

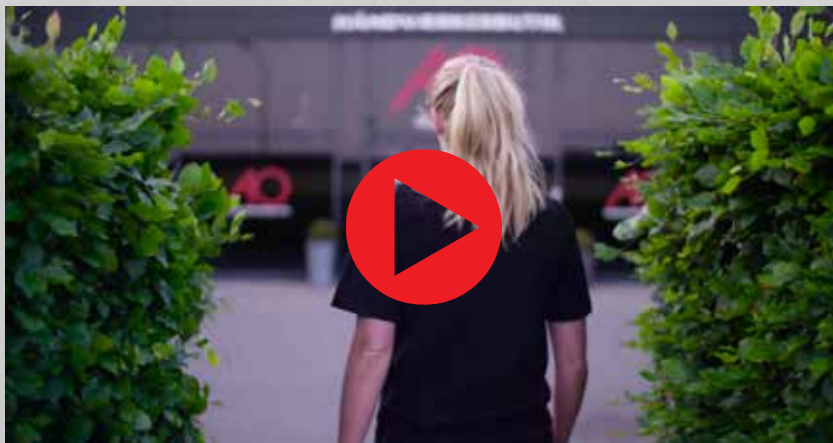
A large, stylized white outline of the letter 'E' is centered on the page. It is composed of several concentric, slightly irregular lines, creating a sense of depth and movement. The 'E' is the central focus of the cover design.

B2B • OMNI-CHANNEL

**20  
16**

Annual Report 2016  
Brødrene A & O Johansen A/S  
Rørvang 3 - DK-2620 Albertslund  
Denmark  
CVR No.: 58 21 06 17

Brødrene A & O Johansen A/S is a wholesaler of products for skilled tradesmen, but just as much an IT, knowledge and logistics company, with proud traditions and a focus on continued development – and valuing people as its most important resource. Sometimes photos speak louder than words, and in the attached film you can get the feel of our culture. An insight into what drives our company and our special team spirit.



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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	2016	2015	2014	2013	2012
Revenue	2,823.4	2,631.2	2,258.7	2,309.7	2,272.7
Gross margin	796.7	712.3	646.6	691.1	675.8
Costs	(653.3)	(593.5)	(546.3)	(564.0)	(548.4)
Operating profit or loss (EBIT)	143.3	118.8	100.3	127.1	127.3
Financial income and expenses, net	(8.0)	(3.3)	(2.7)	(1.9)	(5.4)
Profit or loss before tax (EBT)	135.4	115.5	97.5	125.2	121.9
Tax on profit or loss for the year	(30.0)	(27.7)	(23.8)	(26.6)	(30.8)
Net profit or loss for the year	105.4	87.8	73.8	98.6	91.1
Non-current assets	1,266.9	1,180.0	896.7	721.7	633.7
Current assets	727.9	783.1	694.2	709.5	652.7
Total assets	1,994.8	1,963.2	1,590.9	1,431.3	1,286.4
Share capital	57.0	57.0	57.0	57.0	57.0
Equity	732.1	1,024.6	935.7	863.0	766.3
Non-current liabilities	339.1	217.5	204.5	199.7	203.5
Current liabilities	923.6	721.1	450.7	368.5	316.6
Cash flow from operating activities	235.8	96.1	199.9	165.0	266.6
Cash flow from investing activities	(129.7)	(301.5)	(197.1)	(126.1)	(42.9)
Of which investments in property, plant and equipment, net	(61.7)	(90.4)	(178.7)	(109.5)	(38.1)
Cash flow from financing activities	(110.2)	142.3	14.8	(2.4)	(207.7)
Cash flow for the year	(4.0)	(63.1)	17.5	36.6	15.9
<b>Financial ratios</b>					
Gross profit margin	28.2%	27.1%	28.6%	29.9%	29.7%
Profit margin	5.1%	4.5%	4.4%	5.5%	5.6%
Return on capital employed	7.2%	6.7%	6.6%	9.4%	9.9%
Return on equity	12.0%	9.0%	8.2%	12.1%	12.7%
Solvency ratio	36.7%	52.2%	58.8%	60.3%	59.6%
Book value	1,284	1,797	1,642	1,514	1,344
Share price at the end of the year	3,367	1,750	1,115	1,335	1,050.0
Price Earnings Basic (P/E Basic)	10.5	9.8	7.4	6.6	5.6
Dividend per DKK 100 share	60.0	0.0	0.0	0.0	0.0
Earnings per share (EPS Basic), DKK	321	178	150	201	186
Diluted earnings per share (EPS-D), DKK	311	175	149	198	183
Number of employees	646	619	621	650	636

Basic EPS and diluted EPS have been calculated in accordance with IAS 33 (note 18). Other financial ratios have been calculated in accordance with the Danish Finance Society's "Recommendations and Financial Ratios 2015".



**There's always something  
new to learn, something  
new to talk about, and  
something new to share.**



# MANAGEMENT'S REVIEW

## THE YEAR IN OUTLINE

Brødrene A & O Johansen A/S (the Group) realised a pre-tax profit of DKK 135.4 million for 2016 and a profit margin of 5.1%, which is DKK 19.9 million and 0.6 percentage point higher than last year and in accordance with previous announcements of a pre-tax profit of DKK 130-140 million.

Group results for recent years, combined with a strong cash flow from operating activities, have provided opportunities for investments in the future. In the years 2013-2015 approximately DKK 600 million was invested in, among other things, the central warehouse, the Group's network of stores, digital IT solutions and BilligVVS ApS (BilligVVS). The large investments continued in 2016 with the acquisition of Greenline A/S (Greenline), the commencement of the construction of a new mini-load system, and further investment in digital solutions. In addition, agreements regarding the acquisition of own preference shares, corresponding to 51.64% of the total share capital, were concluded with the competing companies of Sanistål A/S and F-J. Lemvigh-Müller Holding A/S.

In February of 2016, own preference shares with a nominal value of DKK 22,300,500 were acquired from Sanistål A/S, corresponding to 39.12% of the share capital in the Company. The purchase price was DKK 400.8 million, equalling a price of DKK 1,797 per share.

In addition, an agreement with J-F. Lemvigh-Müller Holding A/S, conditional upon the Extraordinary General Meeting's approval on 4 January 2017, was entered into regarding the acquisition of own preference shares with a nominal value of DKK 7,135,100, corresponding to 12.52% of the total share capital in the Company. The agreed purchase price was DKK 185.5 million, equalling a price of DKK 2,600 per share.

At the Company's Annual General Meeting to be held on 24 March 2017, a dividend distribution of DKK 60 per share of DKK 100 will be proposed.

At the Annual General Meeting a proposal to reduce the share capital of the Company by nominally DKK 29,000,000, corresponding to 50.88% of the share capital, will also be put forward. Subsequently, the share capital will total DKK 28,000,000. At the same time, a share split in the ratio of 1:10 will be proposed, so that the denomination of the ordinary shares will be reduced from DKK 1,000 to DKK 100, and the denomination of the preference shares will be reduced from DKK 100 to DKK 10.

The following important events occurred in the Group in 2016:

- The online company Greenline A/S, which is a leading online supplier of electrical equipment and components in Denmark, was acquired on 1 October 2016.

- AO Sverige AB realised a profit before tax of DKK 4.8 million following a turnaround.

- The construction of a new mini-load system in the central warehouse was commenced, and it is scheduled to be operational in the second quarter of 2017. The investment doubles the capacity and amounts to approximately DKK 80 million.

- AO.dk received FDH's (the Danish E-Commerce Association) e-commerce awards in the categories B2B and Omnichannel.

- BilligVVS' webshop was updated to a new responsive design during the year.

- During the year AO's net price system "SPOT ON" was enlarged to include more than 9,000 items, and it now accounts for approximately 20% of the Group's revenue from the professional market in Denmark.

Consolidated revenue for the year was DKK 2,823.4 million against DKK 2,631.2 million in 2015. The increase of DKK 192.2 million or 7% is attributable to the Danish market and the acquisition of BilligVVS in the second half of 2015, and the acquisition of Greenline in the second half of 2016.

Gross profit for the year was DKK 796.7 million, an increase of DKK 84.4 million or 12% compared to last year. The gross profit margin of 28.2% is 1.1 percentage points higher than last year. The increase is attributable to realised purchasing synergies in connection with the acquisitions of BilligVVS and Greenline.

Total operating expenses for the year amounted to DKK 653.3 million, which is DKK 59.8 million or 10% more than in 2015, partly due to operating expenses related to Greenline and BilligVVS, partly due to increased depreciation and the increase in revenue.

Operating profit (EBIT) for the year was DKK 143.4 million against DKK 118.8 million in 2015. The profit margin was 5.1% against 4.5% in 2015.

Profit before tax of DKK 135.4 million is on par with the previously announced target range, and DKK 19.9 million higher than reported in 2015. The results are considered satisfactory.

Net profit for the year of DKK 105.4 million is DKK 17.6 million more than in 2015.

As at 31 December 2016, the Group's total assets amounted to DKK 1,994.8 million against DKK 1,963.2 million in 2015. The increase of DKK 31.6 million is mainly attributable to investment in Greenline and investment in progress in a new mini-load system, counterbalanced by lower trade receivables.

Equity totalled DKK 732.1 million, corresponding to a solvency ratio of 36.7%.

During the year the interest-bearing debt of DKK 613.8 million increased by DKK 286.4 million, a satisfactory figure in view of the buy-back of own shares from Sanistål A/S.

Cash flow from operating activities of DKK 235.8 million is DKK 139.7 million more than last year, primarily due to timing differences regarding payments from customers and optimisation of working capital.

In 2016, investments amounted to net DKK 129.7 million, which is DKK 171.8 million less than last year, primarily due to the fact that BilligVVS was acquired in 2015. In addition to the acquisitions of BilligVVS and Greenline, investments totalling DKK 75.8 million were made in 2016. Of this amount, approximately DKK 50 million is attributable to the ongoing investment in a new mini-load system

On average, AO had 646 employees in 2016 against 619 the year before. In addition, AO had on average 39 external temporary workers, compared to 48 last year.

Management anticipates that profit before tax for 2016 will be in the range of DKK 140-150 million.

The Group's financial objectives have been reached with regard to growth and cash flow from operating activities, whereas the realised profit margin is lower than target. The solvency ratio is under target due to the acquisition of own shares.

## Development of the second half of 2016

Consolidated revenue for the second half of 2016 was 1,468.8 million, which is DKK 35.0 million or 2% more than reported for the second half of last year. The increase is attributable to activities in Denmark.

Gross profit for the last six months amounted to DKK 408.7 million, which is DKK 23.5 million more than reported for the last six months of 2015. The gross profit margin was 27.8%, which is 0.9 percentage point higher than last year.

Total operating expenses for the last six months of 2016 totalled DKK 329.2 million, which is DKK 17.2 million or 5.5% up on last year's figures for the same period.

Operating profit was DKK 79.5 million, which is DKK 6.3 million more than last year. The profit margin of 5.4% is 0.3 percentage point higher than last year.

A pre-tax profit of DKK 75.2 million was recorded for the second half of 2016. It is DKK 4.2 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 IT and logistics company with focus on selling and distributing technical installation materials and tools by means of a large product range, a high level of service, and reliable deliveries at market prices.

In the first quarter of 2016, the Stockholm branch of AO Sverige AB closed. Instead, a distribution agreement was entered into with Bra Gross Sverie AB, which is a regional wholesaler in the Stockholm area.

In the second quarter of 2016, AO.dk received FDIH's (the Danish E-Commerce Association) e-commerce awards in the categories B2B and Omnichannel based on the following motivations:

### Best B2B Company:

"In one year, AO has completed a string of projects with amazing results. AO differentiates the customer experience and personalises a number of parameters regarding customer buying behaviour. In 2015, their CRM system was extended to offer 360-degree customer views and predicative models anticipating customer behaviour. AO has introduced a new price system, SPOT ON, where they crawl prices at 16 different webshops and offer the tradesman the lowest price matched. The targeted efforts in an extremely fierce market have given AO magnificent results, and we just have to accept that this line of business is leading within the field of e-commerce."

### Best Omnichannel Company:

"AO wins in a very strong omnichannel field. AO is 100% in control of both expenses and earnings. The company is able to anticipate customer needs, and they take advantage of it in their one-to-one marketing. But maybe even more important, with the acquisition of both BilligVVS and LavprisVVS, AO has disrupted the value chain of the entire industry. It puts AO in a favourable position in the future, when customers want to buy and install plumbing, heating and sanitary ware products as well as electric equipment and components."

The construction of a new mini-load system was started in the third quarter of 2016. The investment of approximately DKK 80 million increases the mini-load storage capacity and doubles the daily picking capacity. The system is expected to be fully operational in the second quarter of 2016.

In connection with the regular maintenance and update of AO's stores, an agreement regarding the acquisition of a building site in Odense Øst was entered into in the third quarter of 2016. Here AO's store no. 50 will open in the second quarter of 2017. In addition, an agreement regarding the acquisition of a building in Roskilde will become effective on 1 April 2017. AO's store in Roskilde will move to this new location in the second quarter of 2017.

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 covering all product areas, i.e., plumbing, heating and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools. In Sweden a regional strategy focused on water supply and drainage products and tools has been chosen.

In the fourth quarter of 2016, an agreement regarding the acquisition of the online company Greenline A/S was signed. The company is the leading online supplier of electrical products in Denmark.

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

The Group's culture is based on sound business practice, readiness for change, and competent employees having the basic attitude that 'the customer is king'. Focus is on meeting the customers' needs by combining a high level of service, a broad 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 expectations.

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 has reopened. 5,000 square metres of the warehouse have, however, been rented out externally. The entire warehouse is thus in use. The offices are still up for lease.

## 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 an 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 200,000 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 2016, 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 do-it-yourself market (the DIY market) served by AO is characterised by relatively few, large customers.
- The private market served by BilligVVS and Greenline is characterised by many customers making few 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 49 stores all over Denmark offer their customers a 'one-stop shopping' solution. All stores stock a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

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

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

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

### 1. AO stores

With 49 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.

**Perhaps it's the drive,  
that sparks something  
new, every day.**

AO vinder pris for kloakmessens  
flotteste stand

AO vinder e-handelsprisen  
for bedste BtB

AO vinder e-handelsprisen  
for bedste Omni-channel

Brdr. A & O Johansen  
køber Greenline A/S

Brdr. A & O Johansen tilbagekøber  
samtlige aktier fra Sanistål

Billig VVS introducerer  
ny hjemmeside

AO bygger ny  
mini-lead

AO lancerer  
strakslevering





AO lancerer  
sagsstyring

Brdr. A & O Johansen tilbagekøber  
samtlige aktier fra Lemvigh-Müller

AO lancerer AO Collect

## 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 more than DKK 700 million, which is an increase of more than 20% compared with 2015.

## 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 new construction and renovation projects as well as 'large customers'. Here expertise of all product areas is assembled so that offers involving all technical lines of business may be optimised.

In Sweden, AO's revenue from the professional market is generated through AOnet.se and five stores with stocks in Borås, Gothenburg, Malmö, Helsingborg and Kristianstad. In Sweden, 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 DIY MARKET

AO offers a large product range to the DIY market, with primary focus on electrical equipment and components as well as heating, plumbing and sanitary ware products. The main customer groups are retailers, DIY centres and specialised stores.

### 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 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 via AO and the private market via BilligVVS 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.

In the DIY market, it is the Group's vision to be one of the preferred suppliers of electrical equipment as well as heating, plumbing and sanitary ware products.

The key concept is one-stop shopping 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 participates in international collaboration through WIM (Wholesalers of Installation Materials), a network of European wholesalers. The purpose of this collaboration is to exchange experience and purchase goods at competitive prices.

In addition to the most user-friendly IT and logistics solutions on the market, a high service level, innovation, knowledge sharing as well as dedicated and adaptable employees are the basis for AO's ability to remain competitive.

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 PRIVATE MARKET

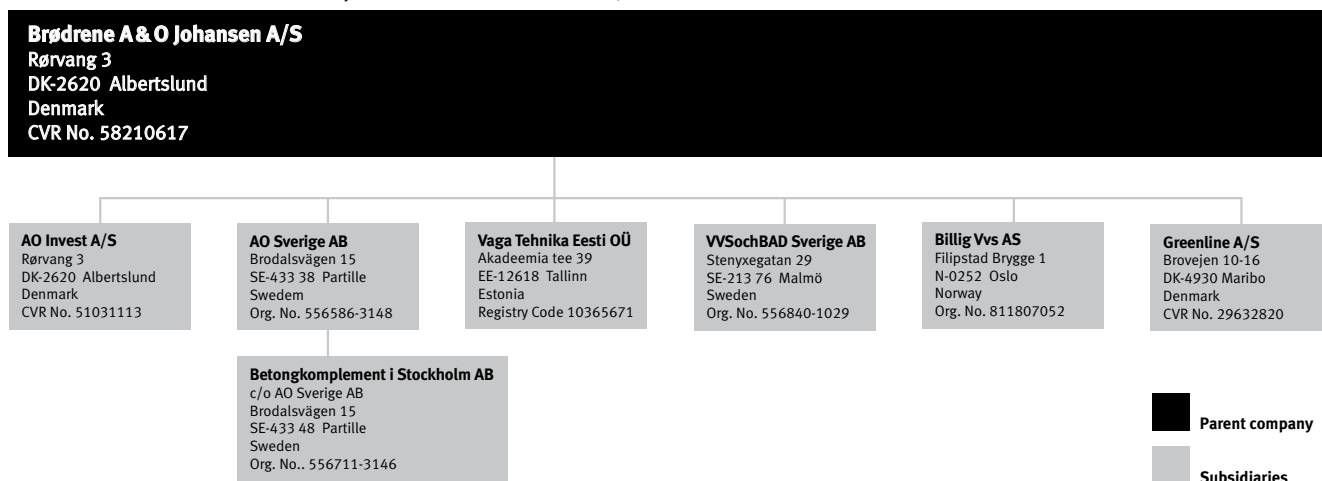
In the private market, it is AO's vision to be the leading online trading platform for the sale of technical installation materials in Denmark, Sweden and Norway.

### 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%.

After the merger of Billig VVS ApS and Lavpris VVS ApS into Brødrene A & O Johansen A/S, the Group's legal structure is as follows:

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



## FINANCIAL REVIEW

### INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

In 2016, AO achieved revenue of DKK 2,823.4 million against DKK 2,631.2 million in 2015, corresponding to a growth of DKK 192.2 million or 7%. The increase is attributable to AO's Danish operations, including the acquisitions of BilligVVS and Greenline. As a result of growth in BilligVVS, international revenue increased by DKK 22.4 million, or 11%, to DKK 234.4 million.

AO realised a gross profit of DKK 796.7 million against DKK 712.3 million in 2015. The increase of DKK 84.4 million, or 12%, is attributable to a growth in revenue and an increase in the gross profit margin by 1.1 percentage points to 28.2%. The increase in the gross profit margin is attributable to realised synergies in connection with the acquisitions of BilligVVS and Greenline.

Total operating expenses amounted to DKK 653.3 million, which is DKK 59.8 million or 10% more than the year before. The increase is attributable to external expenses of DKK 28.9 million, staff costs of DKK 19.4 million, and depreciation, amortisation and write-downs of DKK 10.6 million.

External expenses totalling DKK 242.2 million increased by DKK 28.9 million compared to last year, partly due to operating expenses of DKK 14.0 million related to BilligVVS and Greenline, partly as a result of the increased activity.

Staff costs of DKK 339.5 million are DKK 19.4 million, or 6%, higher than in 2015. DKK 12.7 million of these costs are related to BilligVVS and Greenline. The remaining difference of DKK 6.7 million, or 2%, covers the normal indexation of wages counterbalanced by efficiency gains.

During the year the average number of employees increased by 27 persons to 646. Costs for temporary labour are included in staff costs. During the year AO employed, on average, 39 temporary workers against 48 in 2015.

Depreciation, amortisation and write-downs of DKK 64.2 million are DKK 10.7 million lower than last year due to investments in the central warehouse, an upgrade of the online trading platform and the CRM system.

Other operating expenses (bad debts) of DKK 7.5 million constitute 0.3% of revenue. The loss is DKK 0.8 million higher than last year.

The buyback of own shares worth DKK 400.8 million from Sanistål A/S resulted in an increased draw on the Group's credit facilities during the year, and financial expenses increased by DKK 4.6 million to a total of DKK 8.0 million.

In 2016, the Group recorded a pre-tax profit of DKK 135.4 million against DKK 115.5 million in 2015, corresponding to an improvement of DKK 19.9 million.

In 2016, the Group's foreign operations reported a pre-tax profit of DKK 7.6 million, compared to a loss of DKK 4.2 million last year.

Tax on net profit for the year amounted to DKK 30.0 million against DKK 27.7 million in 2015.

The Group's post-tax profit for the year was DKK 105.4 million, compared to DKK 87.8 million in 2015.

Profit before tax for the year of DKK 135.4 million is satisfactory and higher than the expectations for a pre-tax profit of DKK 120-130 million announced in the annual report for 2015, but in accordance with the latest interim financial report where profit before tax for the year was expected to be in the range of DKK 130-140 million.

### BALANCE SHEET

In 2016, the Company implemented amendments to IAS 27, under which investments in subsidiaries are measured at equity value. Comparative figures for 2015 have been restated, and the opening balance sheet for 2015 is shown under assets and liabilities. In 2016, the changes resulted in an increase in profit for the year of DKK 27.2 million due to income from subsidiaries, and assets and equity increased by DKK 202.5 million. In 2016, the Company merged with the wholly-owned subsidiaries Billig VVS ApS and LavprisVVs ApS. The changes are recognised in the Company's balance sheet for 2016. Comparative figures for 2015 have not been restated.

As at 31 December 2016, Group assets amounted to DKK 1,994.8 million against DKK 1,963.2 million in 2015.

Non-current assets totalled DKK 1,266.9 million, which is DKK 86.9 million more than in 2015. The increase is mainly attributable to the investment in Greenline, whereby goodwill increased by DKK 69.2 million to DKK 371.5 million. In addition, DKK 26 million is invested in buildings for a new mini-load system at the central warehouse, and DKK 5 million is invested in a building site for a new store in Odense. Thus, the item of "Land and buildings" increased by DKK 16.3 million to DKK 620.9 million.

Current assets amounted to DKK 727.9 million against DKK 783.1 million in 2015. The decrease of DKK 55.2 million is mainly attributable to timing differences related to trade receivables, whereby this item decreased by DKK 59.5 million to DKK 306.0 million. Inventories of DKK 388.1 million increased by DKK 13.8 million compared to last year. The Group's cash and cash equivalents decreased by DKK 3.1 million to DKK 7.3 million.

As at 31 December 2016, AO's equity totalled DKK 732.1 million corresponding to a solvency ratio of 36.7%. Equity is DKK 292.5 million lower than at the end of 2015 due to the acquisition of own shares worth DKK 396.6 million net plus profit for the year of DKK 105.4 million.

Non-current liabilities of DKK 339.1 million are DKK 121.6 million higher than in 2015. The increase is attributable to the raising of a mortgage loan, whereby long-term debt owed to credit institutions increased by DKK 118.5 million to DKK 284.3 million. Compared to last year, deferred tax increased by DKK 3.2 million to DKK 54.8 million.

AO's current liabilities of DKK 923.6 million increased by DKK 202.5 million, mainly as a result of the fact that short-term debt owed to credit institutions of DKK 329.5 million increased by DKK 167.9 due to the financing of the acquisition of own shares from Sanistål A/S. Trade payables of DKK 468.2 million increased by DKK 13.9 million, and other payables increased by DKK 22.5 million to DKK 125.6 million. Included in other payables is payment of the remaining balance of DKK 68.6 million in relation to the investment in Greenline. In 2015, other payables included a remaining balance of DKK 40.0 million in relation to the investment in BilligVVS, where final payment was made in 2016.

### CASH FLOW STATEMENT

Cash flow from operating activities was positive at DKK 235.8 million, which is DKK 139.7 million more than last year. The deviation is primarily attributable to increased profit from operating activities and timing differences in relation to trade receivables and the optimisation of working capital.

Net investments, including the acquisitions of BilligVVS and Greenline, totalled DKK 129.7 million, compared to DKK 301.5 million in 2015. During the year DKK 14.1 million was invested in software, including development of the CRM system and an upgrade of the Group's ERP system and e-commerce solutions. Investment in land and buildings of DKK 33.0 million is attributable to the extension of the central warehouse caused by the ongoing investment in a new mini-load system and the acquisition of a new building site for a new store in Odense. Investment of DKK 33.7 million in operating equipment is primarily attributable to the ongoing investment in a new mini-load system.

Cash flow from financing activities includes a new mortgage loan of DKK 131.8 million and a net draw on the Group's credit facilities of DKK 154.6 million. Own shares of DKK 396.5 million net have been acquired.

Total cash flow was negative at DKK 4.0 million, and the Group's cash totalled DKK 7.3 million as at 31 December 2016.

### Events after the balance sheet date

On 4 January 2017, the Extraordinary General Meeting authorised the Board of Directors to let the Company acquire J-F. Lemvig-Müller Holding A/S' holding of preference shares in the Company at a nominal value of DKK 7,135,100 (corresponding to 13.89% of the preference share capital and 12.52% of the Company's total share capital). The total purchase price amounted to DKK 185.5 million, which corresponds to a price

of DKK 2,600 per nominal preference share of DKK 100. The purchase price was paid by the Company in connection with the completion of the transfer on 6 January 2017.

In addition to the above, 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 2016.

## OUTLOOK

Management expects a slight increase in relevant market activities in 2017 compared to 2016.

In 2017, the Group will continue the development of the B2C market and focus on making the cost process more efficient from when the products leave the manufacturer till they reach the end user.

Management expects a profit before tax for 2017 in the range of DKK 140-150 million.

## CORPORATE GOVERNANCE

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

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

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

## RECOMMENDATIONS FOR CORPORATE GOVERNANCE

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.
- 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 2016 financial year, which can be viewed or downloaded from <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2016/statutory-report-on-corporate-governance-2016.pdf>.

## SPECIFIC RISK FACTORS

### **Intangible assets:**

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

### **Land and buildings:**

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

### **Inventories:**

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

### **Other business-critical areas:**

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

## CORPORATE SOCIAL RESPONSIBILITY

AO wants to comply with current legislation and international conventions in the countries and communities in which the Group operates.

AO respects and complies with competition rules, environmental legislation, labour market legislation, agreements and safety requirements, and other regulations that provide the framework for how the Group conducts business in the countries in which it operates.

In addition, AO wants to be a responsible company that supports the ten principles on human rights, labour standards, the environment



**Passion for great craftsmanship, thoughtful service, knowledge about the customer.**



and anti-corruption as expressed in UN's Global Compact.

In AO's work with Corporate Social Responsibility, it has been chosen to focus primarily on the environment, and social conditions and working conditions as the most important areas.

## ENVIRONMENT

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 its purchases, investments and other operations of the business the Group will help to protect the environment, so that the development of society may take place in a sustainable way.

AO focuses on reducing the most significant environmental and climate impacts and has identified

- transport – costs and deliveries to customers through AO stores
- waste – reduction and recycling
- energy consumption – electricity and heat.

as the most significant.

AO's administration and central warehouse in Albertslund are environmentally certified according to DS/EN ISO 14001. The same also applies to the rental and service functions and the storage facilities at Herstedvang 6 in Albertslund, and all AO stores.

## SOCIAL CONDITIONS AND WORKING CONDITIONS

AO wants to be a socially responsible business focusing on competent and respectful management, motivation, development/training, work environment, and to be a workplace with socially responsible practices that benefit society.

The employees are AO's greatest asset and the basis for the Group's success and results. It is therefore important for AO that the employees thrive, continuously develop their personal and professional skills and have the right conditions for doing their jobs, and that there are equal career opportunities for all.

AO has no written comprehensive policy regarding social conditions and working conditions. Management believes that the Group'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, both in the supreme management body and at other management levels. In AO's opinion, it will strengthen the business and its results in the short run as well as the long run. 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/2016/statutory-report-on-gender-composition-2016.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 AO operates.

AO has estimated that the Group only operates in countries where human rights and rules against corruption and bribery are an integral part of the country's local legislation, and where this legislation is both recognised and respected by both businesses and the civilian population.

It has been assessed that AO's current policies and practices related to working conditions are in compliance with locally and internationally recognised human rights. AO recognises, however, that the boundaries of bribery and corruption can be blurred even in a well-regulated country like Denmark. AO has internal rules and procedures to ensure the Group's independence from customers and suppliers.

AO is aware of the fact that the Group's 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.

In order to obtain an overall picture of AO's risk in relation to the procurement of goods, AO performs, on a regular basis, analyses of the Group's purchases by country of origin. They show that only 10% of AO's total purchases has a country of origin outside of Europe.

On these grounds, AO has drawn up a Supplier Code of Conduct, which all suppliers sign when entering into business agreements with AO. 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 2016 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/2016/statutory-report-on-corporate-social-responsibility-2016.pdf>.

report-on-corporate-social-responsibility-2016.pdf.

## SHAREHOLDER INFORMATION

### DIVIDEND

The Board of Directors proposes that a dividend of DKK 60 per DKK 100 share be distributed for 2016.

### 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 57 million. Of this, DKK 5,640,000 are in the form of ordinary shares and DKK 51,360,000 are in the form of preference shares. Each ordinary share of DKK 1,000 carries 100 votes, whereas each preference share of DKK 100 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 DK0010231018.

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 1,000)	Number of preference shares (DKK 100)	Number of shares nominal value	Capital in %	Votes in %
Evoleska Holding AG Diethelmstrasse 12 CH-6363 Fürigen Switzerland	5,622	2,080	5,830,000	10.23%	52.36%
Other registered shares	18	156,312	15,649,200	27.45%	14.68%
Unregistered shares	0	47,234	4,7231,400	8.29%	4.38%
Total, excl. treasury shares	5,640	205,626	26,202,600	45.97%	71.42%
Treasury shares	0	307,974	30,797,400	54.03%	28.58%
Total	5,640	513,600	57,000,000	100.00%	100.00%

SHARES OWNED BY TOP MANAGEMENT IN BRØDRENE A & O JOHANSEN A/S AT THE END OF DECEMBER 2016

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: DK0010231018	Total holding of preference shares <sup>4)</sup>	Share price <sup>1)</sup>
Board of Directors <sup>2) + 4) + 6)</sup>	1,837	6,185,179
Executive Board <sup>2) + 3) + 4) + 5) + 6)</sup>	32,123	108,158,141
Other insiders <sup>2) + 4)</sup>	4,487	15,107,729
Total insiders <sup>2)</sup>	38,447	129,451,049

NOTE:

- 1) The calculated share price of DKK 3,367 is based on the closing price on 31 December 2016.
- 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) All 9,735 share options granted under the share option scheme for the Executive Board have matured. As at 31 December 2016 the Company's holding of treasury shares totalled 236,623 shares.
- 6) Mr Niels A. Johansen's direct and indirect ownership in the Company totals 15.01% of the Company's share capital.

## BOARD MEETINGS HELD IN 2016

DATE	TEXT
22 February 2016	Annual report for 2015.
18 March 2016	Annual General Meeting and constituent Board meeting.
21 March 2016	Completion of acquisition of own shares from Sanistål A/S
25 May 2015	Interim financial report for the first quarter of 2016 and strategy.
26 August 2016	Interim financial report for the first half of 2016.
9 December 2016	Approval of conditional agreement to buy back own shares from J-F. Lemvig-Müller Holding A/S.
9 December 2016	Adoption of a merger plan to merge Billig VVS ApS and LavprisVVS ApS into Brødrene A & O Johansen A/S.
9 December 2016	Interim financial report for the first three quarters of 2016 and budget for 2017.

In addition, four Audit Committee meetings have been held.

## COMPANY ANNOUNCEMENTS IN 2016

DATE	NO.	TEXT
4 February 2016	1	Brødrene A & O Johansen A/S enters into a conditional agreement regarding the acquisition of treasury shares from Sanistål A/S.
22 February 2016	2	Annual report for 2015.
22 February 2016	3	Notice convening the Annual General Meeting.
22 February 2016	4	Revised financial calendar.
18 March 2016	5	Result of Annual General Meeting.
18 March 2016	6	Brødrene A & O Johansen A/S' acquisition of own shares from Sanistål A/S – condition regarding the approval of the General Meeting is fulfilled.
18 March 2016	7	Articles of Association.
21 March 2016	8	Brødrene A & O Johansen A/S' acquisition of own shares from Sanistål A/S is complete.
21 March 2016	9	Major shareholder announcement – Brødrene A & O Johansen A/S' holding of treasury shares.
21 March 2016	10	Major shareholder announcement – Sanistål A/S.
6 June 2016	11	Major shareholder announcement – Niels A. Johansen.
26 August 2016	12	Interim financial report for the first quarter of 2016.
30 August 2016	13	Notification of transactions of persons discharging managerial responsibilities – Niels A. Johansen.
30 August 2016	14	Major shareholder announcement – Niels A. Johansen
20 September 2016	15	Notification of transactions of persons discharging managerial responsibilities – HD Invest, Virum ApS.
12 October 2016	16	Brødrene A & O Johansen A/S acquires online company Greenline A/S.
18 October 2016	17	Major shareholder announcement – Lili and Niels A. Johansen.
9 December 2016	18	Brødrene A & O Johansen A/S enters into a conditional agreement regarding the acquisition of treasury shares from J-F. Lemvig-Müller Holding A/S.
9 December 2016	19	Notice convening an Extraordinary General Meeting.
9 December 2016	20	Financial calendar for 2017.

## FINANCIAL CALENDAR FOR 2017

DATE	TEXT
4 January 2017	Extraordinary General Meeting.
9 February 2017	Deadline for shareholders to propose items for the agenda of the Annual General Meeting.
20 February 2017	Annual report for 2016.
24 March 2017	The Annual General Meeting of Brødrene A & O Johansen A/S will be held at 11 a.m. at the Company's head office.
26 August 2017	Interim financial report for the first half of 2017.



## PROPOSALS FOR THE ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held on Friday, 24 March 2017, 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 105,403 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 declare a dividend of DKK 60 per DKK 100 share, corresponding to 6% per year for the nine (9) years in which no dividend has been declared and 6% for the financial year 2016. Thus dividend is declared to both preference shareholders and ordinary shareholders.

### 2. CHANGING THE DENOMINATION OF THE SHARES

The Board of Directors proposes to reduce the smallest denomination of the Company's preference shares from DKK 100, nominal value, to DKK 10, nominal value, and to reduce the smallest denomination of the Company's ordinary shares from DKK 1,000, nominal value, to DKK 100, nominal value.

As a consequence hereof, it is proposed to amend the Articles of Association as follows:

Article 3, paragraph 3: "The ordinary share capital is divided into shares of DKK 100 each and multiples hereof."

Article 3, paragraph 4: "The preference share capital of DKK 51,360,000 is divided into shares of DKK 10 each and multiples hereof."

Consequently, it is proposed to amend article 8, paragraph 1 of the Articles of Association as set out below, whereby the difference in the shares' voting rights is maintained:

"Any ordinary share in the amount of DKK 100 carries 100 votes and any preference share in the amount of DKK 10 carries 1 vote."

The Board of Directors, in continuation of this proposal, intends to carry through a share split in a ratio of 1:10, so that the preference shareholders for each one (1) preference share of DKK 100, nominal value, receive ten (10) new preference shares of DKK 10, nominal value.

### 3. REDUCTION OF THE PREFERENCE SHARE CAPITAL

The Board of Directors proposes a reduction of the Company's preference share capital of DKK 29,000,000, nominal value, from DKK 51,360,000, nominal value, to DKK 22,360,000, nominal value, by cancelling a part of the Company's own preference shares. The nominal capital reduction of DKK 29,000,000 is divided into 290,000 preference shares of DKK 100 each (after changing the shares' denomination, cf. item 2 above, the capital reduction will be divided into 2,900,000 preference shares of DKK 10 each).

After the capital reduction the Company will have a share capital of DKK 28,000,000, nominal value, which will be divided into an ordinary share capital of DKK 5,640,000, nominal value, and a preference share capital of DKK 22,360,000.

### 4. 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 2018 to let the Company acquire own preference shares equivalent to a total of 10% of the Company's share capital at the time of being granted authorisation, provided that the Company's total holding of own shares at no point exceeds 10% of the Company's share capital. The consideration must not deviate by more than 10% from the official price quoted at Nasdaq Copenhagen at the time of acquisition.

# MANAGEMENT'S STATEMENT

Today the Board of Directors and the Executive Board have discussed and approved the annual report of Brødrene A & O Johansen A/S for 2016.

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 2016 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 2016.

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, 20 February 2017

## EXECUTIVE BOARD



Niels A. Johansen  
CEO



Henrik T. Krabbe  
CFO

## BOARD OF DIRECTORS



Henning Dyremose  
Chairman of the Board



Michael Kjær  
Deputy Chairman



René Alberg\*



Erik Hølm



Leif Hummel\*



Carsten Jensen\*



Niels A. Johansen



Preben Damgaard Nielsen

\* Staff-elected Board member

# INDEPENDENT AUDITOR'S REPORT

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

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 2016, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies, for the Group as well as for 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 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 financial position of the Group and the parent company at 31 December 2016 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 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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" section of our report. 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and 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 the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company 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 accompanying consolidated financial statements and the parent company financial statements.

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

In the financial year 2016, the Group has recognised goodwill and other IP rights acquired in connection with acquisitions totalling DKK 80,612 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 assumptions and estimates among other 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 2017 - 2021 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 13.

## Valuation of inventories

The Group and the Company have recognised inventories totalling DKK 388,118 thousand and DKK 357,726 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 305,962 thousand and DKK 282,347 thousand, respectively in the balance sheet as assets. Trade receivables are measured at amortised cost less write-down 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 17.

## STATEMENT ON THE MANAGEMENT'S REVIEW

Management is responsible for the Management's review.

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

In connection with our audit of the consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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 concluded that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatements of the Management's review.

## MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY 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 disclosure requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the company or to cease operations, or has no realistic alternative but to do so.

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE PARENT COMPANY FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company 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 the 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 these consolidated financial statements and parent company financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements or, if such disclosures are in-adequate, to modify our opinion. Our conclusion is 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and

whether the consolidated financial statements and the parent company 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, January 20, 2017

ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Peter Gath  
State Authorised  
Public Accountant



Kennet Hartmann  
State Authorised  
Public Accountant



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

(All amounts are in DKK thousands)

COMPANY		NOTE:	CONSOLIDATED	
2015	2016		2016	2015
<b>2,407,753</b>	<b>2,628,158</b>		<b>2,823,385</b>	<b>2,631,206</b>
(1,754,029)	(1,892,100)	4	(2,029,829)	(1,919,729)
653,724	736,057		793,556	711,478
0	0	5	3,120	864
<b>653,724</b>	<b>736,057</b>		<b>796,677</b>	<b>712,342</b>
(223,528)	(252,732)	6	(242,186)	(213,265)
(292,629)	(316,005)	7	(339,535)	(320,110)
(39,903)	(53,960)	8	(64,168)	(53,530)
(6,132)	(6,562)	9	(7,451)	(6,636)
(562,192)	(629,259)		(653,340)	(593,540)
<b>91,532</b>	<b>106,798</b>		<b>143,336</b>	<b>118,802</b>
18,315	27,158		0	0
4,060	2,654	10	2,274	2,293
(4,331)	(8,452)	11	(10,242)	(5,618)
<b>109,576</b>	<b>128,157</b>		<b>135,368</b>	<b>115,477</b>
(21,805)	(22,755)	12	(29,965)	(27,707)
<b>87,770</b>	<b>105,403</b>		<b>105,403</b>	<b>87,770</b>
<b>Other comprehensive income</b>				
<b>Items reclassified to the income statement</b>				
1,087	(1,318)		(1,318)	1,087
0	0		0	0
1,087	(1,318)		(1,318)	1,087
<b>88,857</b>	<b>104,085</b>		<b>104,085</b>	<b>88,857</b>
<b>Proposal for the distribution of net profit</b>				
0	34,200			
87,770	71,203			
87,770	105,403			
<b>18 Earnings per share</b>				
			321	178
			311	175

The client's needs and the world around us changes from day to day, and we keep up.



**STRAKSLEVERING**  
- fra din lokale grossist





# BALANCE SHEET AS AT 31 DECEMBER

## ASSETS

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED		
1 January 2015	2015	2016	NOTE:	2016	2015
<b>Non-current assets</b>					
<b>13 Intangible assets</b>					
58,439	58,439	258,269		371,526	302,324
0	0	49,462		55,549	52,123
51,798	45,981	44,805		46,727	52,818
<u>110,237</u>	<u>104,420</u>	<u>352,536</u>		<u>473,802</u>	<u>407,264</u>
<b>13 Property, plant and equipment</b>					
168,433	165,295	161,320		620,905	604,559
1,049	1,070	716		804	1,088
156,904	163,784	168,194		171,423	167,107
<u>326,386</u>	<u>330,148</u>	<u>330,229</u>		<u>793,133</u>	<u>772,754</u>
<b>Other non-current assets</b>					
297,272	573,592	416,781	14	0	0
<u>297,272</u>	<u>573,592</u>	<u>416,781</u>		<u>0</u>	<u>0</u>
<b>733,895</b>	<b>1,008,160</b>	<b>1,099,546</b>		<b>1,266,935</b>	<b>1,180,018</b>
<b>Current assets</b>					
276,204	344,913	357,726	16	388,118	374,306
263,035	344,841	282,347	17	305,962	365,495
110,558	95,070	0		0	0
4,151	(1,788)	(2,415)	19	885	1,929
35,335	37,293	39,355		24,989	23,668
3,898	6,356	22		623	7,373
67,586	162	5,203		7,303	10,368
<u>760,767</u>	<u>826,847</u>	<u>682,237</u>		<u>727,880</u>	<u>783,138</u>
<b>1,494,662</b>	<b>1,835,007</b>	<b>1,781,783</b>		<b>1,994,815</b>	<b>1,963,157</b>



# BALANCE SHEET AS AT 31 DECEMBER

## EQUITY AND LIABILITIES

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED		
1. januar 2015	2015	2016	NOTE:	2016	2015
			<b>20 Equity</b>		
57,000	57,000	57,000	Share capital	57,000	57,000
200,000	200,000	0	Other reserves	0	200,000
164,698	184,100	202,542	Reserve according to the equity method	0	0
0	0	10,623	Reserve for development costs	0	0
			Reserve for foreign currency translation adjustments	1,461	2,778
0	0	0			
514,002	583,457	461,906	Retained earnings	673,611	764,780
<b>935,700</b>	<b>1,024,557</b>	<b>732,071</b>	<b>Total equity</b>	<b>732,071</b>	<b>1,024,557</b>
			<b>Non-current liabilities</b>		
14,597	17,228	29,445	21 Deferred tax	54,810	51,631
110,623	108,945	119,438	22 Credit institutions	284,328	165,831
<b>125,220</b>	<b>126,173</b>	<b>148,882</b>	<b>Total non-current liabilities</b>	<b>339,138</b>	<b>217,462</b>
			<b>Current liabilities</b>		
17,727	161,646	319,895	22 Credit institutions	329,501	161,619
337,047	431,161	449,235	Trade payables	468,204	454,316
0	0	12,255	Amounts owed to subsidiaries	0	0
78,968	91,470	119,444	Other payables	125,585	103,149
0	0	0	Accruals and deferred income	316	2,053
<b>433,742</b>	<b>684,277</b>	<b>900,830</b>	<b>Total current liabilities</b>	<b>923,606</b>	<b>721,138</b>
<b>558,962</b>	<b>810,450</b>	<b>1,049,712</b>	<b>Total liabilities</b>	<b>1,262,744</b>	<b>938,600</b>
<b>1,494,662</b>	<b>1,835,007</b>	<b>1,781,783</b>	<b>Total equity and liabilities</b>	<b>1,994,815</b>	<b>1,963,157</b>
			3 Segment information		
			23 Contingent liabilities, security, etc.		
			24-28 Notes without reference		

# STATEMENT OF CHANGES IN EQUITY

(All amounts are in DKK thousands)

	Share capital	Other reserves	Equity method	Reserve for development costs	Foreign currency translation adjustment	Retained earnings	Total equity
<b>CONSOLIDATED</b>							
<b>Equity at 1 January 2016</b>	<b>57,000</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>2,778</b>	<b>764,780</b>	<b>1,024,557</b>
Net profit for the year	0	0	0	0	0	105,403	105,403
Foreign currency translation adjustment relating to foreign entities	0	0	0	0	(1,318)	0	(1,318)
Total comprehensive income	0	0	0	0	(1,318)	105,403	104,085
Transfer of reserves	0	(200,000)	0	0	0	200,000	0
Transferred to reserve for development costs	0	0	0	0	0	0	0
Acquisition/disposal of treasury shares	0	0	0	0	0	(396,572)	(396,572)
Owner/internal transactions	0	(200,000)	0	0	0	(196,572)	(396,572)
<b>Equity at 31 December 2016</b>	<b>57,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,461</b>	<b>673,611</b>	<b>732,071</b>
<b>Equity at 1 January 2015</b>	<b>57,000</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>1,610</b>	<b>677,090</b>	<b>935,700</b>
Net profit for the year	0	0	0	0	0	87,770	87,770
Foreign currency translation adjustment relating to foreign entities	0	0	0	0	1,168	(81)	1,087
Total comprehensive income	0	0	0	0	1,168	87,689	88,857
<b>Equity at 31 December 2015</b>	<b>57,000</b>	<b>200,000</b>	<b>0</b>	<b>0</b>	<b>2,778</b>	<b>764,780</b>	<b>1,024,557</b>
<b>COMPANY</b>							
<b>Equity at 1 January 2016</b>	<b>57,000</b>	<b>200,000</b>	<b>184,100</b>	<b>0</b>	<b>0</b>	<b>583,457</b>	<b>1,024,557</b>
Net profit for the year	0	0	27,158	0	0	78,245	105,403
Foreign currency translation adjustment relating to foreign entities	0	0	(1,318)	0	0	0	(1,318)
Total comprehensive income	0	0	25,840	0	0	78,245	104,085
Transfer of reserves	0	(200,000)	0	0	0	200,000	0
Transferred to reserve for development costs	0	0	0	10,623	0	(10,623)	0
Disposals relating to merger	0	0	(7,398)	0	0	7,398	0
Acquisition/disposal of treasury shares	0	0	0	0	0	(396,572)	(396,572)
Owner/internal transactions	0	(200,000)	(7,398)	10,623	0	(199,797)	(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>0</b>	<b>461,905</b>	<b>732,071</b>
<b>Equity at 1 January 2015</b>	<b>57,000</b>	<b>200,000</b>	<b>164,698</b>	<b>0</b>	<b>0</b>	<b>514,002</b>	<b>935,700</b>
Net profit for the year	0	0	18,315	0	0	69,455	87,770
Foreign currency translation adjustment relating to foreign entities	0	0	1,087	0	0	0	1,087
Total comprehensive income	0	0	19,402	0	0	69,455	88,857
<b>Equity at 31 December 2015</b>	<b>57,000</b>	<b>200,000</b>	<b>184,100</b>	<b>0</b>	<b>0</b>	<b>583,457</b>	<b>1,024,557</b>

# CASH FLOW STATEMENT

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2015	2016	NOTE:	2016	2015
<b>Cash flow from operating activities</b>				
91,532	106,798		143,336	118,802
(271)	(5,798)		(7,968)	(3,324)
91,261	101,000		135,368	115,477
39,903	53,960	8 Depreciation, amortisation and write-downs:	64,168	53,530
Change in working capital:				
(81,806)	64,694	Change in trade receivables	60,328	(77,985)
(4,417)	5,068	Change in other receivables	7,748	441
(68,708)	(12,408)	Change in inventories	(2,712)	(61,690)
94,114	5,685	Change in trade payables	8,247	88,579
(3,748)	(6,253)	Change in other current liabilities	(9,992)	(2,446)
(64,566)	56,787		63,619	(53,101)
(13,235)	(20,583)	Corporation tax paid	(27,329)	(19,823)
<b>53,363</b>	<b>191,163</b>	<b>Cash flow from operating activities</b>	<b>235,826</b>	<b>96,083</b>
<b>Cash flow from investing activities</b>				
(10,092)	(14,109)	Software	(14,111)	(11,944)
(179)	0	Land and buildings	(32,973)	(42,218)
(500)	(171)	Leasehold improvements	(186)	(500)
(51,178)	(32,280)	Fixtures and operating equipment	(33,729)	(52,607)
349	1,189	Disposal of property, plant and equipment	5,197	4,968
(216,917)	(40,000)	15 Acquisition of Billig VVS ApS	(40,000)	(199,187)
0	(12,000)	15 Acquisition of Greenline A/S	(13,870)	0
<b>(278,517)</b>	<b>(97,371)</b>	<b>Cash flow from investing activities</b>	<b>(129,672)</b>	<b>(301,488)</b>
<b>Cash flow from financing activities</b>				
142,241	165,034	Net repayment of debt to/raising of loans with credit institutions	286,380	142,267
15,488	142,787	Change in receivables from subsidiaries	0	0
0	(396,572)	Acquisition/disposal of treasury shares	(396,572)	0
<b>157,729</b>	<b>(88,751)</b>	<b>Cash flow from financing activities</b>	<b>(110,192)</b>	<b>142,267</b>
<b>(67,425)</b>	<b>5,041</b>	<b>Net change in cash and cash equivalents</b>	<b>(4,038)</b>	<b>(63,138)</b>
67,586	162	Cash and cash equivalents at beginning of year	10,368	72,690
0	0	Foreign currency translation adjustment	974	816
<b>161</b>	<b>5,203</b>	<b>Cash and cash equivalents at end of year</b>	<b>7,303</b>	<b>10,368</b>

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# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 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 2016 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 in 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 2016 on 20 February 2017. 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 24 March 2017.

### 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.

Securities in the form of short-term assets have been recognised at fair value with value adjustment in the statement of comprehensive income.

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 POLICES

With effect from 1 January 2016, Brødrene A & O Johansen A/S has implemented:

- IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- IFRS 11 Accounting for Acquisitions of Interest in Joint Operations – Amendments to IFRS 11
- IAS 1 Disclosure Initiative – Amendments to IAS 1.
- IAS 27 Equity Methods in Separate Financial Statements – Amendments to IAS 27
- Annual Improvements to IFRSs 2012-14 Cycle.

Annual Improvements to IFRSs 2012-14 Cycle involve amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments must be considered very specific amendments with a narrow scope.

The implementation of IAS 27, under which investments in subsidiaries are measured at equity value, has resulted in a net profit increase for the year of DKK 27,158 thousand due to income from subsidiaries and an increase in assets and equity by DKK 202,542 thousand at 31 December 2016.

None of the other changed accounting standards and interpretations have had any effect on recognition and measurement in 2016, and earnings per share and diluted earnings per share have not been affected either.

### 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 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.



# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## NOTE:

1

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 forms 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 is recognised at fair value at the acquisition date.

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. Subsequently, goodwill is only adjusted as a result of changes in estimates of contingent considerations, except in cases of material error.

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.

### 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.

#### External expenses

External expenses comprise expenses for distribution, administration, advertising, exhibitions, etc., including expenses for the operation of real property.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## NOTE:

1

### **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 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.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## NOTE:

- 1 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.

### **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.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## NOTE:

### 1 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.

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.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## NOTE:

### 1 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 2015" ("Anbefalinger og Nøgletal 2015").

Negative results and deductible items are given in brackets.



**It must be fast, efficient,  
without mistakes, with-  
out problems.**



# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## 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 24.

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 will be rented out partially and on satisfactory terms that will not give rise to impairment.

#### **Impairment test for goodwill**

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.

Regarding goodwill allocated to AO Sverige AB, it is a precondition that there is growth in both revenue and results in the prognosis period.

The impairment test and associated sensitive conditions are described in detail in note 13.

#### **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 24.

#### **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.

# NOTES

(All amounts are in DKK thousands)

COMPANY		CONSOLIDATED	
2015	2016 NOTE:	2016	2015

### 3 Segment information

Group activities relating to the sale of technical installation materials take place in an integrated manner and are regarded as one operating segment.

#### Geographical information

The Group operates primarily in Denmark and less than 10% of its revenue relates to foreign countries, and the same applied in 2015.

#### Important customers

The Group has not traded with any individual customer representing more than 10% of the Group's total revenue for 2016, and the same applied in 2015.

1,822,981	1,908,811
276,204	344,913
1,735	513
(1,979)	(4,410)
(344,913)	(357,726)
(68,952)	(16,711)
<b>1,754,029</b>	<b>1,892,100</b>

(907)	25
4,493	1,814

### 4 Cost of sales

Cost of goods purchased during the year

Change in inventories:

Inventory at beginning of the year

Change in cost during the year

Inventory writedown, net

Inventory at end of the year

Change in inventory for the year

**Cost of sales for the year**

Cost of sales includes:

Realised foreign exchange gains, total

Unrealised foreign exchange gains, total

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

### 5 Other operating income

The item includes property rental income.

2,037,194	1,988,260
374,306	307,336
3,553	(275)
2,894	(1,286)
(388,118)	(374,306)
(7,365)	(68,531)
<b>2,029,829</b>	<b>1,919,729</b>

(70)	(963)
1,132	4,560

# NOTES

(All amounts are in DKK thousands)

COMPANY		CONSOLIDATED	
2015	2016	NOTE:	2015
<b>6 External expenses</b>			
Remuneration for the auditor elected by the annual general meeting:			
Total remuneration may be specified as follows:			
585	615	Statutory audit	956 814
50	250	Tax and VAT related advisory services	250 60
0	319	Other declarations relating to security	319 0
341	408	Other services	497 350
<b>976</b>	<b>1,592</b>		<b>2,022 1,224</b>

External expenses of the Company include rent paid to subsidiaries totalling DKK 36,786,000 (2015: DKK 35,362,000).

<b>7 Staff costs</b>			
269,025	289,517	Wages and salaries	307,996 289,969
18,902	20,994	Pension contributions	22,309 20,689
3,306	3,664	Other social security costs	7,699 7,971
1,396	1,408	Other staff expenses	1,531 1,480
<b>292,629</b>	<b>315,582</b>		<b>339,535 320,110</b>

Wages and salaries include remuneration for:

1,475	2,099	Board of Directors	3,075 2,028
12,890	14,010	Executive Board	14,010 12,890
543	601	Average number of full-time employees	646 619

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 2010 (3,500 exercised)	3,500	512	496	491	2011-2020
Granted in 2011 (3,500 exercised)	5,161	831	511	515	2012-2021
Granted in 2012	8,074	2,672	878	878	2013-2022
Exercised/reversed during the year	(7,000)	(1,064)			
Total number of share options outstanding	9,735	2,951			

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)

COMPANY			CONSOLIDATED	
2015	2016 NOTE:		2016	2015
		<b>8 Depreciation, amortisation and impairment</b>		
15,910	22,530	Intangible assets	23,727	18,269
24,345	31,187	Property, plant and equipment	42,569	35,915
(352)	243	Gains from the disposal of assets	(2,127)	(655)
<b>39,903</b>	<b>53,960</b>		<b>64,168</b>	<b>53,530</b>
		<b>9 Other operating expenses</b>		
		This item includes realised losses on receivables and provisions for bad debts.		
		<b>10 Financial income</b>		
2,226	2,441	Interest income from current assets	2,483	2,286
46	1	Other interest income	(208)	7
1,788	211	Interest income from subsidiaries	0	(0)
<b>4,060</b>	<b>2,653</b>		<b>2,274</b>	<b>2,293</b>
		<b>11 Financial expenses</b>		
4,317	8,303	Interest expenses on liabilities	10,010	5,547
14	149	Other interest expenses	232	70
<b>4,331</b>	<b>8,452</b>		<b>10,242</b>	<b>5,618</b>
		<b>12 Tax on profit or loss for the year</b>		
(19,126)	(22,998)	Current tax for the year	(28,527)	(25,795)
(48)	0	Adjustments related to previous years	0	(48)
<b>(19,174)</b>	<b>(22,998)</b>		<b>(28,527)</b>	<b>(25,843)</b>
(2,631)	244	Adjustment of deferred tax for the year	(1,479)	(1,864)
0	0	Adjustment of deferred tax for previous years	40	0
<b>(21,805)</b>	<b>(22,755)</b>	Total	<b>(29,965)</b>	<b>(27,707)</b>
		Tax on profit/loss for the year can be explained as follows:		
		Calculated tax on profit/loss before tax, not incl. subsidiaries' profits		
(21,446)	(22,220)		(29,102)	(27,062)
		Tax effect of:		
11	0	Non-taxable income	73	32
(501)	(535)	Other non-deductible costs	(1,007)	(808)
179	0	Reduction of tax rate from 23.5% to 22%	0	179
(48)	0	Adjustment of tax for previous years	71	(48)
<b>(21,805)</b>	<b>(22,755)</b>		<b>(29,965)</b>	<b>(27,707)</b>
23.9%	22.5%	Effective tax rate, not incl. subsidiaries' profits	22.1%	24.0%
(13,235)	(20,583)	Taxes paid during the financial year	(27,329)	(19,823)



# NOTES

(All amounts are in DKK thousands)

<b>13 Non-current assets: (Consolidated)</b>	<b>Goodwill</b>	<b>Intellectual property rights</b>	<b>Software</b>	<b>Land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Fixtures and operating equipment</b>
2016						
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	<b>371,526</b>	<b>59,397</b>	<b>185,510</b>	<b>763,065</b>	<b>10,319</b>	<b>345,656</b>
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>
2015						
Cost at 1 January	102,348	0	153,842	700,271	16,732	285,802
Foreign currency translation adjustment	0	0	(43)	666	0	111
Reclassification	0	0	0	0	(1,575)	1,575
Additions during the year	199,976	53,232	16,944	42,218	500	28,857
Disposals during the year	0	0	0	(9,476)	(428)	(2,126)
Cost at 31 December	<b>302,324</b>	<b>53,232</b>	<b>170,743</b>	<b>733,679</b>	<b>15,229</b>	<b>314,219</b>
Amortisation and depreciation at 1 January	0		(100,814)	(119,789)	(14,090)	(127,636)
Foreign currency translation adjustment	0	0	51	175	1	(129)
Amortisation and depreciation for the year	0	(1,109)	(17,162)	(14,114)	(480)	(21,366)
Disposals during the year	0	0	0	4,608	428	2,019
Amortisation and depreciation at 31 December	0	(1,109)	(117,925)	(129,120)	(14,141)	(147,112)
<b>Carrying amount at 31 December</b>	<b>302,324</b>	<b>52,123</b>	<b>52,818</b>	<b>604,559</b>	<b>1,088</b>	<b>167,107</b>
<b>Carrying amount of assets held under finance leases</b>				<b>99,598</b>		<b>176</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 BilligVVS' and Greenlins A/S' trademarks, 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.

Some would call  
us frontrunners,  
innovators.

AO

BilligVVS<sup>db</sup>

GREEN-LINE

Skærbrøker til private og erhverv

## NOTES

(All amounts are in DKK thousands)

13 Non-current assets: (Company)	Goodwill	Intellectual property rights	Software	Land and buildings	Leasehold improve- ments	Fixtures and operating equipment
2016						
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>
2015						
Cost at 1 January	58,439		151,176	186,856	14,922	272,427
Additions during the year	0		10,092	179	500	27,428
Disposals during the year	0		0	0	(428)	(1,793)
Cost at 31 December	58,439	0	161,268	187,035	14,994	298,062
Amortisation and depreciation at 1 January	0		(99,377)	(18,423)	(13,872)	(115,523)
Amortisation and depreciation for the year	0		(15,910)	(3,317)	(480)	(20,548)
Disposals during the year	0		0	0	428	1,793
Amortisation and depreciation at 31 December	0	0	(115,287)	(21,740)	(13,924)	(134,278)
<b>Carrying amount at 31 December</b>	<b>58,439</b>	<b>0</b>	<b>45,981</b>	<b>165,295</b>	<b>1,070</b>	<b>163,784</b>
<b>Carrying amount of assets held under finance leases</b>				<b>99,598</b>		<b>176</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 BilligVVS' trademarks, 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)

## 13 Non-current assets (continued)

### Goodwill

At 31 December 2016, 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:

	<u>Goodwill</u>	<u>Pre-tax WACC</u>	<u>Terminal Growth Rate</u>
AO Denmark	118,957	10 %	1,5 %
BilligVVS	144,226	10 %	1,5 %
Greenline	61,327	10 %	1,5 %
AO Sweden	47,016	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 2017 and forecasts for 2018-2021 approved by Management, an unchanged discount rate and a terminal growth rate as in 2015. 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 2016, and that the recoverable amount will be considerably higher than the carrying amount.

Following a turnaround in 2016, AO Sweden expects an average annual growth of approximately 5% towards 2021. It is approximately 2% higher than the expected market development. The effect of the restructuring in the company is expected to continue, and therefore the recoverable amount is higher than the carrying amount.

Towards 2021, Greenline expects an average annual growth of 9%, which is lower than the expected growth in online sales in general. The Group's other online operations are expected to realise results close to budget, 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.

## 14 Investments in subsidiaries (Company)

	<u>2016</u>	<u>2015</u>
Cost at 1 January	389,492	132,575
Additions during the year	80,612	256,917
Disposals relating to merger during the year	(255,865)	0
Cost at 31 December	<u>214,239</u>	<u>389,492</u>
Value adjustment at 1 January	184,100	0
Change in accounting policies for the purpose of applying the equity method	0	164,698
Correction of value adjustment at 1 January	184,100	164,698
Disposals relating to merger	(7,398)	0
Currency translation adjustments	(1,318)	1,087
Subsidiaries' results	27,158	18,315
Value adjustment at 31 December	<u>202,542</u>	<u>184,100</u>
<b>Carrying amount at 31 December</b>	<b><u>416,781</u></b>	<b><u>573,592</u></b>

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 14 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%	Betongkomplement i Stockholm AB	Sweden
100%	100%	VVSochBAD Sverige AB	Sweden
100%	100%	Billig VVS AS	Norway
100%	100%	Greenline A/S	Denmark

### 15 Acquisition of subsidiaries and activities

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. Revenue for the year 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.

Billig VVS ApS' revenue of DKK 91,492,000 and profit before tax of DKK 10,322,000 are recognised in the annual report for 2015. Revenue for the year is DKK 218,791,000, and profit before tax is DKK 21,827,000. Costs of purchase totalling DKK 1,954,000 are expensed in 2015.

The deferred purchase price is expected, subject to the terms of the agreement, to fall due for payment in 2017 and 2020.

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

	Greenline A/S 2016	Billig VVS ApS 2015
Intangible assets	7,165	58,232
Property, plant and equipment	1,068	3,303
Inventories	11,100	5,280
Trade receivables	795	9,810
Other receivables	2,319	2,750
Net cash	150	17,730
Deferred tax liabilities	(1,593)	(12,811)
Trade payables	(7,660)	(21,744)
Other payables	(2,079)	(2,429)
Acquired net assets	11,265	60,121
Goodwill	69,347	196,796
Purchase consideration	80,612	256,917
Deferred contingent purchase consideration	68,612	40,000
Cash purchase consideration, including net cash	12,000	216,917



# NOTES

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2015	2016 NOTE:		2016	2015
		<b>16 Inventories</b>		
		Carrying amount of inventories recognised at net selling price		
0	0		0	0
		<b>17 Trade receivables</b>		
		At 31 December 2016 the Group's trade receivables include receivables totalling DKK 25,347,000 (2015: DKK 21,999,000), which have been written down to DKK 295,000 (2015: DKK 1,486,000) based on individual assessments. The write-downs are attributable to the bankruptcy of customers or their inability to pay and include added interest.		
		Write-downs included in the above receivables have developed as follows:		
26,180	19,732	Write-downs at 1 January	20,513	27,644
(6,447)	3,771	Change during the year	4,539	(7,130)
19,732	23,503	Write-downs at 31 December	25,052	20,513
		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 24 for information about credit rating procedures, etc.		
		In addition, trade receivables, past due at 31 December but not written down, are recognised as follows:		
8,600	10,331	Up to 30 days	15,243	11,487
1,321	326	Between 30 and 60 days	1,872	1,223
1,714	124	Over 60 days	297	1,641
11,635	10,781		17,412	14,351

# NOTES

(All amounts are in DKK thousands)

COMPANY		CONSOLIDATED	
2015	2016 NOTE:	2016	2015
<b>18 Earnings per share</b>			
		105,403	87,770
		514,005	514,005
		(185,288)	(21,118)
		328,717	492,887
		9,798	9,613
		338,515	502,500
		321	178
		311	175
<b>19 Corporation tax receivable/payable</b>			
24,008	20,583	29,412	27,725
(25,796)	(22,998)	(28,527)	(25,796)
0	0	0	0
(1,788)	(2,415)	885	1,929

## 20 Equity

### Capital management

The Group regularly assesses the need for adapting the capital structure with a view to balancing a higher required rate of return on equity with the increased uncertainty associated with loan capital. At the end of 2016, the equity share of total equity and liabilities amounted to 36,7% (2015: 52,2%). The target is to obtain an equity interest of approximately 40%. Capital is managed for the Group as a whole.

The share capital consists of the following classes:

#### Ordinary share capital:

44 shares of	DKK 1,000 each	44,000
234 shares of	DKK 4,000 each	936,000
18 shares of	DKK 5,000 each	90,000
22 shares of	DKK 10,000 each	220,000
87 shares of	DKK 50,000 each	4,350,000
		<u>5,640,000</u>

#### Preference share capital:

513,600 shares of	DKK 100 each	<u>51,360,000</u>
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Total share capital 57,000,000



**Our core values never change.  
They've actually not changed  
in 100 years.**

# NOTES

(All amounts are in DKK thousand)

## 20 Equity (continued)

Of the Company's share capital of DKK 57,000,000 DKK 5,640,000 is in the form of ordinary shares and DKK 51,360,000 is in the form of preference shares. Each ordinary share of DKK 1,000 carries 100 votes whereas each preference share of DKK 100 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 entitles to appoint and elect one member of the Board of Directors, while holders of ordinary shares elect the remaining Board members.

	Number of shares		Nominal value (DKK thousands)		% of share capital	
	2016	2015	2016	2015	2016	2015
Treasury shares						
1 January	21,118	21,118	2,112	2,112	3.7%	3.7%
Acquisition	222,505	0	22,251	0	39.0%	0.0%
Sale	(7,000)	0	(700)	0	(1.2%)	0.0%
<b>Holding at 31 December</b>	<b>236,623</b>	<b>21,118</b>	<b>23,662</b>	<b>2,112</b>	<b>41.5%</b>	<b>3.7%</b>

All treasury shares are owned by Brødrene A & O Johansen A/S.

According to the auhtorisaton of the Annual General Meeting, Brødrene A & O Johansen A/S is allowed to acquire treasury shares up to a total holding of 10% of the share capital. In addition, special authorisation has been granted to acquire treasury shares from Sanistål A/S corresponding to 39.12% 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 2016 amounts to DKK 34,200,000.

## 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 investments in such entities.

## Other reserves

Other reserves are distributable reserves that can be used for payment of dividend.

In 2016, other reserves are transferred to retained earnings. 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.

# NOTES

(All amounts are in DKK thousands)

COMPANY			CONSOLIDATED	
2015	2016 NOTE:		2016	2015
		<b>21 Deferred tax</b>		
14,597	17,228	Deferred tax at 1 January	51,631	37,023
0	0	Foreign currency translation adjustment	147	37
2,631	(244)	Change in deferred tax for the year	1,479	1,864
0	12,461	Additions relating to merger	0	0
0	0	Deferred tax relating to the acquisition of Billig VVS ApS	0	12,811
0	0	Deferred tax relating to the acquisition of Greenline A/S	1,593	0
0	0	Change in deferred tax relating to previous years	(40)	(104)
<b>17,228</b>	<b>29,445</b>	<b>Deferred tax at 31 December</b>	<b>54,810</b>	<b>51,631</b>
		Deferred tax relates to:		
0	11,758	Intangible assets	13,306	13,151
43,615	42,824	Property, plant and equipment	68,925	67,101
(1,999)	(1,129)	Receivables	(1,129)	(1,999)
(24,388)	(24,008)	Liabilities	(24,018)	(24,387)
0	0	Tax losses and interest deduction limitations	(2,274)	(2,235)
<b>17,228</b>	<b>29,445</b>	<b>Deferred tax at the end of the year</b>	<b>54,810</b>	<b>51,631</b>
		<b>22 Credit institutions</b>		
		Payables to credit institutions are recognised in the balance sheet as:		
108,945	119,438	Non-current liabilities	284,328	165,831
161,646	319,895	Current liabilities	329,501	161,619
<b>270,591</b>	<b>439,333</b>		<b>613,829</b>	<b>327,450</b>
0	12,962	Mortgage loans - floating interest rate - 5 years	183,595	56,859
159,921	317,459	Bank loans - floating short-term interest rate	321,322	159,921
110,670	108,912	Lease commitments - floating interest rate	108,912	110,670
<b>270,591</b>	<b>439,333</b>		<b>613,829</b>	<b>327,450</b>
		<i>Finance lease</i>		
		Liabilities relating to assets held under a finance lease are therefore included in payables to credit institutions:		
1,725	1,784	Less than 1 year	1,784	1,725
108,945	107,128	1 to 5 years. Including repayment	107,128	108,945
0	0	More than 5 years	0	0
<b>110,670</b>	<b>108,912</b>	<b>Total carrying amount</b>	<b>108,912</b>	<b>110,670</b>





**Always with the customer at the center, and the employees as the central foundation. All important. Irreplaceable, actually.**



# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 22 Credit institutions (continued)

According to the lease there is no contingent rent. The contractual cash flows appear from note 24.

The lease is described in detail in note 13. The carrying amount of assets held under a finance lease appears from note 13.

### 23 Contingent liabilities, security, etc.

Land and buildings with a total carrying amount of DKK 463,947,000 (2015: DKK 302,430,000) 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 124,132,000 (2015: DKK 106,902,000) 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 2,415,000 at 31 December 2016 (2015: DKK 1,788,000) 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 26.

### 24 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:

### 24 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 foreign entities, the Group's equity at 31 December 2016 would be reduced by DKK 4,600,000 (2015: DKK 6,500,000), 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 2016, and the consolidated results would therefore not be affected to any major extent by changes in exchange rates at 31 December 2016.

The Group has the following currency exposure at 31 December:

CONSOLIDATED	2016			2015		
	EUR	OTHER* CURRENCIES	TOTAL	EUR	OTHER* CURRENCIES	TOTAL
Trade payables	28,662	14,330	42,992	36,590	13,728	50,318
Payables to credit institution	55,943	21,048	76,991	52,400	1,705	54,105
<b>Net exposure</b>	<b>84,605</b>	<b>35,378</b>	<b>119,983</b>	<b>88,990</b>	<b>15,433</b>	<b>104,423</b>
Risk in exchange rate fluctuation	1%	10%		1%	10%	
<b>Estimated effect on income statement and equity</b>	<b>846</b>	<b>3,538</b>	<b>4,384</b>	<b>890</b>	<b>1,543</b>	<b>2,433</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

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 24 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 2016, the Group's interest-bearing debt, determined as payables to credit institutions less negotiable securities and cash increased to DKK 606,500,000 from DKK 317,100,000 in 2015. 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 6,100,000 (2015: approximately DKK 3,200,000).

#### 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	Carrying amount	Contractual cash flows	2016		
			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
<b>31 December</b>	<b>613,829</b>	<b>638,577</b>	<b>334,760</b>	<b>157,731</b>	<b>146,086</b>

CONSOLIDATED	Carrying amount	Contractual cash flows	2015		
			Less than 1 year	1 to 5 years	More than 5 years
Mortgage loans	56,859	67,910	1,054	8,081	58,775
Bank loans	159,921	159,921	159,921	0	0
Lease commitments	110,670	119,722	4,713	115,009	0
<b>31 December</b>	<b>327,450</b>	<b>347,553</b>	<b>165,688</b>	<b>123,090</b>	<b>58,775</b>



**Thousands of years of knowledge,  
on one wall. Employees, colleagues,  
friends, fathers, mothers and  
families.**





# NOTES

(All amounts are in DKK thousands)

## NOTE:

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

The Company's payables fall due as follows:

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
<b>31 December</b>	<b>439,333</b>	<b>446,625</b>	<b>322,905</b>	<b>120,642</b>	<b>3,078</b>

COMPANY	2015				
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 5 years	More than 5 years
Bank loans	159,921	159,921	159,921	0	0
Lease commitments	110,670	119,722	4,713	115,009	0
<b>31 December</b>	<b>270,591</b>	<b>279,643</b>	<b>164,634</b>	<b>115,009</b>	<b>0</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:

### 24 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 2016 amounts to DKK 613,800,000 (2015: DKK 327,400,000).

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.

An aerial photograph of a large, modern, dark-colored building with a flat roof. The building is illuminated from within, and the letters "AO" are prominently displayed in a bright red color on its side. The building is situated in an industrial or commercial area, with other buildings and parking lots visible in the background. The sky is a mix of orange, red, and purple, indicating a sunset or sunrise. The overall scene is dark, with the building's lights providing the primary source of illumination.

AO

**We are AO, and no matter  
where you are in the country,  
we are here – for you.**



# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 25 Operating leases

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

	Consolidated		Company	
	2016	2015	2016	2015
0-1 year	21,544	20,329	58,280	52,319
1-5 years	31,768	15,012	186,811	10,083
>5 years	18,726	1,418	58,707	1,272
	<b>72,038</b>	<b>36,760</b>	<b>303,798</b>	<b>63,674</b>
Recognised lease payments	<b>28,260</b>	<b>28,406</b>	<b>60,845</b>	<b>59,434</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.

### 26 Related parties

The Group's related parties comprise Evoleska Holding AG, Avenir Invest ApS, 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. No transactions were carried out with Evoleska Holding AG in the course of the year.

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

In addition, group enterprises also constitute related parties to the Company.

Trading with subsidiaries comprises the following:

	Consolidated		Company	
	2016	2015	2016	2015
Sale of goods	0	0	60,900	59,714
Rental expenses	0	0	36,786	35,362

# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 26 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 10 and 11.

The Company has entered into building leases with AO Invest A/S, cf. note 25.

The Company is jointly taxed with AO Invest A/S and Greenline A/S. Liability is unlimited, joint and several. 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 8,104,000 (2015: DKK 5,988,000) relating to AO Invest A/S and Greenline A/S at the balance sheet date, cf. note 19. This intercompany transaction occurred during the year.

### 27 Subsequent events

At an Extraordinary General Meeting on 4 January 2017 the Board of Directors was authorised to let the Company acquire J-F. Lemvig-Müller Holding A/S' holding of preference shares in the Company of a nominal value of DKK 7,135,100 (corresponding to 13.89% of the preference share capital and 12.52% of the Company's total share capital). The total purchase price amounts to DKK 185,513,000 which corresponds to a price of DKK 2,600 per nominal preference share of DKK 100. The transfer was completed on 6 January 2017.

In addition to the above, no events have occurred after 31 December 2016 that are considered to have a material effect on the annual report for 2016.



# NOTES

(All amounts are in DKK thousands)

## NOTE:

### 28 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 2016, 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 og IAS 39. IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 *Leases*. IAS 7 Disclosure Initiative - Amendments to IAS 7. 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. Annual Improvements to IFRSs 2014-2016 Cycle. IFRIC Interpretation 22 *Foreign Currency Transactions* and Advance Consideration.

Of the above-mentioned new and amended standards and interpretations, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, including deferral of defective date, 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. With the exception of the impact of IFRS 16 described below, none of the new accounting standards and interpretations are expected to have any material impact on Brødrene A & O Johansen A/S' recognition and measurement.

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 treated 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 expense and interest expense - 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. The Group's operating leases with minimum lease commitments of DKK 97,437,000, corresponding to approximately 5% of the balance sheet total, would have been recognised in the balance sheet, if IFRS was implemented in 2016. According to IFRS 16 the annual operating lease payment of approximately DKK 28,260,000 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 12%.

# COMPANY INFORMATION

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CVR number: 58 21 06 17  
ID code: DK0010231018  
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

## Auditors

Ernst & Young  
Godkendt Revisionspartnerselskab

## Annual General Meeting

The Annual General Meeting is scheduled for 24 March 2017.

# AO's STORES AND OFFICES

## HEAD OFFICE

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## COMPETENCY CENTRES:

**HEATING, PLUMBING, AND SANITARY WARE PRODUCTS:**  
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**ELECTRICAL EQUIPMENT AND COMPONENTS:**  
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**CONTRACTOR SUPPLIES AND EQUIPMENT:**  
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**VAGA:**  
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**ONLINE SALES:**  
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## STORES, EAST

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## STORES, WEST

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## AO VAGA

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**AO SVERIGE AB** • BRONSXEGATAN 6A •  
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**AO SVERIGE AB** • REGEMENTSGATAN 24 •  
SE-504 31 BORÅS • SWEDEN  
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**AO SVERIGE AB** • SVETSAREVÄGEN 1 •  
SE-291 36 KRISTIANSTAD • SWEDEN  
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**AO SVERIGE AB** • DEPÅGATAN 125 •  
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## REPAIR WORKSHOP

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

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

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

## GREENLINE A/S

**GREENLINE.DK** • HTTP://WWW.GREENLINE.DK •  
TELEPHONE: +45 7 22 20 26

# INFORMATION ABOUT THE BOARD OF DIRECTORS' MANAGERIAL POSTS

## • Henning Baunbæk Dyremose, Chairman of the Board

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

### Qualifications

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

### Managerial Posts

- Chairman of the boards of:  
KRB Holding A/S  
Rosendahls A/S - Print Design Media.

## • Michael Kjær, Deputy Chairman of the Board

- Managing Director of F 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'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

- Management (CEO) of major retail chain.
- Expertise in strategy, sales, marketing and accounting.
- Experience with business organisations and employers' associations.

### Managerial Posts

- Chairman of the boards of:  
Artha Holding A/S  
Kraks Fond  
Realfiction ApS  
TC Holding A/S
- Member of the board of:  
Jacobsgaard Investment Advisory 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 and Manager of Maj Invest Holding A/S, Manager of Fondsmæglerselskabet Maj Invest A/S, Manager of Erik Holm Holding ApS, Managing Director of Maj Invest Equity A/S.
- Born 1960.
- Nationality: Danish.
- Member of the Board since 2009.
- Elected by the ordinary shareholders.
- Considered to be independent of special interests.

### Qualifications

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

### Managerial Posts

- Chairman of the boards of:  
Sticks'n'Sushi Holding A/S  
Sticks'n'Sushi A/S  
Verna A/S.
- 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  
Muuto A/S  
Muuto Holding A/S  
Vega Sea A/S  
Svendsen Sport A/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 logistics and warehouse management.
- Experience with national distribution.
- Experience with environmental 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.

### • 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 A/S, Damgaard Family Invest II ApS, Galleri BB Holding ApS, Galleri Bo Bjerggaard International ApS, PD International Invest ApS, Ejendomsselskabet Tesch Alle ApS, DGH I ApS, DGH II ApS, DGH III ApS.
- Born 1963.
- Nationality: Danish.
- Member of the Board since 2007.
- Member of Brødrene A & O Johansen A/S'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.
- **Member of the boards of:**  
Skolebordet.dk A/S  
Damgaard Company A/S  
Damgaard Group A/S  
Damgaard Group Holding A/S  
Templafy ApS  
Scalepoint Ltd.  
Configit A/S  
Configit Holding A/S  
Configit Build A/S  
OrderYOYO ApS  
Broadway ApS.
- Member of the Investment Committee for Seed Denmark.





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