
Interim Financial Report for the Period 1 January – 31 March 2019



Brødrene A & O Johansen A/S

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Today the Board of Directors has approved the Group's interim financial report for the period 1 January – 31 March 2019.

Highlights for the first quarter of 2019

- Consolidated revenue for the first quarter of 2019 was DKK 869.6 million, which is DKK 57.2 million, or 7%, more than for the first quarter of 2018. The first quarter of 2019 had one more working day than the corresponding quarter last year.
- Operating profit (EBIT) for the first quarter of 2019 was DKK 42.3 million, corresponding to a profit margin of 4.9%, against DKK 28.6 million and 3.5% for the first quarter of 2018. The increased profit margin can primarily be attributed to relatively lower costs.
- Profit before tax for the first quarter of 2019 was DKK 40.5 million, which is DKK 8.3 million more than last year.
- As at 31 March 2019, the Group's total assets amounted to DKK 2,318.9 million, which is DKK 97.4 million more than at 31 March 2018. The increase is partly attributable to lease assets (IFRS 16) of DKK 86.7 million, partly to increased inventories and trade receivables which are up by DKK 68.9 million due to revenue growth. Cash and cash equivalents and software activations decreased by DKK 21.7 million and DKK 13.4 million respectively.
- As at 31 March 2019, the Group's equity of DKK 771.5 million, corresponding to a solvency ratio of 33.3%, was DKK 108.6 million more than for the same period last year.
- Cash flow from operating activities for the first quarter of 2019 totalled DKK 21.0 million, which is DKK 0.6 million less than for the same period last year. Investments for the first quarter of 2019 totalled DKK 7.0 million against DKK 18.2 million for the first quarter of 2018.

Other highlights for the first quarter of 2019:

- IFRS 16 (Leases) was implemented with effect from 1 January 2019. There is no significant earnings impact, whereas the balance sheet as at 31 March 2019 increased by DKK 86.7 million.
- The Annual General Meeting approved the recommended consolidated and parent company financial statements as well as the allocation of profits, including a dividend payment of DKK 6 per preference share of DKK 10. All shareholder-elected Board members were re-elected. Afterwards the Board of Directors constituted itself with Henning Dyremose as Chairman and Michael Kjær as Deputy Chairman. The Board of Directors was authorised to acquire own preference shares equivalent to a total of 10 % of the Company's share capital.

Expectations for the year

- As announced in connection with the publication of the annual report for 2018, the Group expects a profit before tax in the range of DKK 150-160 million for 2019. In 2018, Brødrene A & O Johansen A/S realised a profit before tax of DKK 150.3 million.

Albertslund, 22 May 2019

Niels A. Johansen
CEO

Henrik T. Krabbe
CFO

Financial and operating data for the AO Group

(DKKm)

Key figures	Q1 2019	Q1 2018	Full year 2018
Consolidated revenue	869.6	812.4	3,373.4
Gross margin	204.5	190.3	805.2
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	69.4	50.1	241.0
Operating profit or loss (EBIT)	42.3	28.6	154.8
Financial income and expenses, net	(1.8)	3.6	(4.6)
Profit or loss before tax (EBT)	40.5	32.2	150.3
Tax on profit or loss for the period	(8.9)	(7.0)	(31.7)
Net profit or loss for the period	31.7	25.2	118.5
Non-current assets	1,372.8	1,300.7	1,300.1
Current assets	946.2	920.8	843.8
Total assets	2,318.9	2,221.5	2,144.0
Share capital	28.0	28.0	28.0
Equity	771.5	662.9	756.7
Non-current liabilities	310.2	227.8	288.6
Current liabilities	1,237.2	1,330.8	1,098.7
Cash flow from operating activities	21.0	21.7	300.8
Cash flow from investing activities	(7.0)	(18.2)	(82.3)
Of which investments in property, plant and equipment, net	(5.0)	(12.0)	(60.7)
Cash flow from financing activities	(16.6)	3.9	(229.8)
Cash flow for the period	(2.6)	7.3	(11.3)
Financial ratios			
Gross profit margin	23.5%	23.4%	23.9%
Profit margin	4.9%	3.5%	4.5%
Return on capital employed	1.9%	1.3%	7.5%
Return on equity	4.1%	3.6%	15.9%
Solvency ratio	33.3%	29.8%	35.3%
Book value**	276	237	270
Share price at the end of the period	325	345	294
Earnings per share (EPS Basic), DKK	12	9	44
Diluted earnings per share (EPS-D), DKK	12	9	44
Average number of employees***	737	753	747

Basic EPS and diluted EPS have been calculated in accordance with IAS 33. Other financial ratios have been calculated in accordance with CFA Society Denmark's "Recommendations and Ratios".

** Financial ratios have been calculated for the respective periods.

*** The number of employees includes external temporary workers.

Management's review

The consolidated financial statements include the financial statements of Brødrene A & O Johansen A/S and the wholly owned subsidiaries AO Invest A/S, Greenline A/S, Billig VVS AS (Norway), VVSochBad Sverige AB, AO Sverige AB and Vaga Tehnika Eesti OÜ.

The Group's financial development

Consolidated revenue for the first quarter of 2019 was DKK 869.6 million, which is DKK 57.2 million, or 7%, more than last year. The first quarter of 2019 had one more working day than the corresponding period last year. Last year, the Easter holidays fell partly in the first quarter.

The growth in revenue is mainly attributable to the professional market in Denmark, the private online market, and professional markets abroad. International revenue accounts for less than 10% of total revenue.

Gross margin for the first quarter of 2019 amounted to DKK 204.5 million, compared with DKK 190.3 million for the same period of 2018. When compared with the first quarter of 2018, the gross profit margin increased by 0.1 percentage point to 23.5%. Distribution costs for the quarter constituted 3.8% of revenue, which is 0.1 percentage point less than in the first quarter of 2018.

Total operating expenses for the first quarter of 2019, including depreciation and amortisation, amounted to DKK 162.2 million, which is DKK 0.5 million more than for the same period last year. IFRS 16 does not affect this comparison.

In the first quarter of 2019, external expenses totalled DKK 39.8 million, which is DKK 5.2 million less than in the first quarter of 2018. Following the implementation of IFRS 16, rent and lease expenses are categorised as depreciation and interests and amount to DKK 6.0 million in 2019. Before the implementation of IFRS 16, external expenses have thus increased by DKK 0.8 million, corresponding to 2%.

Staff costs of DKK 95.3 million increased by 0.2%, or DKK 0.2 million, compared with the same period last year.

Depreciation, amortisation and write-downs for the first three months of 2019 amounted to DKK 27.0 million, an increase of DKK 5.5 million. Depreciation and amortisation for the quarter increased by DKK 5.9 million. Adjusted for this, depreciation and amortisation are actually DKK 0.4 million less than in the same period last year.

Operating profit (EBIT) for the first quarter of 2019 was DKK 42.3 million, which is 4.9% of revenue. Compared to the same period last year, EBIT is DKK 13.7 million higher. The profit margin is up by 1.4 percentage points due to higher revenue and relatively lower expenditure.

Financial income and expenses, net, for the first quarter of 2019 were negative at DKK 1.8 million against a positive of DKK 3.6 million in the same period of 2018. The difference of DKK 5.4 million is partly attributable to lower interest expenses, partly to an income in the first quarter of 2018 of DKK 6.1 million stemming from a reassessment of the earn-out agreement related to the acquisition of Greenline A/S. IFRS 16 has increased financial expenses by DKK 0.1 million.

For the first three months of 2019, the Group recorded a pre-tax profit of DKK 40.5 million against DKK 32.2 million reported for the same period last year.

Tax is in accordance with applicable tax rates in the areas where the Group is operating, equalling an average tax rate of approximately 22%.

A post-tax profit of DKK 31.7 million was recorded for the first quarter of 2018, compared with DKK 25.2 million for the same period last year.

As at 31 March 2019 the Group's total assets amounted to DKK 2,318.9 million, which is DKK 97.4 million, or 4%, more than at the same time last year.

Non-current assets of DKK 1,372.8 million are DKK 72.1 million higher than at the same time last year. Lease assets (IFRS 16) amount to DKK 86.7 million. Investments for the period were lower than depreciation and amortisation, and as a result, other non-currents assets are DKK 14.6 million lower than last year.

When compared to the same period last year, current assets increased by DKK 25.3 million to DKK 946.2 million. Inventories increased by DKK 17.2 million to DKK 473.8 million due to investment in a wider range of products, and trade receivables went up by DKK 51.7 million to DKK 433.5 million due to revenue growth. Cash and cash equivalents of DKK 13.5 million are DKK 21.7 million lower than at 31 March 2018.

Equity of DKK 776.6 million, corresponding to a solvency ratio of 33.3%, is DKK 108.6 million higher than at the same time last year due to earnings after tax minus dividend payments of DKK 16.3 million.

The Group's payables to credit institutions amount to DKK 652.2 million, which is DKK 228.3 million lower than at 31 March 2018 due to lower working capital/cash flow from operations and lower investments than in previous years.

Lease liabilities/IFRS 16 amount to DKK 86.7 million.

Trade payables of DKK 653.8 million are DKK 119.6 million higher than at the same time last year due to timing difference and the use of Supply Chain Finance programmes.

Other payables of DKK 81.1 million are DKK 4.2 million lower than at the same time last year

Cash flow from operating activities for the first three months of 2019 amounted to DKK 21.0 million, which is DKK 0.6 million less than for the same period last year. The increase in trade receivables caused by growth in revenue is counterbalanced by increased cash flow from income statement items.

Net investments for the first quarter of 2019 totalled DKK 7.0 million, which is DKK 11.2 million less than for the same period last year. In the period, DKK 2.1 million was invested in software, which is DKK 4.2 million less than for the same period last year. Investment in operating equipment totalled DKK 5.3 million and is DKK 0.9 million higher than in the first quarter of 2018.

Shareholders received dividend payments of DKK 16.3 million. In the quarter ended 31 March 2019, the Group's total payables to credit institutions decreased by net DKK 5.7 million to DKK 652.1 million. A cash pool agreement has been entered into, meaning that cash and cash equivalents are offset against payables to credit institutions on calculation of interest. Lease payments covered by IFRS 16 amount to DKK 6.0 million.

Total cash flow for the first quarter of 2019 is negative at DKK 2.6 million. At 31 March 2019 the Group's cash and cash equivalents totalled DKK 13.5 million, which is DKK 21.7 million less than at 31 March 2018.

Significant risks

As mentioned in the annual report for 2018, under the paragraph "Internal controls and risk management", the Company assesses on an ongoing basis the most significant risks in connection with the Company's activities. In addition to the risks mentioned in the annual report, the Group is sensitive to the overall development in Danish and Swedish economy as well as business trends in the building industries of these countries.

Incentive programme and treasury shares

An incentive programme may be prepared in accordance with the general guidelines for incentive pay approved by the Annual General Meeting on 22 March 2012. The guidelines are available in full on the Company's website www.ao.dk.

At present, there are no active share-based incentive programmes.

On 31 March 2019, the Company held a total of 82,390 treasury shares.

Outlook

As announced in connection with the publication of the annual report for 2018, the Group expects a profit before tax in the range of DKK 150-160 million for the year ending 31 December 2019. There is no change to this expectation.

In 2018, the Group realised a profit before tax of DKK 150.3 million.

Events after the end of the interim period

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

Additional information

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

Company announcements in 2019

Announcement no. 1	Annual report 2018	22 February 2019
Announcement no. 2	Notice convening the Annual General Meeting of Brødrene A & O Johansen A/S	22 February 2019
Announcement no. 3	Notification of transactions of persons discharging Managerial responsibilities	14 March 2019
Announcement no. 4	Result of the Annual General Meeting of Brødrene A & O Johansen A/S	20 March 2019

Management's statement

Today the Board of Directors and the Executive Board have discussed and approved the interim financial report of Brødrene A & O Johansen A/S for the period 1 January - 31 March 2019.

The interim financial report, which has not been audited or reviewed by the Company's auditor, has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion the interim financial statements give a true and fair view of the Group's assets, liabilities and financial position at 31 March 2019 and of the results of the Group's operations and cash flows for the period 1 January – 31 March 2019.

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

Albertslund, 22 May 2019

Executive Board

Niels A. Johansen
CEO

Henrik T. Krabbe
CFO

Stefan Funch Jensen
CDO

Lili Johansen
CHRO

Gitte Lindeskov
CIO

Board of Directors

Henning Dyremose
Chairman of the Board

Michael Kjær
Deputy Chairman

René Alberg

Erik Holm

Carsten Jensen

Niels A. Johansen

Jonas Kvist

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Income statement and statement of comprehensive income

(All amounts are in DKK thousands)

	Q1 2019	Q1 2018	Full Year 2018
Revenue	869,566	812,370	3,373,373
Cost of sales	(633,803)	(590,853)	(2,439,481)
Distribution costs	(31,520)	(31,614)	(130,113)
Gross profit	204,244	189,902	803,779
Other operating income	266	365	1,454
Gross margin	204,510	190,267	805,234
External expenses	(39,828)	(45,061)	(177,024)
Staff costs	(95,322)	(95,122)	(387,211)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	69,359	50,084	240,999
Depreciation, amortisation and impairment of property, plant and equipment as well as intangible assets	(27,023)	(21,495)	(86,161)
Operating profit or loss (EBIT)	42,336	28,590	154,838
Financial income	408	6,632	8,061
Financial expenses	(2,229)	(3,052)	(12,647)
Profit or loss before tax (EBT)	40,514	32,170	150,253
Tax on profit or loss for the period	(8,855)	(6,954)	(31,739)
Net profit or loss for the period	31,659	25,216	118,514
Other comprehensive income			
Items reclassified to the income statement			
Foreign currency translation adjustment relating to foreign entities	(567)	(1,402)	(1,175)
Tax on other comprehensive income	0	0	0
Other comprehensive income after tax	(567)	(1,402)	(1,175)
Total comprehensive income	31,093	23,814	117,339
Earnings per share			
Earnings per share (EPS)	12	9	44
Diluted earnings per share (EPS-D)	12	9	44

Balance sheet as at 31 March

(All amounts are in DKK thousands)

ASSETS	Note:	Q1 2019	Q1 2018	Full Year 2018
Non-current assets				
Intangible assets				
Goodwill	4	371,334	371,334	371,334
Intellectual property rights		48,867	51,837	49,609
Software		37,218	50,572	42,168
		<u>457,419</u>	<u>473,743</u>	<u>463,111</u>
Property, plant and equipment				
Land and buildings		659,195	643,543	663,803
Leasehold improvements		473	711	517
Fixtures and operating equipment		168,027	182,664	171,717
Lease assets		86,656	0	0
		<u>914,351</u>	<u>826,919</u>	<u>836,037</u>
Other non-current assets				
Other investments		1,000	0	1,000
		<u>1,000</u>	<u>0</u>	<u>1,000</u>
Total non-current assets	5	<u>1,372,770</u>	<u>1,300,662</u>	<u>1,300,147</u>
Current assets				
Inventories	6	473,801	456,557	435,364
Trade receivables	7	433,464	381,803	370,008
Corporation tax receivable		0	11,829	0
Other receivables		10,411	23,326	13,077
Prepayments and accrued income		15,016	12,202	8,736
Cash at bank and in hand		13,467	35,120	16,633
Total current assets		<u>946,159</u>	<u>920,837</u>	<u>843,819</u>
Total assets		<u>2,318,929</u>	<u>2,221,499</u>	<u>2,143,966</u>

Balance sheet as at 31 March

(All amounts are in DKK thousands)

EQUITY AND LIABILITIES	Note:	Q1 2019	Q1 2018	Full Year 2018
Equity				
Share capital		28,000	28,000	28,000
Reserve for foreign currency translation adjustments		0	(1,635)	(1,407)
Retained earnings		743,486	636,513	730,106
Total equity		711,486	662,878	756,699
Non-current liabilities				
Deferred tax	8	60,450	61,928	60,472
Credit institutions		224,993	165,861	228,129
Lease liabilities		24,796	0	0
Total non-current liabilities		310,239	227,789	288,601
Current liabilities				
Credit institutions		427,164	714,551	418,339
Lease liabilities		61,860	0	0
Trade payables		653,814	534,204	589,259
Corporation tax		8,260	0	6,107
Other payables		86,105	81,919	84,961
Accruals and deferred income		0	158	0
Total current liabilities		1,237,203	1,330,832	1,098,666
Total liabilities		1,547,443	1,558,620	1,387,266
Total equity and liabilities		2,318,929	2,221,499	2,143,966

Cash flow statement

(All amounts are in DKK thousands)

	Q1 2019	Q1 2018	Full year 2018
Cash flow from operating activities			
Operating profit or loss	42,336	28,590	154,838
Financial income and expenses, net (interest paid)	(1,821)	3,581	(10,687)
Profit or loss before tax	40,514	32,170	144,151
Depreciation and amortisation:			
Intangible assets	7,750	8,084	32,873
Property, plant and equipment	19,273	13,410	53,288
	27,023	21,495	86,161
Change in working capital:			
Change in trade receivables	(63,455)	(424)	11,371
Change in other receivables	(3,613)	(7,184)	6,531
Change in inventories	(38,437)	(42,505)	(21,312)
Change in trade payables	64,555	17,584	72,639
Change in other current liabilities	1,143	7,145	16,132
	(39,807)	(25,384)	85,360
Corporation tax paid	(6,688)	(6,622)	(14,912)
Cash flow from operating activities	21,042	21,659	300,761
Cash flow from investing activities			
Software	(2,056)	(6,230)	(20,653)
Land and buildings	0	(7,563)	(39,775)
Fixtures and operating equipment	(5,301)	(4,409)	(21,106)
Disposal of property, plant and equipment	310	0	225
Other investments	0	0	(1,000)
Cash flow from investing activities	(7,047)	(18,202)	(82,309)
Cash flow from financing activities			
Repayment of debt to credit institutions	(23,402)	(2,716)	(176,244)
Raising of loans with credit institutions	29,092	23,408	(37,008)
Lease payments	(5,999)	0	0
Dividend distribution	(16,306)	(16,800)	(16,306)
Adjustment related to previous years	0	0	(202)
Cash flow from financing activities	(16,615)	3,892	(229,761)
Cash flow for the period	(2,620)	7,349	(11,309)
Cash and cash equivalents at beginning of period	16,633	28,553	28,553
Foreign currency translation adjustment	(546)	(782)	(609)
Cash and cash equivalents at end of period	13,467	35,120	16,633

Statement of changes in equity

(All amounts are in DKK thousands)

	Share capital	Foreign currency translation adjustment	Retained earnings	Total Equity
Equity at 1 January 2019	28,000	(1,407)	730,106	756,699
Net profit or loss for the period	0	0	31,659	31,659
Foreign currency translation adjustment relating to foreign entities	0	(567)	0	(567)
Total comprehensive income	0	(567)	31,659	31,093
Dividend distribution	0	0	(16,306)	(16,306)
Total transactions with owners	0	0	(16,306)	(16,306)
Equity at 31 March 2019	28,000	(1,973)	745,460	771,487
Equity at 1 January 2018	28,000	(232)	628,099	655,867
Net profit or loss for the period	0	0	25,216	25,216
Foreign currency translation adjustment relating to foreign entities	0	(1,402)	0	(1,402)
Total comprehensive income	0	(1,402)	25,216	23,814
Dividend distribution	0	0	(16,800)	(16,800)
Adjustment related to previous years	0	0	(2)	(2)
Total transactions with owners	0	0	(16,802)	(16,802)
Equity at 31 March 2018	28,000	(1,635)	636,513	662,878
Equity at 1 January 2018	28,000	(232)	628,099	655,867
Net profit or loss for the period	0	0	118,514	118,514
Foreign currency translation adjustment relating to foreign entities	0	(1,175)	0	(1,175)
Total comprehensive income	0	(1,175)	118,514	117,339
Dividend distribution	0	0	(16,306)	(16,306)
Adjustment related to previous years	0	0	(201)	(201)
Total transactions with owners	0	0	(16,507)	(16,507)
Equity at 31 December 2018	28,000	(1,407)	730,106	756,699

Notes

1 Accounting policies

The interim financial report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act. Except for the changes mentioned below, the accounting policies are unchanged from the accounting policies applied in the consolidated and parent company financial statements for 2018, to which reference is made. The consolidated and parent company financial statements for 2018 contain a full description of the accounting policies.

Changes in accounting policies

Effective as of 1 January 2019, the Group has implemented the following new or amended accounting standards and interpretations: IFRS 16 *Leases*, Amendments to IFRS 9 on prepayments, Amendments to IAS 19 on changes to pension schemes over the course of the accounting period, Amendments to IAS 28 on long-term interests in associates and joint ventures, IFRIC 23 on uncertain tax positions and Annual Improvements to IFRSs 2015-2017.

Of the above, only IFRS 16 has had an effect on recognition and measurement in the interim financial report. This effect is detailed in the section below.

Effective as of 1 January 2019, Brødrene A & O Johansen A/S has implemented the new leasing standard IFRS 16 using the modified retrospective transition method with no restatement of comparative figures. Comparative figures are still presented in accordance with the rules of IAS 17 and IFRIC 4.

In comparison to past practices, the Group shall now, with a few exceptions, recognise all lease agreements, including operational lease contracts, in its balance sheet. This means that a lease liability shall be recognised, measured at the present value of the future lease payments, which are described below, and a corresponding lease asset corrected for payments made to the lessor prior to commencement of the lease agreement, and received incentive payments from the lessor, must be recognised. The Group has chosen not to recognise costs that are directly related to the lease asset.

In accordance with the transition provisions in IFRS 16 and in connection with implementation of the standard, the Group has chosen:

- not to recognise lease agreements with a term of less than 12 months or a present value of less than DKK 30.000
- to determine a discount rate on a portfolio of lease agreements with uniform characteristics.

Upon assessment of the future lease payments, the Group has reviewed the Group's operational lease agreements and identified those lease payments which are related to a single lease component, and which are fixed or variable, but which change in line with fluctuations in an index or rate. The Group has chosen not to recognise payments related to service components as part the lease liability.

In its assessment of the anticipated lease period, the Group has identified the non-terminable lease period in the agreement in addition to periods covered by an option for extension which the management may, with a reasonable degree of probability, be expected to use, and in addition to periods covered by an option for termination which management may, with a reasonable degree of probability, be expected not to use. For leases that can be terminated, the Group has assessed that the expected lease period will be approximately three years corresponding to the Group's strategy horizon.

In the case of lease agreements for operating equipment, the Group has assessed that the anticipated lease period is the same as the non-terminable lease period in the agreements as the Group does not have any historic information for the use of extension options in similar agreements.

For the discounting of lease payments to the present value, the Group has used its alternative borrowing rate which constitutes the cost by recording external financing for an equivalent asset with a financing period that is equivalent to the term of the lease agreement in the currency that the lease payments are made in. The Group has documented the alternative borrowing rate for each portfolio of lease agreements that have uniform characteristics.

Effect of the implementation of IFRS 16

Upon implementation of IFRS 16 with effect as of 1 January 2019, the Group has recognised a lease asset of DKK 89,970 thousand and a lease liability of DKK 89,970 thousand. The equity effect is thereby DKK 0.

Lease assets consist primarily of property and operating equipment. On the transition date, total lease assets correspond to DKK 89,970 thousand (previously operational lease agreements).

The lease assets are amortised on a straight-line basis over their expected lease periods which constitute:

Operating equipment	3 - 10 years
Warehouse properties with associated administration	3 - 10 years
Stores	3 - 10 years

When measuring the lease liability, the Group has used a weighted average alternative borrowing rate for the discounting of future lease payments at 1.2% for property and 1.2% for operating equipment respectively.

2 Accounting estimates and judgements

Estimation uncertainty

In preparing these interim financial statements, management has made accounting estimates and assumptions which affect the application of accounting policies and recognised assets, liabilities, income and expenses. Actual results may deviate from these estimates.

The most significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those that applied to the consolidated financial statements and parent company financial statements for 2018. For a more detailed description of the estimation uncertainty, reference is made to the consolidated and parent company financial statements for 2018.

In addition to the above, management has also made the following estimates and assumptions with regard to leasing as a result of the implementation of IFRS 16.

The lease period:

The lease period contains the lease agreement's non-terminable lease period, periods covered by an option for extension which the Group may, with a reasonable degree of certainty, be expected to use, and periods covered by an option for termination which the Group may, with a reasonable degree of certainty, be expected not to use.

A share of the Group's lease agreements for properties contain options which entitle the Group to extend the agreement for a further lease period of an indefinite duration. Upon the initial recognition of the lease asset, the Group makes an assessment as to whether the option for extension can, with a reasonable degree of probability, be expected to be used. The Group reassesses this estimate in the case of any significant events or changes in circumstances which are within the control of the Group. When the period during which the lease cannot be terminated has lapsed, the individual tenancy is assessed with a horizon of approximately three years, corresponding to the Group's normal strategy period.

Alternative borrowing rate:

The Group uses its alternative borrowing rate for measurement of lease payments to the present value. When assessing the alternative borrowing rate, the Group divides its portfolios of lease assets into three categories whereby the Group assesses the lease agreements and underlying assets in each category to have the same characteristics and risk profiles. The categories are as follows.

- Warehouse properties with associated administration
- Stores
- Operating equipment.

The Group establishes the alternative borrowing rate for the above categories of lease agreements in connection with the first recognition of a lease agreement. Moreover, it is established in connection with subsequent amendments in the underlying contractual cash flows from amendments in the Group's estimate of a residual value guarantee, if the Group changes its assessment as to whether a purchase, extension or termination can, with reasonable probability, be expected to be used or in the case that the agreement is modified.

3 Segment information

Group activities relating to the trade in technical installation materials (Technical Installation: electrical equipment and components as well as plumbing, heating and sanitary ware) and construction materials (Construction: water supply and drainage, Vaga and tools) with private, public and corporate customers take place in an integrated manner and are dealt with as one operating segment.

According to IFRS 15, revenue for the first quarter of 2019 is categorised into Technical Installation totalling DKK 636.1 million (2018: DKK 595.1 million) and Construction totalling DKK 233.6 million (2018: DKK 217.3 million).

The Group operates primarily in Denmark, and less than 10% of its revenue relates to foreign countries. This was also the case in the first quarter of 2018.

The Group has not traded with any individual customer representing more than 10% of the Group's total revenue. This was also the case in the first quarter of 2018.

Revenue from the private market segment totals DKK 104.1 million or 12% against DKK 88.6 million or 11% in the first quarter of 2018.

4 Goodwill and intangible assets

The annual impairment test of intangible assets, including goodwill and intellectual property rights, is performed at 31 December 2019, after the completion of budgets and strategy plans for the coming period. At 31 March 2019, Management is of the opinion that there has been no indication of impairment of the carrying amount of goodwill and intellectual property rights, and therefore no impairment test of goodwill and intellectual property rights has been performed at 31 March 2019. For a more detailed description of impairment tests, reference is made to the consolidated and parent company financial statements for 2018.

5 Non-current assets

During the reporting period the Group has invested DKK 7.4 million (2018: DKK 18.2 million) in non-current assets.

6 Inventories

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

7 Trade receivables

An estimate is used to assess the recoverability of receivables according to the same principles as applied in the financial statements for 2018.

8 Deferred tax

At 31 March 2019, net deferred tax liabilities were DKK 60.5 million, compared with DKK 61.9 million at 31 March 2018.