 1 January 2017</b>	<b>57,000</b>	<b>0</b>	<b>1,460</b>	<b>673,611</b>	<b>732,071</b>
Net profit for the year	0	0	0	114,812	114,812
Foreign currency translation adjustment relating to foreign entities	0	0	(1,692)	0	(1,692)
Total comprehensive income	0	0	(1,692)	114,812	113,120
Capital reduction	(29,000)	0	0	29,000	0
Merger adjustment	0	0	0	(199)	(199)
Share option exercise	0	0	0	12,694	12,694
Dividend distribution	0	0	0	(16,306)	(16,306)
Acquisition of own shares	0	0	0	(185,513)	(185,513)
Total transactions with owners	(29,000)	0	0	(160,324)	(189,324)
<b>Equity at 31 December 2017</b>	<b>28,000</b>	<b>0</b>	<b>(232)</b>	<b>628,099</b>	<b>655,867</b>
<b>Equity at 1 January 2016</b>	<b>57,000</b>	<b>200,000</b>	<b>2,778</b>	<b>764,780</b>	<b>1,024,558</b>
Net profit for the year	0	0	0	105,403	105,403
Foreign currency translation adjustment relating to foreign entities	0	0	(1,318)	0	(1,318)
Total comprehensive income	0	0	(1,318)	105,403	104,085
Transfer of reserves	0	(200,000)	0	200,000	0
Share option exercise	0	0	0	4,272	4,272
Acquisition of own shares	0	0	0	(400,844)	(400,844)
Total transactions with owners	0	(200,000)	0	(196,572)	(396,572)
<b>Equity at 31 December 2016</b>	<b>57,000</b>	<b>0</b>	<b>1,460</b>	<b>673,611</b>	<b>732,071</b>

# COMPANY STATEMENT OF CHANGES IN EQUITY

(All amounts are in DKK thousands)

	Share capital	Other reserves	Equity method	Reserve for development costs	Retained earnings	Total equity
<b>Equity at 1 January 2017</b>	<b>57,000</b>	<b>0</b>	<b>202,542</b>	<b>10,623</b>	<b>461,905</b>	<b>732,071</b>
Net profit for the year	0	0	34,828	19,747	60,237	114,812
Foreign currency translation adjustment relating to foreign entities	0	0	(1,692)	0	0	(1,692)
Total comprehensive income	0	0	33,136	19,747	60,237	113,120
Capital reduction	(29,000)	0	0	0	29,000	0
Share option exercise	0	0	0	0	12,694	12,694
Dividend distribution	0	0	(62,158)	0	45,653	(16,505)
Acquisition of own shares	0	0	0	0	(185,513)	(185,513)
Total transactions with owners	(29,000)	0	(62,158)	0	(98,166)	(189,324)
<b>Equity at 31 December 2017</b>	<b>28,000</b>	<b>0</b>	<b>173,520</b>	<b>30,370</b>	<b>423,976</b>	<b>655,867</b>
<b>Equity at 1 January 2016</b>	<b>57,000</b>	<b>200,000</b>	<b>184,100</b>	<b>0</b>	<b>583,457</b>	<b>1,024,557</b>
Net profit for the year	0	0	27,158	10,623	67,622	105,403
Foreign currency translation adjustment relating to foreign entities	0	0	(1,318)	0	0	(1,318)
Total comprehensive income	0	0	25,840	10,623	67,622	104,085
Transfer of reserves	0	(200,000)	0	0	200,000	0
Disposals relating to merger	0	0	(7,398)	0	7,398	0
Share option exercise	0	0	0	0	4,272	4,272
Acquisition of own shares	0	0	0	0	(400,844)	(400,844)
Total transactions with owners	0	(200,000)	(7,398)	0	(189,174)	(396,572)
<b>Equity at 31 December 2016</b>	<b>57,000</b>	<b>0</b>	<b>202,542</b>	<b>10,623</b>	<b>461,905</b>	<b>732,071</b>



# NOTES

## NOTE:

### 1 ACCOUNTING POLICIES

Brødrene A & O Johansen A/S is a public limited company domiciled in Denmark. The financial part of the annual report for the period 1 January – 31 December 2017 includes both the consolidated financial statements of Brødrene A & O Johansen A/S and its subsidiaries and the financial statements of the parent company.

The consolidated financial statements of Brødrene A & O Johansen A/S have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

The Board of Directors and the Executive Board considered and adopted the annual report of Brødrene A & O Johansen A/S for 2017 on 22 February 2018. The annual report will be presented to the shareholders of Brødrene A & O Johansen A/S for approval at the Annual General Meeting to be held on 23 March 2018.

### BASIS OF PREPARATION

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

The annual report has been prepared under the historical cost convention.

The accounting policies set out below have been applied consistently throughout the financial year and to comparative figures. For standards implemented prospectively, comparative information is not restated.

### CHANGES IN ACCOUNTING POLICIES

With effect from 1 January 2017, Brødrene A & O Johansen A/S has implemented:

- Amendments to IAS 7 *Disclosure Initiative*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Parts of Annual Improvements to IFRSs Cycle 2014-2016.

In Annual Improvements to IFRSs 2014-16 it is only the amendments to IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the disclosure requirements* that are effective from 1 January 2017. The remaining parts of Annual Improvements to IFRSs 2014-2016 will apply from 1 January 2018. The amendments are very specific, with a narrow field of application.

None of the changed accounting standards and interpretations have had any effect on recognition and measurement in 2017, and earnings per share and diluted earnings per share have not been affected either.

### RECLASSIFICATION OF EXPENSES IN THE INCOME STATEMENT

In preparation of the annual report for 2017 distribution costs related to sales have been reclassified from external expenses to cost of sales, as these expenses are directly linked to sales. As a result of this reclassification, gross profit has been reduced by DKK 122.6 million for 2017 and by DKK 92.0 million for 2016.

In addition, bad debt impairment losses have been reclassified from other operating expenses to external expenses. Other operating expenses have therefore been reduced by DKK 4.7 million for 2017 and by DKK 7.5 million for 2016.

None of the above-mentioned reclassifications affect profit or loss for the year, the balance sheet or the equity. Comparative figures for 2016 have been restated in accordance with the changed classification, and key figures for the years 2012-2014 have also been restated in the 5-year summary.

### DESCRIPTION OF ACCOUNTING POLICIES

#### CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the parent company Brødrene A & O Johansen A/S and subsidiaries in which Brødrene A & O Johansen A/S has control. The Group has control over a company when the Group is exposed to, or has the right to, variable returns from its involvement in the company or has the ability to affect these returns through its power over the company.

In the assessment of whether the Group has control, de facto control and potential voting rights that are real and of substance at the balance sheet date are taken into account.

A group chart can be seen on page 10.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements according to the Group's accounting policies. On consolidation, intra-group income and

# NOTES

## NOTE:

- 1 expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated.

### BUSINESS COMBINATIONS

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of or wound up are recognised in the consolidated financial statements until the date of disposal or winding up. Comparative figures are not restated for acquisitions. Discontinued operations are presented separately.

For acquisitions of new enterprises in which the Group is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax on revaluations is recognised.

The acquisition date is the date on which the Group effectively obtains control of the acquired enterprise.

Any excess of the consideration transferred over the fair value of the identifiable assets, liabilities and contingent liabilities acquired (goodwill) is recognised as goodwill under intangible assets. Goodwill is not amortised but is tested at least once a year for indication of impairment. The first impairment test is performed before the end of the acquisition year.

Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Negative balances (negative goodwill) are recognised in profit or loss at the date of acquisition.

The consideration for a business consists of the fair value of the consideration agreed upon. If parts of the consideration are conditional upon future events, these parts of the consideration are recognised at fair value at the acquisition date and classified as either a financial liability or as equity according to their content. Contingent consideration classified as a financial liability is continuously measured at fair value with adjustment directly in the income statement.

Costs attributable to business combinations are recognised in profit or loss when incurred.

If uncertainties regarding measurement of acquired identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of provisionally determined fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have a different fair value at the acquisition date from that first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments is recognised in the opening balance of equity and the comparative figures are restated accordingly.

Gains or losses on disposal or winding-up of subsidiaries are stated as the difference between the sales amount or the cost of winding up and the carrying amount of net assets including goodwill at the date of disposal or winding-up less cost of disposal.

### FOREIGN CURRENCY TRANSLATION

For each of the reporting enterprises in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates. Transactions in currencies other than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates prevailing at the date of transaction.

Receivables, payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement under cost of sales.

On recognition in the consolidated financial statements of enterprises with another functional currency than Danish kroner, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the individual months is used as the exchange rate at the transaction date to the extent that this does not significantly deviate from the exchange rate at the transaction date.

Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised in other comprehensive income in a separate translation reserve under equity.

Foreign exchange adjustment of balances which are considered to be part of the total net investment in enterprises with another functional currency than Danish kroner is recognised in the consolidated financial statements in other comprehensive income in a separate translation reserve under equity.

# NOTES

## NOTE:

### 1 INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

#### **Revenue**

Revenue from the sale of goods for resale is recognised in the income statement provided that delivery and transfer of risk to the buyer has taken place before the end of the year and that the income can be reliably measured and is expected to be received. Revenue is measured net of VAT, taxes and sales-related discounts

#### **Cost of sales**

Cost of sales includes the cost of goods sold during the financial year as well as distribution costs which are directly variable with revenue.

#### **External expenses**

External expenses comprise expenses associated with materials handling, administration, advertising, exhibitions, etc., including expenses for the operation of real property and bad debts.

#### **Financial income and expenses**

Financial income and expenses comprise interest income and expenses, realised and unrealised capital gains and losses, impairment of securities and payables, amortisation of financial assets and liabilities, including finance lease commitments, as well as surcharges and allowances under the tax prepayment scheme, etc.

Borrowing costs from general or specific loans which are directly attributable to the construction of the qualifying assets are included in the cost of those assets.

#### **Result of investments in subsidiaries**

After full elimination of intra-group gains/losses, the proportionate share of the individual subsidiaries' post-tax profits or losses is recognised in the parent company's income statement.

#### **Tax on profit or loss for the year**

Brødrene A & O Johansen A/S is taxed jointly with all Danish subsidiaries.

The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. Companies with tax losses receive joint taxation contributions from other companies that could have used the tax losses to reduce their own taxable income. (Full allocation). The jointly taxed companies are included in a Danish tax prepayment scheme.

Tax for the year, which comprises current tax and changes in deferred tax for the year, is recognised in the income statement for the share attributable to the profit or loss for the year, and directly in equity for the share attributable to items relating directly to equity.

### BALANCE SHEET

#### **Intangible assets**

Goodwill is initially recognised in the balance sheet at cost as described under "Business combinations". Subsequently, goodwill is measured at cost 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. Identification of cash-generating units is based on the management structure and internal financial control.

Intellectual property rights are measured at cost less accumulated amortisation and impairment losses. Intellectual property rights are amortised on a straight-line basis over the expected useful lives. Max. 20 years

Software is measured at cost less accumulated amortisation and impairment losses. Software is amortised on a straight-line basis over the expected useful lives. Max. 10 years.

#### **Property, plant and equipment**

Land and buildings, leasehold improvements, and operating equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The cost of assets held under finance leases is stated at the lower of the assets' fair value or present value of future minimum lease payments. When calculating the present value, the lease's internal rate of return or the Group's alternative borrowing



# NOTES

## NOTE:

1 rate is used as discount rate.

Subsequent costs, e.g., in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. All costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

- Buildings: 50 years
- Installations: 10 years
- Leasehold improvements: Max. 5 years
- Operating equipment: Usually 5 years, but mini-load system and high-bay system 10 years.

Land is not depreciated.

Depreciation is calculated on the basis of the asset's residual value less impairment losses, if any. The useful life and residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

Gains and losses arising from disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the time of sale. The gains or losses are recognised in the income statement as depreciation.

### **Investments in subsidiaries in the parent company's financial statements**

Investments in subsidiaries are measured under the equity method

Investments in subsidiaries are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the acquisition method.

### **Impairment of non-current assets**

Goodwill and intangible assets with indefinite useful lives are subject to annual impairment tests, initially before the end of the acquisition year.

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 in the income statement, in so far as the carrying amount is higher than the recoverable amount.

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

Deferred tax assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised.

The carrying amount of other non-current assets is subject to an annual test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the asset's fair value less expected costs to sell or its value in use. The value in use is the present value of the future cash flows expected to be derived from the asset or the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds the recoverable amount of the asset. Impairment losses are recognised in the income statement under amortisation, depreciation and write-downs.

Impairment of goodwill is not reversed. Impairment of other assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortisation or depreciation had the asset not been impaired.

### **Inventories**

Inventories are measured at cost on the basis of average prices. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Cost comprises purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount less costs necessary to make the sale, and is determined taking into account marketability, obsolescence and development in expected selling price.

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# When the paver is paving a piece of Denmark

AO | Supplier to the professional market









# NOTES

## NOTE:

### 1 Receivables

Receivables are measured at amortised cost less write-downs for expected losses. Write-downs are made, if it is assessed that there is objective evidence of impairment. The write-downs are based on individual assessments of each debtor.

### Prepayments

Prepayments, recognised as assets, comprise costs incurred concerning subsequent financial years and are measured at cost.

### Securities

Shares and bonds classified as current assets are recognised at the trade date and are subsequently measured at fair value corresponding to the market price of listed securities. Changes to the fair value are recognised in the income statement under net financials as they occur.

### Equity

#### Dividend

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

#### Treasury shares

Cost of acquisition, consideration received and dividends received from treasury shares are recognised directly as retained earnings in equity. Gains and losses from sale are therefore not recognised in the income statement.

Proceeds from the sale of treasury 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 comprises currency translation differences arising on translation of financial statements of foreign entities from their functional currencies into DKK.

### Employee benefits

The Group has entered into defined contribution plans with the majority of the Group's employees.

Liabilities related to defined contribution plans, where the Group regularly pays fixed pension contributions to independent pension funds, are recognised in the income statement in the period to which they relate and any contributions outstanding are recognised in the balance sheet as other payables.

Share options are measured at fair value at the date of grant and recognised in the income statement under staff costs. The offsetting entry is recognised directly in equity. The fair value of the granted share options is calculated using the Black-Scholes option pricing model.

### Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance-sheet liability method, providing for all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from acquisitions, arise at the date of acquisition without affecting either profit/loss for the year or taxable income.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement.

Deferred tax assets are recognised under non-current assets at the expected value of their utilisation, either as a set-off against deferred tax liabilities or as a set-off against tax on future income.

### Financial liabilities

Amounts owed to mortgage credit institutions and credit institutions are recognised at the date of borrowing at fair value less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost, applying the effective interest rate method, to the effect that the difference between the proceeds and the nominal value is recognised in the income statement under financial expenses over the term of the loan.

# NOTES

## NOTE:

- 1 Financial liabilities also include capitalised residual lease commitment on finance leases, which is measured at amortised cost.

Other liabilities, including trade payables, are measured at amortised cost, and other payables at net realisable value.

### **Leases**

For accounting purposes lease commitments are divided into finance and operating leases.

A lease is classified as a financial lease, if it substantially transfers all risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and lease commitments is described under "Property, plant and equipment" and "Financial liabilities", respectively.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

### **Deferred income**

Deferred income recognised in liabilities comprises payments received concerning income in subsequent years and is measured at cost.

### **CASH FLOW STATEMENT**

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flows from acquired enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

### **Cash flows from operating activities**

Cash flows from operating activities are determined as pre-tax profit or loss adjusted for non-cash operating items, changes in working capital, received and paid interest, and paid corporation tax.

### **Cash flows from investing activities**

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and operations, and of intangible assets, property, plant and equipment and other non-current assets as well as acquisition and disposal of securities not recognised as cash and cash equivalents.

Inception of finance leases are regarded as non-cash transactions.

### **Cash flows from financing activities**

Cash flows from financing activities comprise changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and in hand.

### **Segment information**

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

### **Financial ratios**

Financial ratios are calculated in accordance with IAS 33 and the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios" ("Anbefalinger og Nøgletal").

*Negative results and deductible items are given in brackets.*

# NOTES

## NOTE:

### 2 SIGNIFICANT ESTIMATION UNCERTAINTIES AND ASSUMPTIONS

In determining the carrying amount of certain assets and liabilities, estimates are required of how future events will affect the value of these assets and liabilities at the balance sheet date.

The estimates made are based on historical experience and other factors which Management assesses to be reliable under the circumstances but are by their very nature uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. In addition, the Group is subject to risks and uncertainties that may lead to actual results differing from these estimates. The special risks of Brødrene A & O Johansen A/S are mentioned in the 'Management's Review' and in note 23.

It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to new information or subsequent events.

Estimates material to the financial reporting are made, among other things, through measurement of impairment test of goodwill, receivables, inventories, and in determination of amortisation, depreciation and write-downs.

#### **Land and buildings**

AO's properties are solely 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.

The logistics warehouse in Horsens is rented out partially and on satisfactory terms that will not give rise to impairment.

#### **Impairment test for goodwill and other intangible assets**

In connection with the annual impairment test for intangible assets, including goodwill, it is estimated to what extent the individual units of the entity (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill and other net assets.

As a result of the nature of the business, estimates of expected cash flows have to be made for several years into the future which results in a certain amount of uncertainty. The chosen discount rate reflects this uncertainty.

In 2016, Billig VVS ApS and LavprisVVS ApS were merged into Brødrene A & O Johansen A/S, and they are now operated as one cash-generating unit due to the fact that all core business activities are handled integrally, and that they are intertwined to such a degree that separation is not possible. The impairment test is therefore carried out for Brødrene A & O Johansen A/S as a whole, covering both AO Denmark and BilligVVS.

The impairment test and associated sensitive conditions are described in detail in note 12.

#### **Receivables**

An estimate is used to assess the recoverability of receivables. As a result of the financial situation, the risk of losses on doubtful receivables is increasing, a fact that has been taken into account in the assessment of new customers and in the assessment of write-downs on the balance sheet date and in the day-to-day management and control of receivables as described in note 23.

#### **Inventories**

Estimation uncertainty regarding inventories relates primarily to slow-moving products and thus to a write-down to net realisable value.

Reviews for impairment of inventories based on historical sales and assessments of future sales are carried out on a regular basis.

#### **Leasing**

In applying the Group's accounting policies, Management carries out additional assessments beyond those mentioned, which may have a significant impact on the recognised amounts in the annual report. These assessments include, inter alia, whether leases should be treated as operating or finance leases.

The Group has a lease on the property at Mossvej, Horsens. On the basis of the conditions of the lease, Management has concluded that the lease should be treated as a finance lease. The lease ends in 2018.



# NOTES

(All amounts are in DKK thousands)

COMPANY		CONSOLIDATED	
2016	2017 NOTE:	2017	2016
<b>3 Segment information</b>			
Group activities relating to the sale of technical installation materials take place in an integrated manner. In our opinion, the Group's activities constitute one operating segment.			
<b>Geographical information</b>			
The Group operates primarily in Denmark and less than 10% of its revenue relates to foreign countries, and the same applied in 2016.			
<b>Important customers</b>			
The Group has not traded with any individual customer representing more than 10% of the Group's total revenue for 2017, and the same applied in 2016.			
<b>4 Cost of sales</b>			
1,908,810	2,219,391	2,404,740	2,037,194
88,684	113,654	122,584	91,970
<u>1,997,495</u>	<u>2,333,045</u>	<u>2,527,325</u>	<u>2,129,163</u>
Change in inventories:			
344,913	357,726	388,118	374,306
513	49	(61)	3,553
(4,410)	(351)	(326)	2,894
(357,726)	(383,991)	(414,053)	(388,118)
<u>(16,710)</u>	<u>(26,567)</u>	<u>(26,321)</u>	<u>(7,365)</u>
<b><u>1,980,784</u></b>	<b><u>2,306,478</u></b>	<b><u>2,501,004</u></b>	<b><u>2,121,799</u></b>
Cost of sales includes:			
25	(1,489)	(1,305)	(70)
<u>1,814</u>	<u>7,327</u>	<u>6,796</u>	<u>1,132</u>
Reversal of inventory writedown relates to the sale/scrapping of written-down inventory.			
<b>5 Other operating income</b>			
The item includes property rental income.			

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# When the bricklayer is building houses in Denmark

AO | Supplier to the professional market









# NOTES

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2016	2017	NOTE:	2017	2016
<b>6 External expenses</b>				
Remuneration for the auditor elected by the annual general meeting:				
Total remuneration may be specified as follows:				
615	590	Statutory audit	885	956
250	50	Tax and VAT related advisory services	50	250
319	0	Other declarations relating to security	0	319
408	152	Other services	386	497
<b>1,592</b>	<b>792</b>		<b>1,321</b>	<b>2,022</b>

External expenses of the Company include rent paid to subsidiaries totalling DKK 41,139,000 (2016: DKK 36,786,000).

<b>7 Staff costs</b>				
289,940	315,039	Wages and salaries	337,650	307,996
20,994	22,011	Pension contributions	24,105	22,309
3,664	3,398	Other social security costs	7,408	7,699
1,408	2,064	Other staff expenses	2,152	1,531
<b>316,005</b>	<b>342,512</b>		<b>371,315</b>	<b>339,535</b>

Wages and salaries include remuneration for:

2,099	2,250	Board of Directors	3,225	3,075
14,010	16,625	Executive Board	16,625	14,010
640	660	Average number of full-time employees	718	680

The Group only has defined contribution plans.

	Number of options (shares)	Fair value on allotment (DKK thousands)	Average exercise price (price)	Average share price (price)	Exercise period
Share option scheme for the Executive Board of the Company					
Granted in 2011	1,661	831	511	515	2012-2021
Granted in 2012	8,074	2,672	878	878	2013-2022
Exercised during the year	(9,735)	(3,503)			
Total number of share options outstanding	0	0			

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. One year after the share options have been granted, one third of the share options is exercisable. Two years after the share options have been granted, another third of the share options is exercisable. Three years after the grant of the share options the remaining third of the share options is exercisable. The options are exercisable in accordance with the Company's internal rules on insider trading. The fair value of the granted options is calculated using the Black-Scholes formula, and for all share options the following assumptions have been applied:

Estimated life of share options: 5 years, volatility: 30%, dividend: 0%, risk-free interest rate: 0.3% in 2012 and 2.48% in 2010+2011.



# NOTES

(All amounts are in DKK thousands)

## 12 Non-current assets: (Consolidated)

	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold improvements	Fixtures and operating equipment
<b>2017</b>						
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)
<b>Carrying amount at 31 December</b>	<b>371,334</b>	<b>52,579</b>	<b>51,685</b>	<b>640,966</b>	<b>797</b>	<b>187,197</b>
<b>Carrying amount of assets held under finance leases</b>				<b>94,522</b>		<b>0</b>
<b>2016</b>						
Cost at 1 January	302,324	53,232	170,743	733,679	15,229	314,219
Foreign currency translation adjustment	(145)	0	(183)	(1,109)	55	(403)
Reclassification	0	0	0	0	0	0
Additions during the year	69,347	6,165	15,111	32,973	186	33,729
Disposals during the year	0	0	(161)	(2,478)	(5,151)	(1,889)
Cost at 31 December	371,526	59,397	185,510	763,065	10,319	345,656
Amortisation and depreciation at 1 January	0	(1,109)	(117,925)	(129,120)	(14,141)	(147,112)
Foreign currency translation adjustment	0	0	99	252	0	205
Amortisation and depreciation for the year	0	(2,739)	(20,988)	(14,150)	(525)	(27,894)
Disposals during the year	0	0	31	858	5,151	568
Amortisation and depreciation at 31 December	0	(3,848)	(138,783)	(142,160)	(9,515)	(174,233)
<b>Carrying amount at 31 December</b>	<b>371,526</b>	<b>55,549</b>	<b>46,727</b>	<b>620,905</b>	<b>804</b>	<b>171,423</b>
<b>Carrying amount of assets held under finance leases</b>				<b>97,024</b>		<b>0</b>

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 Greenlins A/S, domain names, etc.

The Group has entered into a finance lease on buildings, which will be paid off in 2018.

Upon expiry of the lease, the Group will acquire the buildings at an agreed price corresponding to the carrying amount.

The leased assets secure the lease liabilities.



# NOTES

(All amounts are in DKK thousands)

## 12 Non-current assets: (Company)

	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold Improvements	Fixtures and operating equipment
<b>2017</b>						
Cost at 1 January	258,269	52,123	179,961	186,856	10,014	329,146
Additions relating to merger during the year	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)
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)
<b>Carrying amount at 31 December</b>	<b>258,269</b>	<b>46,800</b>	<b>50,786</b>	<b>157,857</b>	<b>688</b>	<b>184,727</b>
<b>Carrying amount of assets held under finance leases</b>				<b>94,522</b>		<b>0</b>
<b>2016</b>						
Cost at 1 January	58,439	0	161,268	187,035	14,994	298,062
Additions relating to merger during the year	199,830	52,123	4,584	0	0	5
Additions during the year	0	0	14,109	0	171	32,280
Disposals during the year	0	0	0	(179)	(5,151)	(1,201)
Cost at 31 December	258,269	52,123	179,961	186,856	10,014	329,146
Amortisation and depreciation at 1 January	0	0	(115,287)	(21,740)	(13,924)	(134,278)
Amortisation and depreciation for the year	0	(2,661)	(19,869)	(3,800)	(525)	(26,862)
Disposals during the year	0	0	0	4	5,151	188
Amortisation and depreciation at 31 December	0	(2,661)	(135,156)	(25,536)	(9,298)	(160,952)
<b>Carrying amount at 31 December</b>	<b>258,269</b>	<b>49,462</b>	<b>44,805</b>	<b>161,320</b>	<b>716</b>	<b>168,194</b>
<b>Carrying amount of assets held under finance leases</b>				<b>97,024</b>		<b>0</b>

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 Greenlins A/S, domain names, etc.

The Group has entered into a finance lease on buildings, which will be paid off in 2018.

Upon expiry of the lease, the Group will acquire the buildings at an agreed price corresponding to the carrying amount.

The leased assets secure the lease liabilities.

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 12 Non-current assets (continued)

#### Goodwill

At 31 December 2017, Management performed an impairment test of goodwill. Separate cash-generating units (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 2018 and forecasts for 2019-2022 approved by Management, an unchanged discount rate and a terminal growth rate as in 2016. 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 expects that profit margins and market shares will be at the same level as in 2017, and that the recoverable amount will be considerably higher than the carrying amount.

Towards 2022, AO Sweden expects an average annual growth of approximately 3%, equalling the expected market development and therefore the recoverable amount is higher than the carrying amount.

Towards 2022, Greenline expects an average annual growth of 8%, which is lower than the expected growth in online sales in general. The results are expected to be within margins of the Group's other online operations, and therefore the recoverable amount is higher than the carrying amount.

#### Other non-current assets

Management has not identified any factors that would indicate a need to perform an impairment test of other intangible assets or property, plant and equipment.

### 13 Investments in subsidiaries (Company)

	2017	2016
Cost at 1 January	214,239	389,492
Additions during the year	0	80,612
Disposals relating to merger during the year	0	(255,865)
Cost at 31 December	214,239	214,239
Value adjustment at 1 January	202,543	184,100
Disposals relating to merger	0	(7,398)
Dividends	(62,159)	0
Currency translation adjustments	(1,692)	(1,318)
Subsidiaries' results	34,829	27,158
Value adjustment at 31 December	173,521	202,542
<b>Carrying amount at 31 December</b>	<b>387,760</b>	<b>416,781</b>

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 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 Aquisition of subsidiaries and activities

No company acquisitions were made in 2017. In 2017, the contingent purchase consideration (earn-out) relating to Greenline A/S was adjusted by DKK 8,939,000. The adjustment affects financial income. The remaining contingent purchase consideration will be paid until 2021, provided that the set goals are attained.

In 2016, Brødrene A & O Johansen A/S took over the controlling interest in the internet company Greenline A/S through the acquisition of all existing shares. The company sells electrical equipment and components and is in the same segment as the rest of the Group. With the acquisition of Greenline A/S, synergies with regard to product ranges, inventories/logistics and AO's existing business are created.

Greenline A/S' revenue of DKK 24,244,000 and profit before tax of DKK 1,919,000 are recognised in the annual report for 2016. Revenue for 2016 is DKK 73,644,000, and profit before tax is DKK 4,144,000. Costs of purchase totalling DKK 1,021,000 are expensed in 2016.

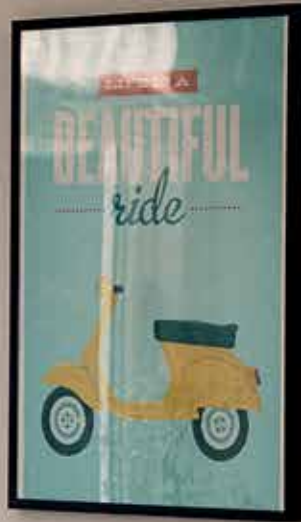
The deferred purchase price is expected, subject to the terms of the agreement, to be due for payment in 2020.

The fair value of the acquired assets, liabilities and purchase consideration are determined and may be allocated as follows:

	Greenline A/S 2016
Intangible assets	7,165
Property, plant and equipment	1,068
Inventories	11,100
Trade receivables	795
Other receivables	2,319
Net cash	150
Deferred tax liabilities	(1,593)
Trade payables	(7,660)
Other payables	(2,079)
Acquired net assets	11,265
Goodwill	69,347
Purchase consideration	80,612
Deferred contingent purchase consideration	20,612
Deferred non-contingent purchase consideration	48,000
Cash purchase consideration, including net cash	12,000







## When lights are being installed in Denmark

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# NOTES

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2016	2017	NOTE:	2017	2016
		<b>15 Inventories</b>		
		Carrying amount of inventories		
		recognised at net selling price		
0	0		0	0
<hr/>				
		<b>16 Trade receivables</b>		
		At 31 December 2017 the Group's trade receivables include receivables		
		totalling DKK 27,290,000 (2016: DKK 25,347,000), which have been		
		written down to DKK 1,233,000 (2016: DKK 295,000) based on		
		individual assessments. The write-downs are attributable to the bank-		
		ruptcy of customers or their inability to pay and include added interest.		
		Write-downs included in the above receivables have developed		
		as follows:		
19,732	23,503	Write-downs at 1 January	25,052	20,513
3,771	884	Change during the year	1,004	4,539
23,503	24,387	Write-downs at 31 December	26,056	25,052
<hr/>				
		The credit quality of receivables not past due and not written down		
		has, according to the Group's internal credit rating procedures, been		
		assessed to be of good quality with a low risk of losses, see also note		
		23 for information about credit rating procedures, etc.		
		In addition, trade receivables, past due		
		at 31 December but not written down, are recognised		
		as follows:		
10,331	10,137	Up to 30 days	15,968	15,243
326	542	Between 30 and 60 days	1,013	1,872
124	1,117	Over 60 days	1,061	297
10,781	11,796		18,042	17,412
<hr/>				

# NOTES

(All amounts are in DKK thousands)

COMPANY		CONSOLIDATED	
2016	2017 NOTE:	2017	2016
<b>17 Earnings per share</b>			
	Net profit or loss for the year	114,812	105,403
	Average number of shares in circulation	3,283,333	5,700,000
	Average number of own shares	(573,836)	(1,852,884)
	Average number of shares in circulation	2,709,497	3,847,116
	The average dilution effect of outstanding share options	0	97,980
	Diluted average number of shares in circulation	2,709,497	3,945,096
	Earnings per share (EPS) of DKK 10	42	27
	Diluted earnings per share (EPS-D) of DKK 10	42	27
<b>18 Corporation tax receivable/payable</b>			
25,338	28,656	30,793	29,412
(27,725)	(21,252)	(23,073)	(28,527)
0	4,705	4,705	0
(28)	30	(210)	0
(2,415)	12,139	12,216	885
<b>19 Equity</b>			
<i>Capital management</i>			
<p>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 2017, the equity share of total equity and liabilities amounted to 30.1% (2016: 36.7%). The target is to obtain an equity interest of approximately 40%. Capital is managed for the Group as a whole.</p>			
<p>The share capital consists of the following classes:</p>			
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



# NOTES

(All amounts are in DKK thousands)

## 19 Equity (continued)

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.

Own shares	Number of shares		Nominal value (DKK thousand)		% of share capital	
	2017	2016	2017	2016	2017	2016
1 January	2,366,230	211,180	23,662	2,112	41.5%	3.7%
Acquisition	713,510	2,230,050	7,135	22,301	12.5%	39.1%
Capital reduction	(2,900,000)	0	(29,000)	0	(50.9%)	0.0%
Sale	(97,350)	(75,000)	(974)	(750)	(3.5%)	(1.3%)
<b>Holding at 31 December</b>	<b>82,390</b>	<b>2,366,230</b>	<b>824</b>	<b>23,662</b>	<b>2.9%</b>	<b>41.5%</b>

In 2017, a share split in the ratio 1:10 was completed, and therefore comparative figures for 2016 have been restated.

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 2017 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	
2016	2017	NOTE:	2017	2016
<b>20 Deferred tax</b>				
17,228	29,445	Deferred tax at 1 January	54,810	51,631
0	(0)	Foreign currency translation adjustment	5	147
(244)	2,731	Change in deferred tax for the year	7,174	1,479
12,461	0	Additions relating to merger	0	0
0	0	Deferred tax relating to the acquisition of Greenline A/S	0	1,593
0	(27)	Change in deferred tax relating to previous years	(26)	(40)
<b>29,445</b>	<b>32,149</b>	<b>Deferred tax at 31 December</b>	<b>61,963</b>	<b>54,810</b>
Deferred tax relates to:				
11,758	10,864	Intangible assets	12,977	13,306
42,824	45,887	Property, plant and equipment	73,608	68,925
(1,129)	(986)	Receivables	(997)	(1,129)
(24,008)	(23,616)	Liabilities	(23,625)	(24,018)
0	0	Tax losses and interest deduction limitations	0	(2,274)
<b>29,445</b>	<b>32,149</b>	<b>Deferred tax at the end of the year</b>	<b>61,963</b>	<b>54,810</b>
<b>21 Financing activities</b>				
12,962	12,309	Mortgage loans - floating interest rate - 5 years	177,206	183,595
317,459	575,297	Bank loans - floating short-term interest rate	575,358	321,322
108,912	107,156	Lease commitments - floating interest rate*	107,156	108,912
12,255	(52,885)	Intra-group balances	0	0
<b>451,588</b>	<b>641,877</b>		<b>859,720</b>	<b>613,829</b>
<i>Payables relating to financing activities:</i>				
143,767	451,588	Beginning-of-year	613,829	327,450
(202,059)	(2,509)	Repayment of debt	(8,145)	(205,278)
367,093	257,938	Raising of loans/drawing on credit	252,616	491,528
140,922	(66,112)	Cashflows to/from subsidiaries	0	0
1,865	972	Foreign currency translation adjustment	1,420	129
<b>451,588</b>	<b>641,877</b>	Year-end	<b>859,720</b>	<b>613,829</b>

\*Lease commitments will be paid off in 2018.

In 2016, liabilities relating to lease commitments amounted to DKK 1,784,000 for year 1 and DKK 107,128,000 for the years 1-5.

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 21 Financing activities (continued)

According to the lease there is no contingent rent. The contractual cash flows appear from note 23.

The carrying amount of assets held under a finance lease appears from note 12.

### 22 Contingent liabilities, security, etc.

Land and buildings with a total carrying amount of DKK 485,110,000 (2016: DKK 483,399,000) 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 121,837,000 (2016: DKK 124,132,000) are provided as security for the Company's payables to mortgage credit institutions and finance lease obligations.

The parent is jointly taxed with AO Invest A/S and Greenline A/S. Being the administration company, the parent is unlimited, jointly and severally liable with AO Invest A/S and Greenline A/S in the joint taxation of Danish corporation taxes on dividends within the joint taxation group. Payable corporation taxes in the joint taxation group amounted to DKK 0 at 31 December 2017 (2016: DKK 2,415,000) recognised in the parent's balance sheet. Any subsequent corrections of the taxable income subject to joint taxation could cause a higher liability of the parent. Companies in the joint taxation arrangement are not subject to withholding tax on dividends. Transactions appear from note 25.

### 23 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.



# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 23 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 does not use derivative instruments to hedge currency risks.

As regards investments in Sweden, the Group's equity 31 December 2017 would be reduced by DKK 4,800,000 (2016: DKK 4,600,000), 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 2017, and the consolidated results would therefore not be affected to any major extent by changes in exchange rates at 31 December 2017.

The Group has the following currency exposure at 31 December:

Consolidated	2017			2016		
	EUR	OTHER*	TOTAL	EUR	OTHER*	TOTAL
Trade payables	26,427	18,884	45,311	28,662	14,330	42,992
Payables to credit institutions	67,068	17,116	84,184	55,943	21,048	76,991
<b>Net exposure</b>	<b>93,495</b>	<b>36,000</b>	<b>129,495</b>	<b>84,605</b>	<b>35,378</b>	<b>119,983</b>
Risk in exchange rate fluctuation	1%	10%		1%	10%	
<b>Estimated effect on income statement and equity</b>	<b>935</b>	<b>3,600</b>	<b>4,535</b>	<b>846</b>	<b>3,538</b>	<b>4,384</b>

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

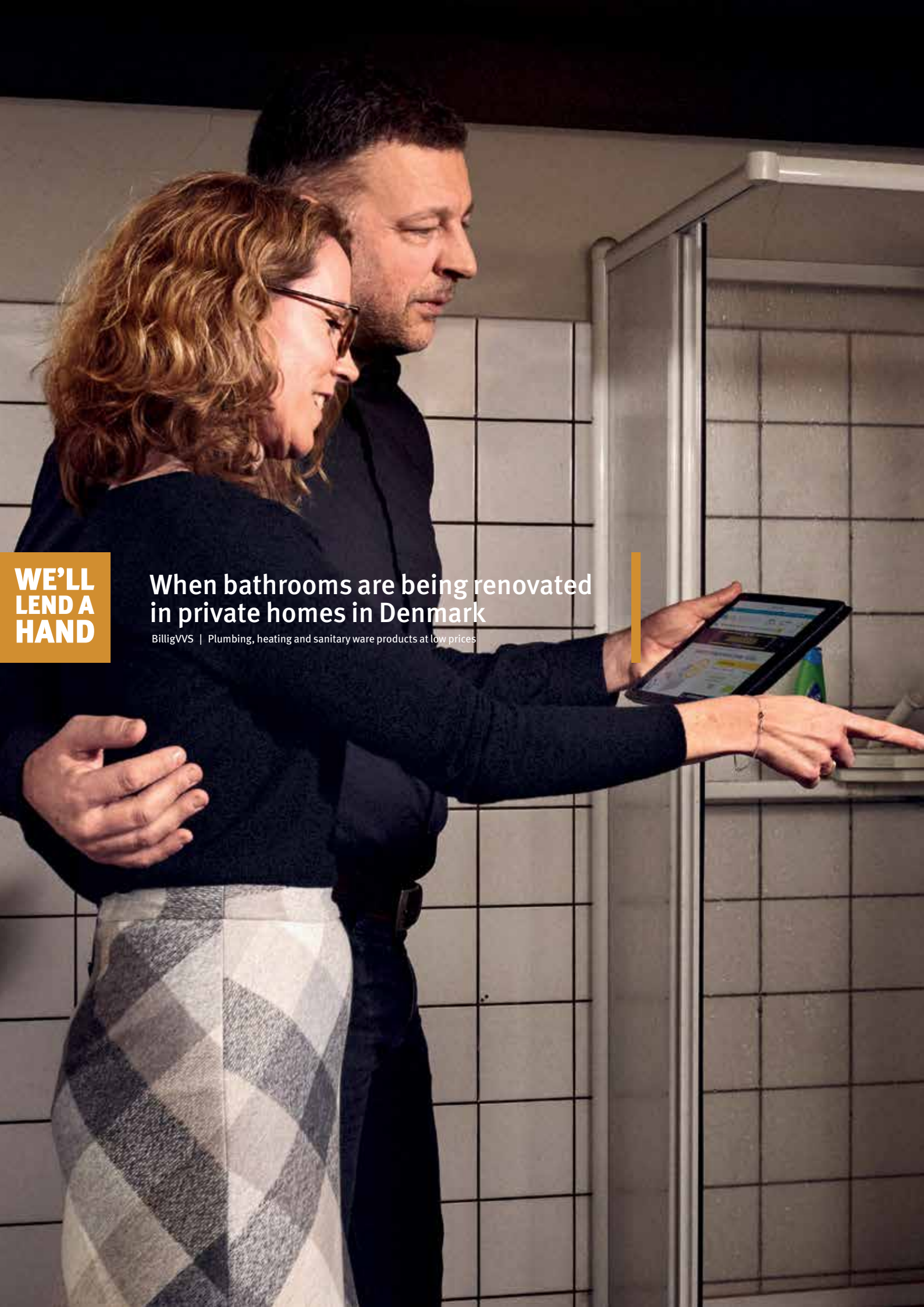
The Company's currency exposure is identical to that of the Group.

\* Mainly SEK

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# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 23 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 2017, the Group's interest-bearing debt, determined as payables to credit institutions less negotiable securities and cash increased to DKK 831.1 million from DKK 606.5 million in 2016. Based on the net debt, an increase of one percentage point in the general interest-rate level would result in an increase in the Group's annual interest expenses before tax of approximately DKK 8.3 million (2016: approximately DKK 6.1 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/renewal 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:

CONSOLIDATED	2017				
	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
<b>31 December</b>	<b>1,376,340</b>	<b>1,390,326</b>	<b>1,210,229</b>	<b>37,089</b>	<b>143,008</b>

CONSOLIDATED	2016				
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Mortgage loans	183,595	202,328	8,771	47,471	146,086
Bank loans	321,322	321,323	321,323	0	0
Lease commitments	108,912	114,926	4,666	110,260	0
Trade payables	468,204	468,204	468,204	0	0
<b>31 December</b>	<b>1,082,033</b>	<b>1,106,781</b>	<b>802,964</b>	<b>157,731</b>	<b>146,086</b>



# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 23 Currency and interest rate risks (continued)

The Company's payables fall due as follows:

COMPANY	2017				
	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	0	0	0	0	0
<b>31 December</b>	<b>1,193,311</b>	<b>1,197,440</b>	<b>1,184,882</b>	<b>9,511</b>	<b>3,047</b>

COMPANY	2016				
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Mortgage loans	12,962	14,240	780	10,382	3,078
Bank loans	317,459	317,459	317,459	0	0
Lease commitments	108,912	114,926	4,666	110,260	0
Trade payables	449,235	449,235	449,235	0	0
Intra-group balances	12,255	12,255	0	12,255	0
<b>31 December</b>	<b>900,823</b>	<b>908,115</b>	<b>772,140</b>	<b>132,897</b>	<b>3,078</b>

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.

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

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 23 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 2017 amounts to DKK 859.7 million (2016: DKK 613.8 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.

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 24 Operating leases

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

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
0-1 year	22,211	21,544	61,645	58,280
1-5 years	43,134	31,768	187,554	186,811
>5 years	15,016	18,726	36,339	58,707
	<b>80,361</b>	<b>72,038</b>	<b>285,538</b>	<b>303,798</b>
Recognised lease payments	<b>27,935</b>	<b>28,260</b>	<b>65,145</b>	<b>60,845</b>

The Group leases buildings and operating equipment under operating leases. The lease term varies from six months to 13 years with the possibility of extension at the end of the term. None of the leases contain contingent rent.

### 25 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, dividend payments and the exercise of share options.

In addition, subsidiaries are related parties of the Company.

Trading with subsidiaries comprises the following:

	CONSOLIDATED		COMPANY	
	2017	2016	2017	2016
Sale of goods	0	0	105,736	60,900
Rental expenses	0	0	41,139	36,786



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# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 25 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 24.

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 3,176,000 (2016: DKK 5,126,000) relating to AO Invest A/S and Greenline A/S at the balance sheet date, cf. note 18.

### 26 Subsequent events

No events have occurred after 31 December 2017 that are considered to have a material effect on the annual report for 2017.

### 27 New accounting regulation

At the time of the publication of this annual report, the IASB has issued the following new and amended accounting standards and interpretations that are not mandatory for Brødrene A & O Johansen A/S in the preparation of the annual report for 2017, but are likely to become relevant for Brødrene A & O Johansen A/S:

IFRS 9 Financial Instruments and subsequent amendments to IFRS 9, IFRS 7 and IAS 39. IFRS 15 Revenue from Contracts with Customers. IFRS 16 Leases. IFRS 17 Insurance Contracts. IFRS 10 and IAS 28 Sale of Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28. IFRS 15 Revenue from Contracts with Customers - Clarifications to IFRS 15. IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2. IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4. IAS 40 Transfers of Investment Property - Amendments to IAS 40. IFRIC 22 Foreign Currency Transactions and Advance Consideration. IFRIC 23 Uncertainty over Income Tax Treatments. Parts of Annual Improvements to IFRSs 2014-2016 Cycle.

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 27 New accounting regulation (continued)

Of the above-mentioned new and amended standards and interpretations, IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' have been endorsed by the EU.

The endorsed but not yet effective standards and interpretations will be implemented when they become mandatory for Brødrene A & O Johansen A/S. Among the new standards and interpretations mentioned, only IFRS 9, IFRS 15 and IFRS 16 are expected to have some effect on the recognition and measurement for Brødrene A & O Johansen. The Group has completed an analysis of the expected effects of IFRS 9 and IFRS 15. The Group has only made a preliminary analysis of the expected effect of IFRS 16. The results are described below.

IFRS 9 'Financial Instruments' that replaces IAS39 alter the classification and the derivative measurement of financial assets and liabilities. The standard is effective for annual reporting periods beginning on or after 1 January 2018. A new impairment model is introduced for all financial assets. The "expected loss" model will require a more timely recognition of expected losses both on initial and subsequent recognition compared with the existing model, where an impairment is recognised, when there are indications of loss (incurred loss model). No hedge accounting is applied by Brødrene A & O Johansen A/S, and therefore IFRS 9 has no effect at present. Brødrene A & O Johansen A/S has performed an analysis of the Groups existing financial structure and risk profile. An assessment based on this analysis shows that this standard will have only a minor effect on the Group when the "expected loss" model is implemented.

IFRS 15 'Revenue from Contracts with Customers', which replaces the existing standards IAS 11, IAS 18 and related interpretations, introduces a new guidance for recognition and measurement of revenue from contracts with customers. The standard is effective for annual reporting periods beginning on or after 1 January 2018.

In order to determine when and how revenue is recognised in the income statement, the new guidance based on a five-step model must be applied to all contracts with customers.

The most significant changes to IFRS 15 from current practice are the following:

- A sales transaction must be recognised as revenue in the income statement when control over goods or services is being transferred to the customer (either at a certain point in time or over a period of time). The existing "risks and rewards" concept is replaced by a control concept.
- New and more detailed guidance on how to recognise and measure part transactions in a sales contract, including the individual components.
- New and more detailed guidance for recognition of revenue over a period of time.

Brødrene A & O Johansen A/S has performed an analysis of the new standard's expected impact on the Group. The standard is not expected to have any monetary impact due to the fact that it only involves the sale of goods, where the transfer of risks and rewards is equivalent to the transfer of control. Contracts and orders are of a simple character and without performance obligations. Variable consideration, including discount schemes, is recognised according to the same principles as dictated by IFRS 15. Recognition of revenue takes place in the same way as previously and in accordance with the principles of Incoterms. On this basis, it has been assessed that IFRS 15 will not affect the Group's recognition of revenue.

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 27 New accounting regulation (continued)

IFRS 16 'Leases' was issued in mid-January 2016. The standard, which is effective for financial years beginning on or after 1 January 2019, will significantly change the accounting for leases that are currently classified as operating leases. The standard requires that all leases regardless of type - with a few exceptions - be recognised in the lessee's balance sheet as an asset with a related lease obligation. At the same time the lessee's income statement will be affected, as the future annual rental expenses will consist of two elements - depreciation and interest expenses - contrary to today where the annual operating lease expenses are recognised in an amount under operating expenses. Finally, the Group's cash flow statement is also expected to be affected, as the current operating lease payments which today are presented as cash flows from operating activities, from then on will be presented as financing activities.

In Brødrene A & O Johansen A/S' estimation, the new standard will have some impact on the Group's balance sheet and cash flow statement. Based on the current portfolio of leases, the impact on profit for the year is expected to be insignificant, whereas the presentation in the income statement will be changed. The Group's operating leases with minimum lease commitments of DKK 80,228,000, corresponding to approximately 4% of the balance sheet total, would have been recognised in the balance sheet, if IFRS 16 was implemented in 2017. According to IFRS 16 the annual operating lease payment of approximately DKK 27,935,000 would have been presented under cash flows from financing activities, as opposed to the current leasing standard where operating lease payments are presented as cash flows from operating activities, and it would have improved cash flows from operating activities by 21%.

## COMPANY INFORMATION

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CVR number: 58 21 06 17  
ID code: DK0060803831

Founded: 1914

Registered office: Albertslund, Denmark

### Board of Directors

Henning Dyremose, Chairman  
Michael Kjær, Deputy Chairman  
René Alberg  
Erik Holm  
Leif Hummel  
Carsten Jensen  
Niels A. Johansen  
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 23 March 2018.



# AO's STORES AND OFFICES

## HEAD OFFICE

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## COMPETENCY CENTRES:

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**CONTRACTOR SUPPLIES AND EQUIPMENT:**  
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**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 •  
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**AO ROSKILDE** • INDUSTRIVEJ 40B • DK-4000 ROSKILDE •  
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**AO RØDOVRE** • ISLEVDALVEJ 142, ST. TH. • DK-2610 RØDOVRE •  
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**AO RØNNE** • SANDEMANDSVEJ 10 • 3700 RØNNE •  
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**AO SLAGELSE** • JAPANVEJ 16 • 4200 SLAGELSE •  
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**AO SØBORG** • SYDMARKEN 32C • 2860 SØBORG •  
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**AO VESTERBRO** • INGERSLEVSGADE 54 • 1705 KØBENHAVN V •  
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**AO VORDINGBORG** • KRONDRETVET 1 • 4760 VORDINGBORG •  
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**AO ØSTERBRO** • ØSTBANEGADE 169 • 2100 KØBENHAVN Ø •  
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## STORES, WEST

**AO ESBJERG** • KATTEGATVEJ 1 • 6705 ESBJERG Ø •  
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**AO FREDERICIA** • PRANGERVEJ 143 • 7000 FREDERICIA •  
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**AO HADERSLEV** • NORGESVEJ 41 • 6100 HADERSLEV •  
DENMARK • TELEPHONE: +45 70 28 07 67

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

**AO HJØRRING** • LÆSØVEJ 3 • 9800 HJØRRING •  
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**AO HOBRO** • SMEDVEJ 4 • 9500 HOBRO •  
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**AO HOLSTEBRO** • MADSD BJRRESVEJ 1 • 7500 HOLSTEBRO •  
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**AO HORSENS** • ALLÉGADE 40 • 8700 HORSENS •  
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**AO KOLDING** • MØNTEN 5 • 6000 KOLDING •  
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**AO NYBORG** • FALSTERVEJ 10 E • 5800 NYBORG •  
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**AO ODENSE CITY** • MIDDELFARTVEJ 8 • 5000 ODENSE C •  
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**AO ODENSE SØ** • OVE GJEDDESVEJ 18 • 5220 ODENSE SØ •  
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**AO RANDERS** • TOLDBODGADE 24 • 8930 RANDERS NØ •  
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**AO RISSKOV** • RAVNSØVEJ 7 • 8240 RISSKOV •  
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**AO SILKEBORG** • STAGEHØJVEJ 27 A • 8600 SILKEBORG •  
DENMARK • TELEPHONE: +45 70 28 07 53

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

**AO SØNDERBORG** • NØRREKOBEL 7 D • 6400 SØNDERBORG •  
DENMARK • TELEPHONE: +45 70 28 07 54

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

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

**AO VIBY** • JENS JUULSVEJ 7 • 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 FRICHSVEJ 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** • BRODALS VÄGEN 15 •  
SE-433 38 PARTILLE • SWEDEN •  
TELEPHONE: +46 10 480 96 00

**AO SVERIGE AB** • BRONSXYGATAN 6A •  
SE-213 75 MALMÖ • 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 •  
HERSTEDVANG 6 • DK-2620 ALBERTSLUND • DENMARK  
TELEPHONE: 70 28 05 61

## REPAIR WORKSHOP

**BRØDRENE A & O JOHANSEN A/S** • REPAIR WORKSHOP •  
HERSTEDVANG 6 • DK-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

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

**VVSCHBAD.SE** • HTTP://WWW.VVSCHBAD.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

# 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 whole-sale company with the same customers as Brødrene A & O Johansen A/S.
- Former Minister of Finance.

### Managerial Posts

- **Deputy Chairman of the board of:**  
Aveny T-Fonden.

## • 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 (CEO) of major retail chain.
- 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  
Telecenteret A/S  
North TQ ApS.
- **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 2014, term expires in 2018.

## • Erik Holm

- Managing Partner  
Managing Director of Maj Invest Equity A/S  
Manager of Maj Invest Holding A/S  
Manager of Fondsmæglerselskabet Maj Invest A/S  
Manager of Erik Holm Holding ApS  
Manager of MIE5 Holding 4 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 whole-sale 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  
Sticks'n'Sushi Germany GmbH  
Victor Gruppen Restauranter Holding ApS  
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  
Svendsten Sport A/S  
MIE4 7 Datter ApS  
Maj Invest South America S.A.  
Maj Invest Singapore Private Ltd.
- **Member of the investment committees for:**  
LD Equity 1 K/S  
LD Equity 2 K/S  
LD Equity 3 K/S  
Maj Invest Equity 4 K/S  
Maj Invest Equity 5 K/S  
Maj Invest Equity Vietnam I K/S  
Maj Invest Equity Southeast Asia II K/S

### • Leif Hummel

- Distribution Manager.
- Born 1963.
- Nationality: Danish.
- Staff-elected member of the Board.
- Member of the Board since 2014.
- Elected in 2014, term expires in 2018.

#### Qualifications

- Leadership experience in staff management, logistics and warehouse management.
- Experience with national and international distribution and transport planning.
- Experience with environmental management, energy management and working environment assessment.
- Experience in finance and accounting.
- Experience of board work in private institutions.

### • Carsten Jensen

- Logistics Coordinator.
- Born 1955.
- Nationality: Danish.
- Staff-elected member of the Board.
- Member of the Board since 1990.
- Re-elected in 2014, term expires in 2018.

### • Niels Axel Johansen

- Chief Executive Officer of Brødrene 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.

### • 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 ApS  
Templafy ApS.
- **Member of the boards of:**  
Skolebordet.dk ApS  
Damgaard Company A/S  
Damgaard Group A/S  
Damgaard Group Holding A/S  
Dixa ApS  
Scalepoint Technologies Holding A/S  
Scalepoint Technologies Denmark A/S  
Configit A/S  
Configit Holding A/S  
OrderYOYO ApS.
- Member of the Investment Committee for Seed Denmark.





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