Annual report 2018

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Hartmann grew
volumes and expanded
production capacity
in 2018

Highlights

Key figures and financial ratios for the group

Latest guidance:
DKK 2.1-2.2 billion

DKKm	2018	2018 Excl. IAS 29	2017	2016	2015	2014
Comprehensive income						
Revenue	2,207	2,224	2,207	2,096	2,133	1,615
Operating profit	215	226	235	248	234	163
Special items	(33)	(33)	(14)	0	(101)	(7)
Operating profit after special items	182	193	221	248	133	156
Financial income and expenses, net	(46)	(56)	(54)	(27)	(23)	(17)
Profit before tax	136	138	168	221	111	139
Profit for the year	96	103	122	175	111	119
Comprehensive income	85	62	41	239	1	117
Cash flows						
Cash flows from operating activities	265	265	258	248	221	141
Cash flows from investing activities	(128)	(128)	(205)	(337)	(512)	(98)
Cash flows from financing activities	(68)	(68)	(78)	(26)	332	(33)
Total cash flows	68	68	(26)	(115)	41	10
Balance sheet						
Assets	1,834	1,804	1,865	1,942	1,720	1,244
Investments in property, plant and equipment	122	122	204	339	186	99
Net working capital	287	287	312	275	308	219
Invested capital	1,321	1,288	1,339	1,323	1,055	736
Net interest-bearing debt	577	577	641	644	495	161
Equity	765	742	746	771	598	663

To provide a more accurate illustration of Hartmann's underlying operations and performance, selected accounting figures in this annual report are presented before restatement for hyperinflation (IAS 29). Read more on pages 23-24 and in note 36.

Latest guidance:
About 10%

Latest guidance:
About 17%

DKKm	2018	2018 Excl. IAS 29	2017	2016	2015	2014
Financial ratios, %						
Profit margin	9.7	10.2	10.7	11.8	11.0	10.1
Return on invested capital (ROIC)	16.0	17.2	17.1	20.9	21.7	22.3
Return on equity	12.8	14.1	16.2	25.0	17.1	19.2
Equity ratio	41.7	41.1	40.0	39.7	34.7	53.3
Gearing	75.4	77.8	85.9	83.6	82.8	24.2
Share-based financial ratios						
No. of shares (excl. treasury shares)	6,915,090	6,915,090	6,915,090	6,915,090	6,915,090	6,915,090
Earnings per share, DKK (EPS)	13.9	14.9	17.6	25.3	16.1	17.2
Cash flows per share, DKK	38.3	38.3	37.3	35.9	32.0	20.4
Dividend per share, DKK (proposed)	9.50	9.50	9.50	9.50	9.50	9.50
Book value per share, DKK	110.6	107.3	107.9	111.4	86.4	95.8
Share price, DKK	253.0	253.0	320.0	338.0	271.0	173.0
Share price/book value per share	2.3	2.4	3.0	3.0	3.1	1.8
Share price/earnings (P/E)	18.2	16.9	18.1	13.4	16.9	10.1
Payout ratio, %	69.4	64.5	54.6	38.1	60.0	56.1
Market value, DKKm	1,774.8	1,774.8	2,244.8	2,371.1	1,901.1	1,213.6
Employees						
Average no. of full-time employees	1,996	1,996	1,994	1,992	2,086	1,461

For definitions of financial ratios, see page 83. In this report, operating profit and profit margin are stated before special items, and profit margin, return on invested capital and capital expenditure are commented before restatement for hyperinflation.

Improved operational performance in 2018

We maintained momentum in packaging sales and improved our operational performance in 2018 by capitalising on favourable market trends, expanding production in Europe and South America and lifting capacity utilisation in North America. In addition, Hartmann Technology contributed with strong machinery and technology sales again in 2018. Based on these achievements, we generated revenue of DKK 2.2 billion and delivered a profit margin of 10.2%, even though earnings were impacted by significant currency headwinds, slower-than-expected utilisation of our capacity in North America and higher energy costs. Against this background, the board of directors proposes also this year to pay a dividend of DKK 9.50 per share to Hartmann's shareholders.

The improved operational performance and stable financial results are attributable to our efforts in the past few years to enhance growth and improve efficiency in pursuance of our 'Unpacking our potential' strategy. In the period since we launched this strategy in 2015, we have expanded our production network by establishing new factories in Argentina, Brazil and the US, and we have strengthened our competitive position in Europe by, among other things, closing down a factory in Germany and expanding production in Denmark, Croatia and Hungary.

In the first quarter of the year, we launched the 'Perform 2018' programme to further reduce costs and maintain sales momentum in our core business. In 2018, we also moved a number of functions from Germany to our other European factories and offices and adjusted our organisation across markets. 'Perform 2018' impacted favourably on our operational performance in 2018, and we look forward to harvesting the full benefits in 2019.

We are set on continuing to grow our core business in the years ahead by capitalising on favourable market demographics, the growing focus on sustainability and positive shifts in consumer behaviour. To that end, we are launching 'Think ahead', our new strategy setting out to embrace the future by adding production capacity to be able to meet growing demand for Hartmann's moulded-fibre packaging, which is a well-proven and sustainable alternative to plastic-based non-returnable packaging, which is damaging to the environment and which consumers, retailers and policy-makers are increasingly determined to phase out.

By combining intensified capacity expansion with accelerated marketing efforts and continuous efficiency improvements in the years ahead, we will strengthen our market-leading position in egg packaging and our positions as the leading manufacturer of fruit packaging in selected markets and the preferred supplier of technology for the production of moulded-fibre packaging.

In 2019, we will continue to grow volumes in our core business and lift revenue to DKK 2.2-2.4 billion by stepping up sales efforts across the group's markets and expanding capacity in our European and American markets. We will also maintain our focus on efficiency improvements with a view to delivering a profit margin of 9-11% in 2019, although we anticipate lower machinery and technology sales and challenges from continued high paper and energy costs as well as adverse currency effects.

Torben Rosenkrantz-Theil
CEO

Agnete Raaschou-Nielsen
Chairman

„We will combine intensified capacity expansion with accelerated marketing efforts

2018 in brief

Hartmann grew volumes and expanded production capacity in 2018, and we improved our operational performance by stepping up sales efforts and implementing efficiency-improving measures. In the face of higher energy costs and significant currency headwinds, Hartmann delivered a profit margin of 10.2%.

Volume growth

We grew packaging sales to existing and new customers across the group's markets based on intensified sales efforts in 2018. We won market share and increased the proportion of premium products.

Capacity expansion

Hartmann expanded its capacity in Europe and South America in 2018 to capitalise on buoyant market demand and create a solid platform for continued volume growth in the years ahead. We will continue these efforts in 2019.

Perform 2018

Launched in Q1 2018, 'Perform 2018' helped grow sales and improve efficiency in 2018. The programme included a relocation of activities and organisational adjustments that will take full effect in 2019.

Capacity utilisation

Supported by our efficiency-improving measures over the past few years, the European business reported volume growth in 2018, and we lifted capacity utilisation in the Americas by moving production closer to our South American customers and stepping up sales efforts in North America.

Building on our achievements in 2015-2018 under the 'Unpacking our potential' strategy, we are now launching a new strategy, 'Think ahead'. *Read more on pages 15-18.*

Revenue

DKK 2,207 million

DKK 2,207 million in 2017

Profit margin

10.2%

10.7% in 2017

ROIC

17.2%

17.1% in 2017

Capital expenditure

DKK 129 million

DKK 208 million in 2017

Currency movements, substantially related to the Argentine peso (ARS), reduced revenue by DKK 244 million and operating profit by DKK 40 million in 2018.

Hartmann at a glance

Hartmann is the world's leading manufacturer of moulded-fibre egg packaging, a market-leading manufacturer of fruit packaging in South America and one of the world's largest manufacturers of technology for the production of moulded-fibre packaging. Founded in 1917, Hartmann's market position builds on its strong technology know-how and extensive experience of sustainable moulded-fibre production dating back to 1936.

Products and customers

Hartmann sells egg and fruit packaging to manufacturers, distributors and retail chains, which are increasingly demanding sustainable packaging solutions and specialised marketing expertise. Our versatile product portfolio is customised to accommodate customer and consumer needs in each individual market.

Hartmann sells machinery and technology to manufacturers of moulded-fibre packaging in selected markets.

Markets

Hartmann's key markets are Europe, South America and North America, where the group has strong market positions. Hartmann is a market leader in Europe and in South America, where our product portfolio also includes fruit packaging. Hartmann claims a growing share of the North American market and also sells machinery and technology in selected markets.

Hartmann at a glance

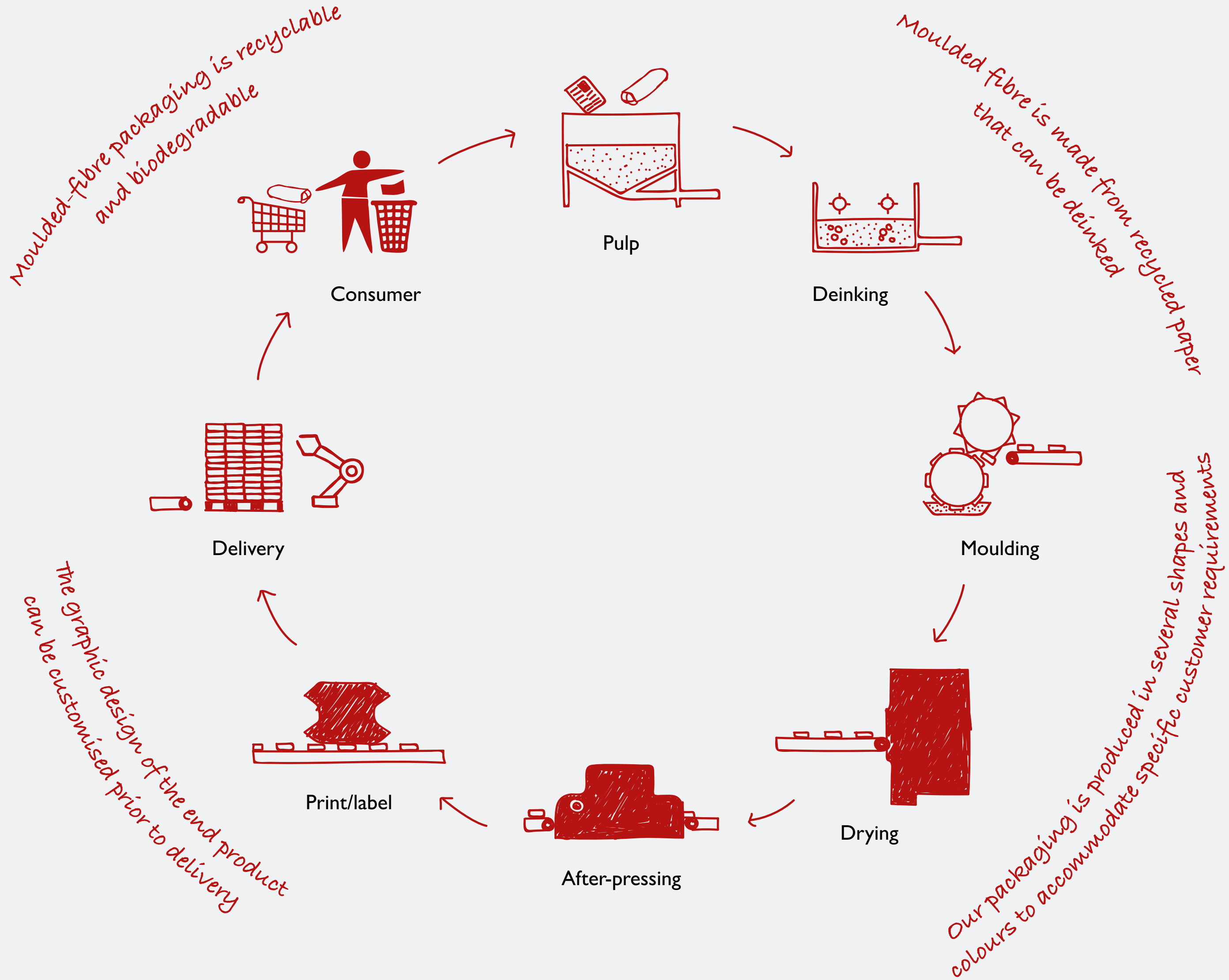
Production

Hartmann's production platform consists of 12 factories in Europe, Israel and North and South America. Our deep technology know-how and extensive experience in manufacturing moulded-fibre packaging empower us to develop and maintain our production platform.

Each year, the group's 2,000 employees manufacture billions of moulded-fibre packaging units and machinery and technology for the manufacturing of packaging.

Sustainability

Sustainability and protection of the environment are integral components of Hartmann's business model and strategy. All Hartmann's products are based on recycled paper, which is a renewable and biodegradable resource. Working closely with our customers to accommodate demand for sustainable products in the retail industry, Hartmann was the first manufacturer to offer both FSC-certified and CO_2-neutral retail packaging.



Efficiency improvements and higher capacity utilisation translated into a profit margin of 10.2%

Business

2018 in review

Q4 2018

Hartmann grew volumes in Q4 2018 and lifted revenue to DKK 588 million (2017: DKK 564 million), supported by growth in Europe and the Americas and positive effects of restating for hyperinflation, whereas, as expected, the contribution from Hartmann Technology was down on the year-earlier period. Currency movements reduced Q4 revenue by DKK 37 million, of which amount DKK 28 million was attributable to movements in the Argentine peso (ARS). Revenue before restatement for hyperinflation was DKK 566 million in Q4 2018.

The European business reported total revenue of DKK 345 million (2017: DKK 349 million) on the back of higher revenue from packaging sales amounting to DKK 341 million (2017: DKK 319 million) and lower revenue from Hartmann Technology amounting to DKK 5 million (2017: DKK 30 million). Revenue from the Americas grew to DKK 243 million (2017: DKK 215 million) in Q4 2018. Before restatement for hyperinflation, revenue from the Americas was up to DKK 221 million.

Consolidated operating profit came to DKK 48 million (2017: DKK 74 million) before restatement for hyperinflation, for a profit margin of 8.4% (2017: 13.0%). The decline was primarily attributable to a lower profit from Hartmann Technology and higher energy and raw materials prices. Currency fluctuations reduced operating profit before restatement for hyperinflation by DKK 4 million. After restatement for hyperinflation, Q4 operating profit came to DKK 49 million, for a profit margin of 8.4%.

The European business reported operating profit of DKK 38 million (2017: DKK 52 million), for a profit margin of 11.1% (2017: 14.7%), impacted by a lower contribution from Hartmann Technology and higher energy and raw materials costs. Operating profit from the business in the Americas totalled DKK 17 million (2017: DKK 25 million) before restatement for hyperinflation, for a profit margin of 7.8% (2017: 11.4%). The decline was driven mainly by higher raw materials costs. After restatement for hyperinflation, Q4 operating profit from the Americas came to DKK 19 million, for a profit margin of 7.7%.

Q4 2018 consolidated cash flows from operating activities were a net inflow of DKK 105 million (2017: net inflow of DKK 123 million), while cash flows from investing activities were a net outflow of DKK 58 million (2017: net outflow of DKK 31 million). Consolidated cash flows from financing activities amounted to DKK 0 million, compared with a net outflow of DKK 58 million in 2017 reflecting repayment of long-term debt.

2018

Revenue

Volumes grew strongly in 2018, taking revenue to DKK 2,207 million (2017: DKK 2,207 million) after restatement for hyperinflation, which was in line with our most recent guidance of DKK 2.1-2.2 billion. Currency movements reduced 2018 revenue by DKK 244 million. Of this amount, DKK 160 million was attributable to developments in the Argentine peso, and of this amount, DKK 58 million was due to restatement for hyperinflation. Before restatement for hyperinflation, revenue was up to DKK 2,224 million (2017: DKK 2,207 million).

Europe

The European business grew revenue to DKK 1,340 million (2017: DKK 1,290 million), supported by strong core business volume growth more than offsetting lower average selling prices and adverse currency movements. Driven by this volume growth, revenue

Selected key figures and financial ratios

DKKm	Q4 2018	Q4 2018 excl. IAS 29	Q3 2018	Q3 2018 excl. IAS 29	Q2 2018	Q1 2018	Q4 2017
Revenue	588	566	453	492	542	624	564
Operating profit	49	48	13	26	60	92	74
Special items	(3)	(3)	(9)	(9)	(16)	(6)	(14)
Financial income and expenses, net	0	3	(7)	(20)	(30)	(9)	(9)
Profit for the period	33	37	(5)	(1)	10	58	29
Total cash flows	47	47	(10)	(10)	(28)	59	34
Profit margin, %	8.4	8.4	2.9	5.4	11.1	14.7	13.0

The selected key figures and financial ratios are unaudited. Q3 accounting figures are significantly affected by hyperinflation restatement for the first nine months of the year.

2018 in review

from egg packaging sales grew to DKK 1,226 million (2017: DKK 1,175 million), while revenue from Hartmann Technology was DKK 115 million (2017: DKK 116 million). Hartmann expanded production capacity at its European factories and was able to grow both volumes and revenue despite the repercussions of the discovery of fipronil-contaminated eggs in 2017, subdued packaging sales during Easter and the negative effect of the warm summer on egg sales.

Americas

In spite of significant volume growth, the business in the Americas reported revenue down to DKK 867 million (2017: DKK 917 million) due to significant adverse currency effects and restatement for hyperinflation in Argentina.

The North American business lifted revenue in 2018 on the back of growing packaging sales and higher average selling prices. It managed to do so in spite of significant currency headwinds with Hartmann winning market share and improving capacity utilisation during the year.

While reporting continued growth in packaging sales, the South American business saw revenue decline as a result of severe adverse currency effects and restatement for hyperinflation. In Argentina, sales of egg and fruit packaging continued uphill in spite of intensified competition, while growth in Brazil was moderated by lower egg prices causing a shift in sales from retail packaging to the cheaper transport packaging.

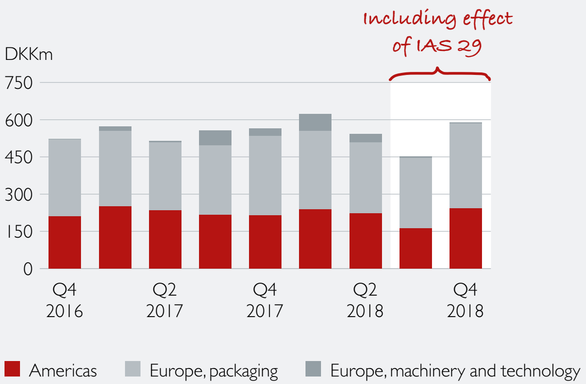
Before restatement for hyperinflation, revenue from the Americas came to DKK 884 million (2017: DKK 917 million).

Operating profit

Hartmann generated operating profit before restatement for hyperinflation of DKK 226 million in 2018 (2017: DKK 235 million), taking the profit margin to 10.2% (2017: 10.7%) and meeting the group's most recent guidance of a profit margin of about 10%. Earnings were supported by volume growth, but not enough to offset the negative effects of higher energy prices and currency fluctuations. Currency movements reduced 2018 operating profit before restatement for hyperinflation by DKK 40 million, of which amount DKK 20 million was attributable to movements in ARS.

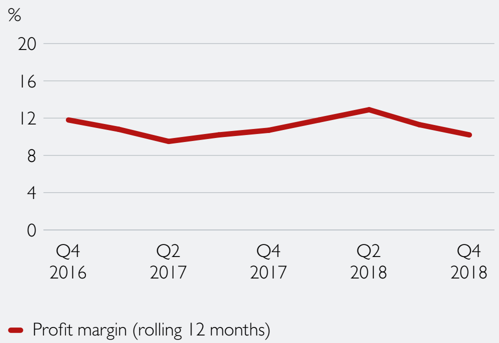
After restatement for hyperinflation, 2018 operating profit came to DKK 215 million (2017: DKK 235 million), taking the profit margin to 9.7% (2017: 10.7%).

Revenue



Operating profit excl. effect of IAS 29

Profit margin excl. effect of IAS 29



2018 in review

Europe
The European business generated operating profit of DKK 152 million (2017: DKK 158 million), for a profit margin of 11.3% (2017: 12.2%). Operating profit was supported by strong volume growth and higher revenue, but not enough to outweigh lower average selling prices and the combined effect of adverse currency movements, higher raw materials and production costs and provisions for repayment of a public energy grant received in 2016.

Americas
Operating profit from the Americas totalled DKK 98 million before restatement for hyperinflation (2017: DKK 103 million), for a profit margin of 11.1% (2017: 11.2%).

While favourably affected by volume growth and higher average selling prices in North America, operating profit fell due to higher raw materials and production costs and adverse currency effects.

The South American business reported slightly higher operating profit before restatement for hyperinflation on the back of growing packaging sales offsetting strong currency headwinds and higher raw materials costs in both Argentina and Brazil.

After restatement for hyperinflation, 2018 operating profit from the Americas came to DKK 87 million (2017: DKK 103 million), for a profit margin of 10.0% (2017: 11.2%).

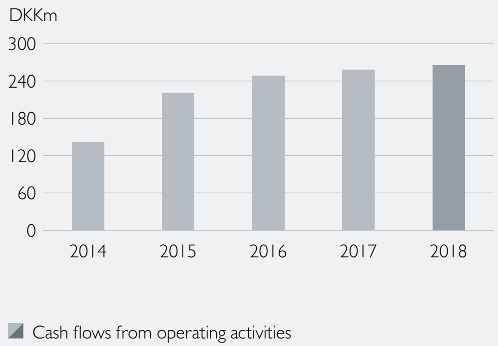
Corporate functions
Costs related to corporate functions came to DKK 26 million in 2018 (2017: DKK 27 million).

Special items
Special items amounted to a net expense of DKK 33 million (2017: net expense of DKK 14 million), which was in line with our most recent guidance of a maximum net expense of DKK 35 million. Special items were primarily related to measures under the group's 'Perform 2018' programme, which included relocation of business activities from Germany to Hungary as well as other organisational adjustments, see note 11.

Investments excl. effect of IAS 29

ROIC excl. effect of IAS 29

Cash flows



2018 in review

Financial income and expenses
Financial income and expenses were a net expense of DKK 46 million for 2018 (2017: net expense of DKK 54 million), reflecting a negative net currency effect of DKK 36 million (2017: negative effect of DKK 34 million) and a positive effect of DKK 10 million related to restatement for hyperinflation. The group's interest expenses declined to DKK 22 million (2017: DKK 27 million) in 2018.

Profit for the year
The profit before tax for 2018 was DKK 136 million (2017: DKK 168 million), primarily reflecting lower operating profit and special items related to, among other things, the 'Perform 2018' programme.

Tax on the profit for the year was an expense of DKK 40 million (2017: expense of DKK 46 million), and the effective tax rate rose to 29% (2017: 27%) due to deferred tax on restatements for hyperinflation in Argentina.

The profit for the year was DKK 96 million after tax (2017: DKK 122 million).

Comprehensive income
Comprehensive income came to DKK 85 million for 2018 (2017: DKK 41 million), supported by the transition to hyperinflation reporting and a less negative effect of foreign exchange adjustments of subsidiaries in Argentina and Brazil compared with last year, see note 34. Comprehensive income was adversely affected by the lower profit for the year.

Investments and cash flows
At 31 December 2018, intangible assets and property, plant and equipment totalled DKK 1,070 million (2017: DKK 1,086 million). Capital expenditure was DKK 129 million (2017: DKK 208 million), in line with the group's most recent guidance of investments of about DKK 125 million. Depreciation and amortisation came to DKK 134 million (2017: DKK 133 million).

Cash flows from operating activities amounted to a net inflow of DKK 265 million (2017: net inflow of DKK 258 million), reflecting a smaller negative change in the group's working capital compared with 2017 and restructuring costs related to the 'Perform 2018' programme.

Cash flows from investing activities amounted to a net outflow of DKK 128 million, compared with a relatively high net outflow of DKK 205 million in 2017. Total cash flows from operating and investing activities came to a net inflow of DKK 136 million (2017: net inflow of DKK 52 million).

Cash flows from financing activities came to a net outflow of DKK 68 million in 2018 (2017: net outflow of DKK 78 million), driven by a dividend distribution of DKK 66 million.

Hartmann reduced its net interest-bearing debt to DKK 577 million (2017: DKK 641 million) at 31 December 2018.

At 31 December 2018, financial resources amounted to DKK 373 million (2017: DKK 294 million), comprising cash and cash equivalents and undrawn loan and overdraft facilities. Hartmann's loans are subject to customary financial covenants, see note 33.

Assets
Total assets were down to DKK 1,834 million (2017: DKK 1,865 million).

ROIC
Before restatement for hyperinflation, return on invested capital was 17.2% in 2018 (2017: 17.1%), in line with the group's most recent guidance of about 17%. After restatement for hyperinflation, the return on invested capital was down to 16.0%, driven by lower operating profit and higher invested capital due to the revaluation of non-current assets and inventories.

Equity
Equity at 31 December 2018 was DKK 765 million (2017: DKK 746 million), and the equity ratio was 42% (2017: 40%). The financial gearing was 75% (2017: 86%).

Earnings per share came to DKK 13.9 (2017: DKK 17.6). At the annual general meeting to be held on 9 April 2019, the board of directors intends to propose a dividend of DKK 9.50 (2017: DKK 9.50) per share, corresponding to a payout ratio of 69% (2017: 55%).

Parent company
In 2018, the parent company generated revenue of DKK 1,284 million (2017: DKK 1,226 million) and operating profit of DKK 55 million (2017: DKK 66 million). Profit for the year was DKK 39 million (2017: DKK 68 million).

Events after the balance sheet date
No events have occurred in the period from the balance sheet date until the date of release of this annual report that would materially affect the evaluation of the annual report.

Guidance and ambitions

Guidance for 2019

We anticipate continued volume growth in our core business in 2019 on the back of intensified sales efforts in all the group's markets. Against this background, total revenue after restatement for hyperinflation is expected to amount to DKK 2.2-2.4 billion, although machinery and technology sales are expected to return to normal levels after Hartmann Technology has contributed significantly to consolidated revenue over the past few years.

The profit margin is expected to be 9-11% before restatement for hyperinflation. Earnings are expected to benefit from the initiatives implemented under the 'Perform 2018' programme, which will take full effect in 2019, and to be further supported by improved capacity utilisation and enhanced production efficiency. The lower contribution from Hartmann Technology will impact negatively on earnings in combination with higher paper and energy costs as well as adverse currency effects.

Capital expenditure is expected at a level of DKK 200 million.

Other assumptions
Our guidance is based on exchange rates at the date of the release of the annual report and does not factor in any acquisitions. Due to seasonal fluctuations in Hartmann's packaging sales, revenue and operating profit in the core business are generally higher in Q1 and Q4 than in Q2 and Q3.

Revenue

DKK 2.2-2.4 billion

Profit margin*

9-11%

Capital expenditure*

DKK ~200 million

Ambitions

Hartmann aims to continually grow its organic business and generate attractive profitability.

Our ability to meet our financial targets will vary over time, depending on market conditions, short-term effects of capacity adjustments, business developments and fluctuations in raw materials prices, exchange rates, etc. Our targets reflect management's expectations for Hartmann's financial performance assuming unchanged exchange rates and relatively stable market conditions. These targets are supplemented by annual guidance based on expected developments in a given financial year and the assumed contribution from Hartmann Technology.

Over time, Hartmann aims to increase packaging volumes sold in step with or above market growth and grow consolidated revenue every year. Against this background, Hartmann aims to generate a profit margin before special items of at least 14% before restatement for hyperinflation.

Guidance

	2018				2019
	Annual report 2017	1 October	Interim report Q3	Realised	Guidance
Revenue	DKK 2.2-2.3 billion	DKK 2.1-2.2 billion	DKK 2.1-2.2 billion	DKK 2,207 million	DKK 2.2-2.4 billion
Profit margin*	11.5-13%	~10%	~10%	10.2%	9-11%
Capital expenditure*	DKK ~150 million	DKK ~150 million	DKK ~125 million	DKK 129 million	DKK ~200 million
ROIC*	At least 18%	~17%	~17%	17.2%	-

* Before restatement for hyperinflation

Forward-looking statements

The forward-looking statements in this annual report reflect Hartmann's current expectations for future events and financial results. Such statements are inherently subject to uncertainty, and actual results may therefore differ from expectations. Factors which may cause the actual results to deviate from expectations include general economic developments and developments in the financial markets, changes or amendments to legislation and regulation in Hartmann's markets, changes in demand for products, competition and the prices of raw materials. See also the section on risk and note 33.

Strategy

Think ahead

Guided by our 'Unpacking our potential' strategy, covering the period from 2015 to 2018, Hartmann has expanded its global network of factories, establishing a strong platform for growth in South and North America through the acquisition of Sanovo Greenpack in 2015 and the subsequent addition of new factories in Argentina, Brazil and the USA. In addition, Hartmann has implemented a range of efficiency-improving measures in Europe, adjusting its production network and expanding capacity. Our focus has been to strike the right balance between growth and efficiency, and the results of our efforts through the past few years have created a strong platform for continued growth.

Going forward, Hartmann will continue to grow its core business by capitalising on growing demand in the group's markets, which is driven by favourable demographics, a growing focus on sustainability and positive shifts in consumer behaviour. To that end, Hartmann is launching its new strategy, 'Think ahead', which is designed to:

- Build sufficient production capacity to meet growing market demand and sustain volume growth across regions
- Enhance utilisation of the group's total production capacity
- Improve efficiency by means of increased automation and continuous development of Hartmann's production network and technologies
- Intensify marketing efforts
- Explore the potential for attractive acquisitions

Building on Hartmann's key strengths – our expertise, strong platform, diverse product range and proprietary technology – the 'Think ahead' strategy is intended to strengthen the group's positions as the world's leading manufacturer of egg packaging, the leading manufacturer of fruit packaging in selected markets and the preferred supplier of machinery technology for the production of moulded-fibre packaging.

Strategy

Trends

Demographics

Global population growth is spurring demand for food, while at the same time growing prosperity is further supporting the consumption of packed eggs and fruit. The world population is expected to grow to almost 10 billion by 2050, and all of Hartmann's markets – some more than others – are expected to witness both population growth and growing prosperity.

At the same time, continued growth in the influx of residents to cities and urban areas is supporting the retail business. Driven by this urbanisation, two thirds of the world population are expected to live in towns and cities by 2050, laying the foundation for considerable expansion of the retail sector and, by extension, growing demand for the group's products. There is still considerable upside potential in a number of Hartmann's geographical markets, where a major proportion of egg sales is bypassing supermarkets and the structured retail industry. Demographic trends and retail sector growth in Hartmann's mature markets have historically led to growing use of moulded-fibre packaging and increased demand for the group's premium products and knowhow about consumer preferences and the marketing of eggs.

Against this background, Hartmann expects demographic trends to drive demand for the group's products in the years ahead.

Sustainability

Demand for sustainable packaging solutions is increasing in step with the growing awareness of consumers, retailers and policy- and opinion makers that the widespread use of plastic-based non-returnable packaging is unsustainable and has a severe adverse impact on the environment, animal life and humans. The proportion of recycled plastics is generally low, and demographic trends are expected to quadruple consumption in the period to 2050. Waste products from crude oil-based plastic materials are already accumulating in oceans, drinking water and on land.

Faced with these challenges, both policymakers and retailers are more zealously exploring the possibilities for recycling or replacing crude oil-based plastic packaging. Several retail chains have implemented targets for partial or complete phasing-out of plastic packaging, and Hartmann's moulded-fibre packaging for eggs is a sustainable alternative to such packaging solutions. Moreover, moulded-fibre egg packaging is price-competitive, and Hartmann's solutions are well-proven and offer premier protection and hygiene standards during transportation along with better marketing options vis-à-vis consumers.

In the years ahead, a growing number of retail chains are expected to switch from plastic-based to moulded-fibre egg packaging in an effort to meet growing consumer demand for sustainable solutions and contribute to solving the challenges posed by plastic packaging without retail chains or consumers forfeiting benefits or incurring substantial costs in connection with the switch.

Consumer behaviour

In several markets, changing consumer behaviour is spurring per capita consumption of eggs and shifting demand between different types of eggs. The need for packaging solutions able to differentiate eggs into different price categories is increasing in step with the growing awareness of issues such as health, nutrition, local production, recycling and animal welfare.

Today, eggs are considered a natural source of protein and a natural part of the varied and healthy diet prioritised by an increasing number of consumers. At the same time, increasing awareness of animal welfare is putting downward pressure on demand for battery-cage eggs, whereas sales of barn eggs, free- range eggs and organic eggs are on an upward trend. Hartmann is increasingly assisting retail chains in optimising sales of eggs and growing earnings through effective consumer communications and a structured approach to pricing and marketing of eggs.

Changing consumer behaviour combined with a growing retail focus on egg sales is creating the basis for growing demand for Hartmann's diverse product portfolio and expertise on consumer preferences and marketing in the years ahead.

Strategy

Think ahead

Strengths

Expertise

Hartmann has built a unique expertise on the marketing of eggs and production of moulded-fibre packaging since 1936.

Our insights into consumer preferences and behaviour are based on comprehensive, ongoing consumer research that creates value for our customers through a data-based foundation for choice of product range, marketing initiatives, design and in-store location.

In addition, we can leverage our extensive knowledge of the qualities and applications of moulded-fibre packaging when working with customers to optimise logistics and efficiency across the value chain – from manufacturer through packing plant to point of sale.

Platform

Drawing on our experienced sales organisation, we have built solid market positions that are supported by a well-established production network that is continually optimised and expanded with a view to improving efficiency, ensuring flexibility in production and building a platform for the group's continued growth.

We sell our packaging in more than 50 countries and have 12 factories in Argentina, Brazil, Canada, Denmark, Israel, Croatia, Hungary and the USA.

Products

Our versatile product portfolio enables us to customise the product range to specific demand patterns among customers and consumers across the group's diverse markets.

We cover all customer requirements and are able to provide both premium and standard products for retail egg differentiation as well as transport and fruit packaging.

All our products are made from recycled paper, which is a renewable, recyclable and biodegradable resource, and we offer FSC-certified and CO_2-neutral products.

Technology

Thanks to Hartmann Technology's proven technological skills, we are uniquely positioned to continually expand, optimise and automate our production facilities and to develop new cost- and energy-saving technologies, processes and production methods.

Our unwavering focus on technological development and production optimisation has helped us achieve high levels of efficiency and profitability. Our earnings are further supported by sales of machinery and technology in selected markets, which also facilitate the establishment and maintenance of interesting partnerships in new markets.

Focus

Our 'Think ahead' strategy brings Hartmann's strengths into play with a view to leveraging the favourable trends that are currently driving the group's markets. Going forward, we will focus on expanding production, enhancing production efficiency and strengthening marketing efforts.

Capacity

We will increase production capacity and maintain our strong presence in existing markets, while at the same time exploring the possibilities of expanding into new geographies in order to meet growing global demand for sustainable packaging.

Efficiency improvements

We will bring down production costs by continuously developing the group's production facilities and technologies and investing in automation and the development of new products, processes and production methods.

Marketing

We will intensify the marketing of Hartmann's expertise and products and the benefits of moulded-fibre packaging in an effort to increase the share of premium products and help drive the conversion from oil-based plastic packaging to eco-friendly moulded-fibre packaging solutions.

Strategy

Objectives

Europe

Over the coming years, we will strengthen Hartmann's leading European market position by stepping up marketing efforts and leveraging our expertise on customer and consumer preferences in both mature and rapid-growth markets. In addition to advising customers on marketing strategies and efforts to lift supermarket egg category earnings, we will provide them with even better logistics solutions and services.

In Eastern Europe, growth is driven primarily by rapid demographic developments and continued retail chain expansion, while in other European markets growth will most likely come from the transition from plastic packaging to moulded-fibre packaging. We will maintain Hartmann's high levels of capacity utilisation and production efficiency by enhancing sales, automation and the use of new technological solutions. At the same time, we will expand production capacity at all our factories with a view to tapping into favourable trends and winning market share.

Initiatives
- Stepping up marketing efforts
- Expanding capacity at existing factories
- Increasing automation in manufacturing
- Developing and implementing new technologies

North America

We will step up marketing efforts and significantly grow our North American market share over time, leveraging the transition from foam plastic and plastic packaging to moulded-fibre packaging. In the short term, we will enhance capacity utilisation in North America, focusing especially on growing the share of premium products.

Growth in the North American market is driven by favourable demographic developments, growing consumption of eggs and increasing sales of cage-free eggs on the back of changing consumer behaviour. The transition to moulded-fibre packaging is expected to continue and accelerate in the years ahead, paving the way for the addition of new production capacity at Hartmann's existing factories.

Initiatives
- Intensifying marketing efforts
- Improving capacity utilisation
- Implementing new technologies
- Adding capacity at existing factories

South America

In South America, we will further enhance efficiency by optimising the allocation of production between our factories in Argentina and Brazil, the purpose being to bring the production of egg and fruit packaging closer to the customer. These efforts will be supported by continued automation and technology upgrades of existing production facilities and the addition of new production capacity.

Demographic developments in Argentina and Brazil are expected to drive a long-term increase in total egg consumption, positive developments within the egg category and enhanced demand for the group's packaging solutions. Against this background, Hartmann expects to lift capacity utilisation and sow the seeds for the addition of new production capacity.

Initiatives
- Improving capacity utilisation
- Stepping up automation and technology upgrades of production
- Optimising production allocation between factories
- Expanding production capacity

> As part of our 'Think ahead' strategy, Hartmann is exploring the potential for expanding the production platform in existing and new markets to meet growing global demand for sustainable packaging

Markets and products

Hartmann operates in diverse markets with varying product offerings that are continuously adapted to regional needs. Hartmann's product portfolio comprises retail and transport packaging for eggs as well as fruit packaging. In selected markets, Hartmann also sells machinery and technology to manufacturers of moulded-fibre packaging.

Retail packaging for eggs is our main product category. The segmentation into premium and standard products varies from market to market depending on factors such as the maturity of the retail trade, the penetration of moulded-fibre packaging and focus on sustainability.

For sales of egg and fruit packaging, our main markets are Europe and North and South America, while Hartmann Technology sells machinery and technology for manufacturing of moulded-fibre packaging in selected global markets.

Demand for egg and fruit packaging is increasing steadily and is quite resilient to economic fluctuations. However, exchange rate fluctuations affect South American fruit exports and, by extension, sales of fruit packaging. Demand for both egg and fruit packaging is to some extent seasonal. Hartmann's primary markets are highly competitive and served by a few large and several medium-sized players.

Hartmann has developed and launched new product lines which have been standard-setters for quality packaging. Developing innovative products strengthens Hartmann's position as the customers' preferred supplier and entails a number of advantages in relation to manufacturing and transport. For this reason, we continuously protect our intellectual property rights in order to actively protect our products and trademarks.

Hartmann continually strives to accommodate customer demand for optimised marketing options in the premium segment for egg packaging and to develop products that satisfy the needs of our customers and facilitate production process optimisation, capacity expansion and enhanced capacity utilisation at our factories. In 2018, we focused on moving production in the Americas closer to customers in order to reduce delivery times, transport costs and our environmental footprint. In addition, an increasing number of retail chains expressed a growing interest in emphasising the sustainable qualities of moulded-fibre packaging compared with plastic packaging.

Europe

Holding a market share of more than 40%, Hartmann is the leading manufacturer of egg packaging in the relatively mature and competitive European markets. We expect to see average annual growth of 1-3% in the coming period, varying across national borders but generally driven by growing demand for retail packaging on the back of continued penetration and professionalisation of the retail trade, along with potential transition from plastic to moulded-fibre packaging in certain major markets.

North America

In North America, our moulded-fibre products represent 15-20% of the total market for moulded-fibre as well as foam and plastic egg packaging, which is growing on the back of an increasing consumption of eggs. Average annual growth in the North American market for moulded-fibre products is expected to be around 2% in the period ahead, driven by increasing conversion away from foam and plastic packaging. Customers are increasingly demanding premium products, a segment in which Hartmann holds a strong market position.

South America

Hartmann has a market leading position in Brazil and Argentina where we sell both egg and fruit packaging. Following a period of moderate growth in these two markets, average annual market growth is expected to be at the level of 3-5% in the period ahead, driven by growing demand, favourable demographics and continued urbanisation. Hartmann's sales of fruit packaging are largely driven by fruit exports.

Hartmann Technology

The group leverages its technological expertise in the expansion and optimisation of its production network. Machinery and technology is sold in selected global markets with a view to assisting customers in meeting growing demand for moulded-fibre packaging.

Markets and products

Packaging

Retail packaging

Hartmann's retail egg packaging is sold to all types of customers across geographies.

Premium packaging offers the best marketing options with a broad selection of sizes, colours, design solutions, prints and labels. Packaging is used to differentiate premium eggs such as organic eggs and free-range eggs in connection with sales campaigns.

Standard packaging offers a more traditional expression that may be tailored to the needs of individual customers and is targeted at consumers demanding standard eggs. These products are well-established in the market and offer the environmentally friendly and protective qualities of moulded-fibre packaging at attractive prices.

Transport and fruit packaging

Hartmann's transport packaging for eggs and fruit packaging is sold to producers and packing businesses. In addition, these products are used on a limited scale by retailers.

Eggs are typically packed in transport packaging in connection with distribution where protecting the eggs and ensuring efficient packing and transport is key. Packaging is produced in varying sizes to accommodate eggs of varying sizes.

Fruit requires protective and practical packaging for packing and transport within our South American home markets and export routes. Hartmann primarily sells packaging for transport of apples, pears and melons.

Customer portfolio

Hartmann sells packaging for a geographically diversified customer portfolio comprising several large businesses and a large number of small customers.

We engage in customer relations and collaborative arrangements with players across the value chain, from egg and fruit producers over packing businesses to retail chains, who are increasingly influencing sub-suppliers' packaging choices.

	Geography			Customers		
	Europe	North America	South America	Manufacturer	Packing plant	Retail chain
Retail packaging						
Eggs	X	X	X	X	X	X
Transport and fruit packaging						
Eggs	X		X	X	X	
Fruit			X	X	X	

Risk

Hartmann is exposed to operating risks, which we monitor and actively address on an ongoing basis. The executive board is responsible for identifying and managing risks in compliance with the policies approved by the board of directors. Together with the audit committee and the board of directors, the executive board reviews the risks that may affect Hartmann's operational and financial targets. The purpose of risk management is to identify risk areas, determine how to manage these risks and optimise the risk-return balance.

Commercial risks

Reliance on customers
Hartmann's customer portfolio is well-diversified and consists of several large customers as well as many small customers. The trend in our customer portfolio is towards fewer and larger customers, and we expect to become more reliant on this customer group going forward.

Demand for eggs and fruit
Our core business consists of sales of egg and fruit packaging, which are driven by demand for eggs and fruit. Consumption of eggs and fruit may be influenced by a variety of factors beyond our control, including disease outbreaks among laying hens and consumer fears of resulting health hazards, prevailing health perceptions, regional export and trading conditions, etc. Consumption and, by extension, demand for Hartmann's products has historically been resilient to slowdowns in economic growt and is primarily driven by demographics and trends within sustainability and consumer behaviour.

Composition of the product portfolio
Hartmann's portfolio of moulded-fibre products comprises retail and transport packaging for eggs as well as fruit packaging. Retail packaging for eggs is sold as premium and standard products. The group's revenue and earnings may vary considerably due to changes in sales across product categories given that there are significant price differences between premium and standard products and between retail, transport and fruit packaging. Hartmann works continually to balance sales of individual moulded-fibre packaging categories with a view to meeting customer demand and optimising earnings.

Reliance on suppliers
Hartmann has contracted with a number of suppliers of recycled paper, energy and other raw materials. If contracts with one or more of these suppliers are terminated or breached, or suppliers fail to meet their contractual obligations for other reasons, we may not be able to source the necessary raw materials, or we may be compelled to purchase from alternative suppliers on different terms.

Fluctuations in raw materials prices
Hartmann is exposed to changes in purchase prices of the raw materials used in our production. In particular, we are exposed to fluctuations in the purchase price of recycled paper and energy (electricity and gas), which are the most important raw materials in our production.

There is limited scope for reducing sensitivity to developments in the price of recycled paper if supplies of the required volumes are to be secured and maintained.

We regularly sign fixed-price agreements with energy suppliers, typically for six or 12 months, covering a substantial part of our energy consumption. However, it is not possible to sign fixed-price agreements with energy suppliers in all the countries in which we operate.

Pending lawsuits
In 2008, district heating company Tønder Fjernvarmeselskab filed a complaint with the Danish Energy Regulatory Authority concerning the pricing of district heating supplied by Hartmann.

Overruling previous decisions in the case, the Danish Energy Board of Appeal made a decision on 28 November 2017 concerning the principles for pricing district heating supplied by Hartmann's combined heat and power plant in the period from 2003 up to and including 8 January 2015, when district heating supplies were discontinued. Hartmann still disagrees on the principles applied by the Energy Board of Appeal in fixing heating prices and is proceeding with the lawsuit for purposes of obtaining a legal assessment of the dispute.

Based on an internal review of the decision and indications from external advisers, management believes that the case is very likely to be referred back once more to the Energy Board of Appeal. In management's opinion, renewed consideration by the Danish Energy Board of Appeal is likely to result in a change of the principle for fixing heating prices. Estimating the financial implications to amount to an expense of DKK 12 million, Hartmann wrote down the group's receivable from Tønder Fjernvarmeværk by DKK 12 million in 2017.

Based on the decision of the Energy Board of Appeal of 28 November 2017, the case was remitted for reconsideration by the Danish Utility Regulator for purposes of the Regulator allowing inclusion of a profit in Hartmann's prices as of 1 January 2012. Hartmann and Tønder Fjernvarmeselskab both provided comments to the Utility Regulator in 2018. The Regulator has yet to make a decision on the parties' unsettled amount.

Hartmann has estimated the related costs at about DKK 15 million and the cash flow effect at a positive DKK 24 million. Tønder

Risk

Fjernvarme on its part has raised a claim of DKK 88 million, which Hartmann has rejected.

Social and environmental risks

Corporate social relations and risks
We give high priority to measures safeguarding health and safety at the workplace, protecting human values in society at large as well as the people who are in contact with Hartmann or Hartmann's products. Hartmann has processes in place to ensure that health and safety conditions at the workplace comply with our group-wide regulations and that we handle our corporate social responsibility in an effective and efficient manner and act as a responsible player in the countries where we operate.

Environmental risks
Hartmann's activities, including production, sales, use, storage and disposal of products, are subject to a number of environmental laws and regulations. Environmental risk is monitored both locally and centrally at our head office, in order to prevent, remedy or minimise any adverse effect on the external environment. We use and expect to continue to use considerable resources to observe and comply with environmental laws and regulations.

We are subject to various rules, including rules governing noise reduction, wastewater discharge and waste disposal and the rules of the EU CO_2 emission trading system. Our policy is to operate all production facilities in an environmentally responsible manner and in compliance with sustainability principles. A number of Hartmann's production facilities are ISO 14001-certified.

For more information about sustainable development, see 'Corporate social responsibility' or visit csr2018.hartmann-packaging.com.

Insurance

Hartmann has a comprehensive insurance programme reflecting the scope and extent of operations and their geographical location. The programme is reviewed annually by an insurance broker and adjusted on an ongoing basis to reflect the development of the business.

Hartmann's single most significant risk is the total loss of a factory from fire since the re-establishment of facilities would be very time consuming and involve the risk of both business interruption and loss of market share. Consequently, Hartmann has taken out an all risk insurance policy for all production facilities covering fire damage, consequential loss and other incidents. Also, we work systematically to prevent injury and damage, and a risk management programme has been set up with the help of an insurance broker. Hartmann's insurance programme includes commercial and product liability, property and contents, consequential loss, work-related accidents, personal injury and environmental liability.

Financial risks

Our financial results and equity are influenced by a number of financial risks, including interest rate, foreign exchange, liquidity and credit risks.

Financial risk management is handled by our corporate finance function. Forward contracts are used to hedge currency risks attributable to our commercial activities. Hartmann hedges its transaction risks to the effect that primary currencies are continuously hedged for a period of not less than nine and not more than 12 months. Hartmann does not engage in speculative transactions. Financial risks and financial risk management are described in detail in note 33 to the financial statements.

In 2018, Hartmann and insurance broker Willis conducted an analysis of the conditions at the group's factories with a view to identifying relevant risks and improvement potential

Hyperinflation

Argentina was placed on the International Practices Task Force's (IPTF) list of hyperinflationary economies effective 1 July 2018, and Hartmann has therefore restated the contribution of the Argentinian operations to the consolidated financial statements in accordance with the requirements of IAS 29 on financial reporting in hyperinflationary economies.

No effect on group operations or performance
Restating for hyperinflation has no direct influence on Hartmann's underlying operations or performance, total cash flows or its ability to pay dividends.

To provide a more accurate illustration of Hartmann's underlying operations and performance, selected accounting figures are presented before restatement for hyperinflation. This ensures cohesion between the external reporting and the group's guidance as well as consistency with the internal management reporting and performance follow-up.

As a general rule, all accounting figures stated in the management report of this annual report are presented after restatement for hyperinflation, and it is clearly specified when the reported accounting figures are supplemented by figures before restatement for hyperinflation. Hartmann's guidance as to profit margin, return on invested capital and total capital expenditure is presented before restatement for hyperinflation, and developments in these performance indicators are therefore also described before restatement for hyperinflation.

Events in Argentina
Hartmann's three factories in Argentina produce egg and fruit packaging, and the activities account for less than 10% of the group's total packaging sales.

In 2018, the business reported strong growth in packaging sales and improved production efficiency. The basis for this progress has been created over a long high-inflation period, and the positive performance continued in the second half after Argentina was classified as a hyperinflationary economy.

In the period between Hartmann's acquisition of its Argentinian activities at the beginning of 2015 and the country's classification as a hyperinflationary economy in May 2018, Argentina has reported average annual inflation of about 25%. In 2018, average annual inflation was about 48%. Argentina's government and central bank have tried to stabilise the economy by implementing measures which resulted in sharp devaluations of the Argentine peso (ARS) in May and in August.

Accounting effects
Implementation of IAS 29 is intended to ensure that Hartmann's consolidated financial statements reflect the current purchasing power in Argentina and the ARS/DKK exchange rate at the balance sheet date.

The financial statements have been restated to reflect the general price index* and the ARS/DKK exchange rate at 31 December 2018, and certain accounting items are affected by changes in the price index in the period between the date of acquisition at the beginning of 2015 and 31 December 2018.

The general effects of restating for developments in the price index and in the exchange rate, respectively, are described for significant accounting items on this page and are specified for current developments overleaf, in the statement of key figures and financial ratios and in note 36.

* Restatement for hyperinflation is made based on Argentina's Wholesale Price Index up to 31 December 2016 and on the National Consumer Price Index from 1 January 2017.

Effects of restating for hyperinflation

Total effect of restating for hyperinflation

Restating for changes in purchasing power in local currency

↑ **Revenue**
Reported revenue is favourably affected by restatement for changes in the price index between 1 January and 31 December 2018.

↓ **Operating profit**
Hartmann's operating profit is adversely affected by increases in costs and depreciation and amortisation charges driven by the higher price index and inflation restatement of the Argentinian non-current assets, which are revalued from the acquisition in January 2015 up to the balance sheet date

↑ **Assets, invested capital and equity**
Inflation restatement of non-monetary balance sheet items relating to Argentina, including non-current assets and inventories, leads to increases in Hartmann's assets, invested capital and equity.

↓ **Return on invested capital (ROIC)**
The negative effect on operating profit and the increase in invested capital impact adversely on the reported return on invested capital.

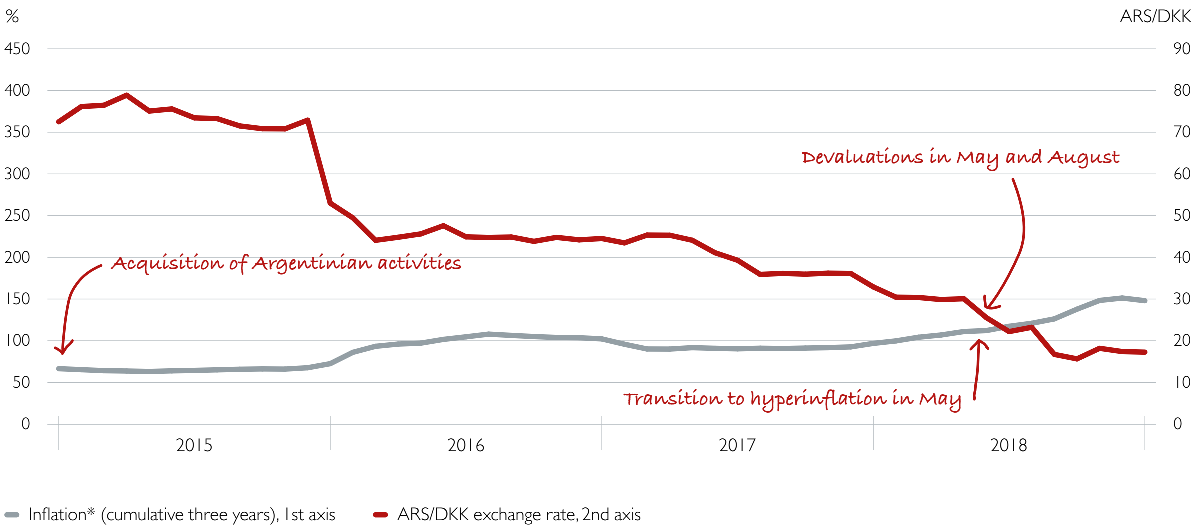
↑ **Capital expenditure**
Hartmann's capital expenditure in Argentina during the year increases as a result of restatement for changes in the price index.

Retranslation into Danish kroner

↓ **Income statement**
The income statement is translated on the basis of the ARS/DKK exchange rate at the end of the financial year. Negative currency movements thus lead to a negative currency effect on positive items.

Hyperinflation

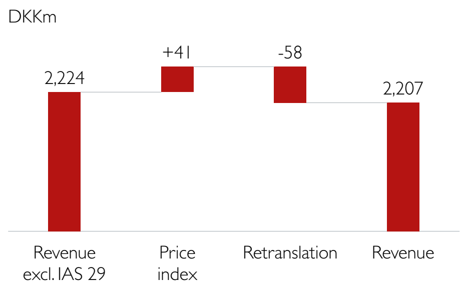
Inflation and exchange rate developments in Argentina



Effects of restating for hyperinflation on selected accounting figures

DKKm	2018 Excl. IAS 29	*Price index adjustments*	*Re-translation*	*Total adjustment*	2018
Revenue	2,224	*41*	*(58)*	*(17)*	2,207
Operating profit before depreciation	356	*6*	*(14)*	*(8)*	348
Operating profit	226	*1*	*(12)*	*(11)*	215
Financial items, net	(56)	*(1)*	*11*	*10*	(46)

Effect of restating revenue



The total effect on 2018 revenue of IAS 29 implementation is a combination of restating for price index developments and the effect of transitioning to translating the Argentine peso into Danish kroner at the exchange rate at the balance sheet date.

Even though the consolidated financial statements were favourably affected in the amount of DKK 41 million by the average annual increase in the price index of 48% during the period under review, the total effect of restating for hyperinflation was negative. The ARS/DKK cross rate fell from 32.9 at the beginning of the year to 17.3 at 31 December 2018. The new currency translation practice based on the exchange rate at the balance sheet date, as opposed to the exchange rate at the date of transaction, thus reduced Hartmann's revenue by DKK 58 million.

Hartmann's 2018 revenue was DKK 2,207 million after a total negative impact of restating for hyperinflation of DKK 17 million.

* Restatement for hyperinflation is made based on Argentina's Wholesale Price Index up to 31 December 2016 and on the National Consumer Price Index from 1 January 2017.

Governance

Providing continuity, experience and innovation through management changes in 2018

Corporate social responsibility

Our CSR activities and the results achieved are presented in Hartmann's Global Compact progress report for 2018, which is available at csr2018.hartmann-packaging.com. Some of the CSR activities carried out in 2018 are described below.

Corporate social responsibility has been an integral part of our business model since we began producing sustainable moulded-fibre packaging in 1936. As consumers, retail chains and policy-makers emphasise the sustainability of packaging, pursuing corporate social responsibility is a competitive advantage and an essential parameter in the marketing of many of our products.

Safety efforts paying off

Thanks to our continued strong focus on safety in 2018, we were able to reduce the number of work-related accidents per million working hours (LTI-FR) by 31% relative to 2017. Since 2015, Hartmann has reduced the number of work-related accidents per million working hours by 49%.

The progress reported in 2018 was largely driven by improvements in South America, where management was focused on strengthening the safety culture and securing effective knowledge sharing. Safety representatives from the factories in Argentina and Brazil meet on a monthly basis and work according to standardised and well-proven safety and fireproofing procedures. In addition, training sessions and follow-up on compliance with safety regulations and the use of compulsory safety equipment in production are conducted on a regular basis.

Working to reduce our climate footprint

We continued our efforts to reduce the group's climate impact and enhance efficiency in 2018, focusing particularly on reducing our energy consumption and improving logistics. In the Americas, we moved production closer to our customers in an effort to reduce delivery times, transport costs and our environmental footprint.

In our European business, we prepared the installation of a new oven, which consumes 40% less energy and will be operational during 2019. Drying is the most energy-intensive part of the manufacturing process, and investing to ensure the most efficient use of resources at our factories is an unwavering priority for Hartmann.

We are continuing our work to reduce the group's environmental and climate footprint through:

- Investing in new process technology
- Optimising existing technology
- Product and production development
- Waste reduction

Enhancing coordination of CSR efforts

Following the establishment of a working group and the appointment of a CSR responsible reporting to the executive board in 2017, we strengthened the coordination of CSR efforts across the group in 2018. The working group is composed of representatives from all factories who convene regularly during the year to share knowledge and experience on climate, safety and anti-corruption initiatives.

In 2018, supported by the group finance function, the working group reviewed the group's processes for collecting, processing and reporting data on, among other things, energy consumption, work-related accidents and audits of the group's factories and selected suppliers.

Work-related accidents

Index (2015 = 100)

Shareholder information

Share capital
Hartmann has one share class, and each share carries one vote. Accordingly, all shareholders have an equal right to submit proposals and to attend, speak and vote at general meetings. The shares are registered shares and negotiable instruments with no restrictions on their transferability. There were no changes to Hartmann's share capital in 2018.

Hartmann's board of directors has been authorised by the shareholders in the period until 9 April 2019 to arrange for Hartmann to acquire treasury shares with a nominal value of up to DKK 14,030,180 at the market price ruling from time to time, subject to a deviation of up to 10%.

The Hartmann share
Hartmann's shares opened at DKK 320.0 in 2018 and closed at DKK 253.0. The group paid a dividend of DKK 9.50 per share, and its shares thus yielded a return of minus 18% in 2018.

The Hartmann share is part of Nasdaq Copenhagen's Mid Cap segment, and Hartmann has a market making agreement that ensures liquidity in the share.

Ownership
At the end of 2018, Hartmann had approximately 2,400 registered shareholders, representing 6.5 million shares in aggregate, or 95% of the share capital.

The following shareholders have notified us that it holds at least 5% of the share capital:

- Thornico Holding A/S and related parties, Odense, Denmark (68.6%)
- Lannebo Fonder AB, Stockholm, Sweden (6.25%)

At 31 December 2018, Hartmann's holding of treasury shares was unchanged at 1.4% of the share capital.

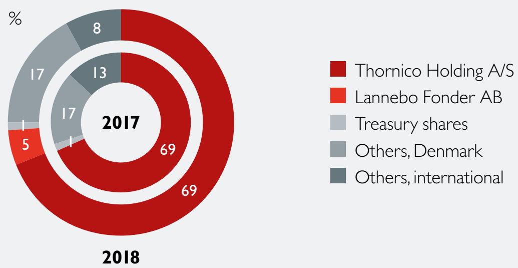
At 31 December 2018, the members of Hartmann's board of directors and executive board held 0.1% of the share capital. The members of the board of directors and executive board are registered on Hartmann's permanent insider list and may only trade in Hartmann shares during a four-week window following the release of profit announcements or other similar financial announcements, as set out in Hartmann's internal rules.

Dividend
It is the general objective of the board of directors to distribute excess capital by way of dividends in order to maintain Hartmann's equity ratio at a maximum of 45%. Our capital distributions will always take into account current growth plans and liquidity needs.

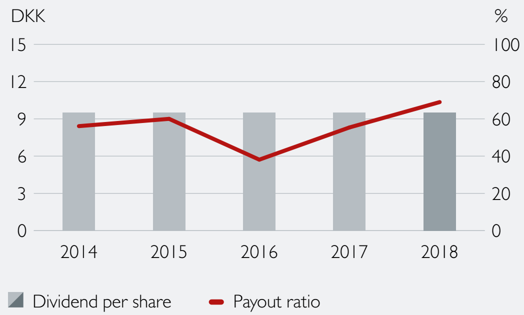
The Hartmann share

Stock exchange	Nasdaq Copenhagen
Index	Mid Cap
ISIN	DK0010256197
Symbol	HART
No. of shares	7,015,090
Denomination	DKK 20
Nominal share capital	DKK 140,301,800
Bloomberg code	HART:DC

Shareholder composition at 31 December



Dividend



Shareholder information

At the annual general meeting to be held on 9 April 2019, the board of directors will propose that the company distribute dividends of DKK 9.50 (2017: DKK 9.50) per share for the financial year ended 31 December 2018, corresponding to DKK 66 million and a payout ratio of 69%.

Remuneration of the executive board

If a controlling interest in Hartmann changes ownership, the notice period for members of the executive board is extended from 12 to 18 months effective from the day on which the shares are sold. The extended notice will apply for a period of 18 months after the transfer.

Investor relations

It is Hartmann's objective to provide investors and analysts with the best possible insights into matters deemed relevant to ensuring an effective and fair pricing of the share. The executive board and Investor Relations handle relations with investors and analysts, taking into consideration regulatory requirements and our corporate governance standards. Shareholders, investors, analysts and other stakeholders with questions about Hartmann are advised to contact Investor Relations at investor@hartmann-packaging.com. Hartmann participates in selected seminars and holds one-on-one meetings with Danish and international investors and analysts. For a period of four weeks up to the publication of the annual report, interim reports or other financial announcements, Hartmann will not comment on matters relating to financial results or guidance.

Financial calendar

9 April 2019	Annual General Meeting
7 May 2019	Interim report Q1 2019
13 August 2019	Interim report Q2 2019
14 November 2019	Interim report Q3 2019

Electronic communication

Hartmann communicates electronically with its shareholders, which allows us to quickly and efficiently convene general meetings and distribute relevant information. Shareholders can register at the investor portal through investor.hartmann-packaging.com.

Corporate Governance

Hartmann's statutory report on corporate governance for the 2018 financial year (see section 107 b of the Danish Financial Statements Act) is available at corporategovernance2018.hartmann-packaging.com.

The report contains a detailed account of Hartmann's management structure as well as a description of the main elements of our internal controls and risk management systems relating to financial reporting.

The report furthermore describes our position on the recommendations of the Danish Committee on Corporate Governance as implemented in Nasdaq Copenhagen's Rules for issuers of shares. In 2018, we complied with the corporate governance recommendations except as stated below:

- The board of directors has not set up a nomination committee
- The board of directors has not set up a remuneration committee
- Variable remuneration paid to the executive board in 2018 consisted exclusively of a short-term cash bonus scheme

The board of directors has resolved to set up a combined nomination and remuneration committee in 2019.

Management structure

Hartmann operates a two-tier management structure comprising the board of directors and the executive board. The board of directors is elected by the shareholders and supervises the executive board. The board of directors and the executive board are independent of each other.

The board of directors is responsible for the overall management of the company and resolves matters relating to strategic development, financial forecasts, risk management, acquisitions and divestment as well as major development and investment projects.

In addition, the board of directors determines the executive board's employment terms and salary, which consists of a fixed annual salary and a performance-related cash bonus. Hartmann's remuneration policy and the group's remuneration report for 2018 are available at investor.hartmann-packaging.com, and the remuneration paid for 2018 is specified in note 9 to the financial statements.

The executive board is appointed by the board of directors and is responsible for the company's day-to-day management, including operational development, results of operations and internal development. The executive board is responsible for executing the strategy and the general decisions approved by the board of directors.

The board of directors has set up an audit committee whose main duties are monitoring the group's risk management, preparation of financial statements, financial reporting and internal controls as well as monitoring and communicating with the auditor appointed by the shareholders. The audit committee reports regularly to the board of directors.

The board of directors held 16 meetings in 2018 (2017: eight meetings), and the audit committee held six meetings (2017: four meetings).

Changes in the board of directors

At the annual general meeting held on 18 April 2018, Jan Klarskov Henriksen (CEO of Aviagen Broiler Breeding Group Inc.) was elected to the board of directors, while Niels Hermansen, who did not offer himself for re-election, resigned.

At the annual general meeting to be held on 9 April 2019, the board of directors will recommend that the number of board members be increased. The board of directors will propose that independent candidates Jan Madsen (CEO of Coop Danmark A/S) and Karen Hækkerup (former CEO of the Danish Agriculture & Food Council) be elected to the board of directors together with Marianne Schelde (CFO of Thornico Holding A/S, the majority shareholder in Hartmann).

Jørn Mørkeberg Nielsen will not be seeking re-election at the annual general meeting to be held on 9 April 2019.

Changes in the executive board

CEO Ulrik Kolding Hartvig passed away on 18 February 2018, and then CFO Marianne Rørslev Bock was appointed interim CEO.

On 15 March 2018, Torben Rosenkrantz-Theil, Senior Vice President in charge of Hartmann's European business, was appointed CEO.

On 29 June 2018, Marianne Rørslev Bock announced her resignation as CFO of Hartmann to pursue a career as CFO of Scandinavian Tobacco Group A/S. On 18 September 2018, Flemming Steen was appointed CFO of Hartmann, replacing Marianne Rørslev Bock.

Board of directors and executive board

Board of directors

Agnete Raaschou-Nielsen
Chairman

Until 2011, Executive Vice President, COO of Aalborg Portland A/S. Former Managing Director of Zacco Denmark A/S, General Manager of Coca-Cola Tapperierne A/S and Group Vice President of Carlsberg A/S. Currently only engaged in board work and similar work.

Special expertise in the international processing industry, production, sales, management and treasury.

Directorships
Chairman: Arkil Holding A/S and the investment funds Danske Invest, Danske Invest Select, Profil Invest and ProCapture and the capital associations Danske Invest Institutional and AP Invest.
Vice chairman: Novozymes A/S (audit committee).
Board member: Aktieselskabet Schouw & Co. (audit committee) and Danske Invest Management A/S.

Steen Parsholt
Vice chairman

Nordic head of Aon and member of its European management team until 2005. Former Group CEO of NCM Holding, Amsterdam, and Citibank, including CEO in Denmark. Currently only engaged in board work and similar work.

Special expertise in international management, treasury and finance.

Directorships
Chairman: Alternative Equity Partners A/S, DADES A/S, Ejendomsaktieselskabet af 1. maj 2015, Equinox Global Ltd., Reviva SA, Secure Capital A/S, Secure Fondsmæglerselskab A/S.
Vice chairman: NGF Denmark Holding ApS, NGF General Partner ApS and NGF Nature Energy Biogas A/S.
Board member: Glitnir HoldCo ehf.

Jørn Mørkeberg Nielsen
Board member

CEO of Cembrit Group A/S. Until 2016, CEO of Xilco Holding CH AG (parent company of Sonion A/S) and chairman of a number of Sonion subsidiaries.

Special expertise in international management, innovation management, business-to-business sales and marketing, production optimisation and financial management.

Directorships
Chairman: Cembrit A/S, Cembrit Holding A/S, Cembrit Logistics A/S, DKCF A/S and KK Group A/S.
Board member: Skiold A/S, Skiold Group A/S and Viet-Jacobsen Fonden.

Jan Klarskov Henriksen
Board member

CEO of Aviagen Broiler Breeding Group Inc. Former CEO of Lantmännen Unibake Holding A/S, Lantmännen Kronfågel Holding AB and Danæg a.m.b.a.

Special expertise in international food industry management and in sales and marketing in the poultry and egg industries.

Directorships
Chairman: BPI A/S.

Board of directors and executive board

Board of directors – continued

Andy Hansen
Board member

Boiler Attendant, Brødrene Hartmann A/S, Tønder, Denmark, since 2004.

Elected by the employees in 2018 to serve until the annual general meeting to be held in 2022.

Palle Skade Andersen
Board member elected by the employees

Production engineer, Brødrene Hartmann A/S, Tønder, Denmark, since 1991.

Elected by the employees in 2018 to serve until the annual general meeting to be held in 2022.

Name	Born	Gender	Nationality	First elected	Independent	Audit committee	Board and committee meetings*	Share-holding 31 Dec. 2018	Change in 2018
Board of directors									
Agnete Raaschou-Nielsen	1957	Female	Danish	2010	Yes	-	16	2,000	-
Steen Parsholt	1951	Male	Danish	2013	Yes	Chairman	15 and 6	5,000	-
Jørn Mørkeberg Nielsen	1961	Male	Danish	2011	Yes	Member	12 and 6	2,700	-
Jan Klarskov Henriksen	1965	Male	Danish	2018	Yes	-	15	0	-
Andy Hansen	1977	Male	Danish	2014	-	-	16	56	-
Palle Skade Andersen	1969	Male	Danish	2018	-	-	15	0	-

* The board of directors convened 16 times and the audit committee six times in 2018.

Board of directors and executive board

Executive board

Torben Rosenkrantz-Theil
CEO

Extensive international management experience and operational and commercial packaging industry expertise.

Former Senior Vice President and member of the group executive board in charge of Hartmann's European business. Previous experience from position as President of the North American business and head of strategic development.

Directorships
Board member: Sanovo Technology A/S.

Flemming Steen
CFO

Business-focused executive with strong economic and financial background. Comprehensive international experience and extensive IT competencies.

Former positions include CFO of Clipper Group, MT Højgaard and Junckers Industrier. He has furthermore held several positions at A. P. Møller - Mærsk, including head of strategy at Maersk Line and CFO of APM Terminals.

Name	Born	Gender	Nationality	Employed	Share-holding 31 Dec. 2018	Change in 2018
Executive board						
Torben Rosenkrantz-Theil	1975	Male	Danish	2007	0	-
Flemming Steen	1966	Male	Danish	2018	0	-

Financials

Statement of comprehensive income

		Group		Parent company	
DKKm	Note	2018	2017	2018	2017
Revenue	5	2,207.1	2,207.3	1,284.0	1,226.2
Production costs	6	(1,569.5)	(1,550.9)	(986.8)	(927.6)
Gross profit		**637.6**	**656.4**	**297.2**	**298.6**
Selling and distribution costs	7	(323.9)	(325.4)	(180.7)	(159.2)
Administrative expenses	8	(99.2)	(95.8)	(61.3)	(60.0)
Other operating income	10	0.0	0.1	0.0	0.0
Operating profit before special items		**214.5**	**235.3**	**55.2**	**79.4**
Special items	11	(32.7)	(13.9)	(12.5)	(13.9)
Operating profit		**181.8**	**221.4**	**42.7**	**65.5**
Profit after tax in associates	20	0.0	0.1	-	-
Financial income	12	33.0	10.7	28.7	37.0
Financial expenses	12	(78.9)	(64.4)	(22.5)	(39.4)
Profit before tax		**135.9**	**167.8**	**48.9**	**63.1**
Tax on profit for the year	13	(39.8)	(45.8)	(9.7)	4.9
PROFIT FOR THE YEAR		**96.1**	**122.0**	**39.2**	**68.0**
Earnings per share, DKK	14	13.9	17.6	-	-
Diluted earnings per share, DKK	14	13.9	17.6	-	-

		Group		Parent company	
DKKm	Note	2018	2017	2018	2017
Profit for the year		**96.1**	**122.0**	**39.2**	**68.0**
Items that cannot be reclassified to profit for the year:					
Actuarial gains/(losses) on defined benefit plans	26	13.1	(8.1)	-	-
Tax	13	(3.5)	2.2	-	-
Items that can be reclassified to profit for the year:					
Foreign exchange adjustment of foreign subsidiaries	34	(45.8)	(75.6)	-	-
Hyperinflation restatement of non-monetary items, 1 January	36	33.5	-	-	-
Tax	13	(4.2)	-	-	-
Value adjustment of hedging instruments:					
Recognised in other comprehensive income		(8.3)	8.5	(1.7)	3.5
Transferred to revenue		1.6	(7.1)	(0.2)	(4.3)
Transferred to production costs		0.8	(0.7)	0.8	(0.7)
Transferred to financial income and expenses		0.0	0.1	(0.2)	0.1
Tax	13	1.5	(0.3)	0.3	0.3
Other comprehensive income after tax		**(11.3)**	**(81.0)**	**(1.0)**	**(1.1)**
COMPREHENSIVE INCOME		**84.8**	**41.0**	**38.2**	**66.9**

Statement of cash flows

DKKm	Note	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Operating profit before special items		214.5	235.3	55.2	79.4
Depreciation and amortisation		133.8	133.2	34.4	40.6
Adjustment for other non-cash items	15	7.8	(0.1)	0.0	0.0
Change in working capital etc.	15	(23.4)	(88.0)	(48.6)	19.5
Restructuring costs etc. paid		(32.8)	(2.4)	(12.5)	(2.4)
Cash generated from operations		**299.9**	**278.0**	**28.5**	**137.1**
Interest etc. received		9.0	8.4	16.5	12.6
Interest etc. paid		(31.3)	(29.8)	(14.2)	(11.8)
Income tax received/(paid), net*		(13.2)	1.0	(0.2)	(6.8)
Cash flows from operating activities		**264.4**	**257.6**	**30.6**	**131.1**
Acquisition of intangible assets		(7.0)	(4.6)	(7.0)	(4.3)
Acquisition of property, plant and equipment		(121.9)	(203.8)	(15.0)	(75.2)
Disposal of property, plant and equipment		0.6	1.9	0.0	0.0
Capital injections in subsidiaries		-	-	(44.4)	(123.3)
Dividend received from subsidiaries		-	-	5.2	24.4
Dividend received from associates		0.1	0.0	0.1	0.0
Government grants received		0.0	1.1	0.0	0.0
Cash flows from investing activities		**(128.2)**	**(205.4)**	**(61.1)**	**(178.4)**
Cash flows from operating and investing activities		**136.2**	**52.2**	**(30.5)**	**(47.3)**
Raising of non-current debt	15	0.0	162.8	0.0	162.8
Repayment of non-current debt	15	(2.4)	(175.5)	0.0	(170.0)
Loans to subsidiaries	19	-	-	(13.8)	(24.8)
Repayments received from subsidiaries	19	-	-	130.1	117.8
Dividend paid		(65.7)	(65.7)	(65.7)	(65.7)
Cash flows from financing activities		**(68.1)**	**(78.4)**	**50.6**	**20.1**
TOTAL CASH FLOWS		**68.1**	**(26.2)**	**20.1**	**(27.2)**

DKKm	Note	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Total cash flows		**68.1**	**(26.2)**	**20.1**	**(27.2)**
Cash and cash equivalents at 1 January		(28.3)	(11.6)	(57.2)	(37.6)
Foreign exchange adjustment		(0.5)	9.5	(3.0)	7.6
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**39.3**	**(28.3)**	**(40.1)**	**(57.2)**
Recognition of cash and cash equivalents at 31 December:					
Cash		83.2	52.6	3.7	3.8
Overdraft facilities		(43.9)	(80.9)	(43.8)	(61.0)
Cash and cash equivalents at 31 December		**39.3**	**(28.3)**	**(40.1)**	**(57.2)**

* A total of DKK 16.1 million relating to completed tax audits in Europe has been set off against the comparative figures for the group.

The statement of cash flows cannot be derived solely from the published financial information.

Balance sheet

Assets

		Group		Parent company	
DKKm	**Note**	**2018**	**2017**	**2018**	**2017**
Goodwill		63.9	69.9	10.7	10.7
Other intangible assets		34.9	31.5	8.7	4.6
Intangible assets	16	**98.8**	**101.4**	**19.4**	**15.3**
Land and buildings		294.4	301.3	16.0	13.5
Plant and machinery		590.2	640.7	108.1	121.4
Other fixtures and fittings, tools and equipment		15.1	20.9	5.6	9.2
Plant under construction		71.4	21.7	7.7	11.2
Property, plant and equipment	17	**971.1**	**984.6**	**137.4**	**155.3**
Investments in subsidiaries	18	-	-	1,000.1	951.6
Receivables from subsidiaries	19	-	-	301.9	413.1
Investments in associates	20	3.0	3.1	1.2	1.2
Deferred tax	22	48.1	51.9	0.0	0.0
Other non-current assets		**51.1**	**55.0**	**1,303.2**	**1,365.9**
Non-current assets		**1,121.0**	**1,141.0**	**1,460.0**	**1,536.5**
Inventories	23	196.6	240.6	70.2	93.8
Trade receivables	24	329.7	329.6	191.3	176.4
Receivables from subsidiaries		-	-	76.4	51.2
Income tax		3.4	8.6	0.0	2.6
Other receivables		80.1	76.4	43.3	23.7
Prepayments		19.9	16.3	10.7	8.6
Cash		83.2	52.6	3.7	3.8
Current assets		**712.9**	**724.1**	**395.6**	**360.1**
ASSETS		**1,833.9**	**1,865.1**	**1,855.6**	**1,896.6**

Equity and liabilities

		Group		Parent company	
DKKm	**Note**	**2018**	**2017**	**2018**	**2017**
Share capital	25	140.3	140.3	140.3	140.3
Hedging reserve		(3.8)	0.6	(1.4)	(0.4)
Translation reserve		(178.9)	(162.4)	-	-
Retained earnings		741.7	701.7	632.6	659.1
Proposed dividend		65.7	65.7	65.7	65.7
Equity		**765.0**	**745.9**	**837.2**	**864.7**
Deferred tax	22	21.4	14.3	0.5	0.5
Pension obligations	26	31.7	51.4	0.0	0.0
Credit institutions	34	616.0	607.7	616.0	607.7
Government grants	27	3.8	5.9	0.0	0.9
Non-current liabilities		**672.9**	**679.3**	**616.5**	**609.1**
Credit institutions	34	0.0	4.5	0.0	0.0
Government grants	27	1.0	1.6	0.0	0.5
Overdraft facilities	34	43.9	80.9	43.8	61.0
Prepayments from customers		6.1	45.3	2.9	34.3
Trade payables		169.6	165.5	61.1	70.6
Payables to subsidiaries		-	-	181.9	165.9
Payables to associates		4.8	4.6	4.3	4.6
Income tax		12.1	1.6	6.6	0.0
Provisions	28	0.8	0.4	0.8	0.4
Other payables	29	157.7	135.5	100.5	85.5
Current liabilities		**396.0**	**439.9**	**401.9**	**422.8**
Liabilities		**1,068.9**	**1,119.2**	**1,018.4**	**1,031.9**
EQUITY AND LIABILITIES		**1,833.9**	**1,865.1**	**1,855.6**	**1,896.6**

Statement of changes in equity

Group	**2018**						**2017**					
DKKm	**Share capital**	**Hedging reserve**	**Translation reserve**	**Retained earnings**	**Proposed dividend**	**Total equity**	**Share capital**	**Hedging reserve**	**Translation reserve**	**Retained earnings**	**Proposed dividend**	**Total equity**
Equity at 1 January	**140.3**	**0.6**	**(162.4)**	**701.7**	**65.7**	**745.9**	**140.3**	**0.1**	**(86.8)**	**651.3**	**65.7**	**770.6**
Profit for the year	-	-	-	30.4	65.7	96.1	-	-	-	56.3	65.7	122.0
Items that cannot be reclassified to profit for the year												
Actuarial losses on defined benefit plans	-	-	-	13.1	-	13.1	-	-	-	(8.1)	-	(8.1)
Tax	-	-	-	(3.5)	-	(3.5)	-	-	-	2.2	-	2.2
Items that can be reclassified to profit for the year												
Foreign exchange adjustment of foreign subsidiaries	-	-	(45.8)	-	-	(45.8)	-	-	(75.6)	-	-	(75.6)
Hyperinflation restatement of non-monetary items, 1 January	-	-	33.5	-	-	33.5	-	-	-	-	-	-
Tax	-	-	(4.2)	-	-	(4.2)	-	-	-	-	-	-
Value adjustment of hedging instruments:												
Recognised in other comprehensive income	-	(8.3)	-	-	-	(8.3)	-	8.5	-	-	-	8.5
Transferred to revenue	-	1.6	-	-	-	1.6	-	(7.1)	-	-	-	(7.1)
Transferred to production costs	-	0.8	-	-	-	0.8	-	(0.7)	-	-	-	(0.7)
Transferred to financial income and expenses	-	0.0	-	-	-	0.0	-	0.1	-	-	-	0.1
Tax	-	1.5	-	-	-	(1.5)	-	(0.3)	0.0	-	-	(0.3)
Other comprehensive income	**0.0**	**(4.4)**	**(16.5)**	**9.6**	**0.0**	**(11.3)**	**0.0**	**0.5**	**(75.6)**	**(5.9)**	**0.0**	**(81.0)**
Total comprehensive income	**0.0**	**(4.4)**	**(16.5)**	**40.0**	**65.7**	**84.8**	**0.0**	**0.5**	**(75.6)**	**50.4**	**65.7**	**41.0**
Transactions with owners												
Dividend paid	-	-	-	-	(65.7)	(65.7)	-	-	-	-	(65.7)	(65.7)
Changes in equity in the year	**0.0**	**(4.4)**	**(16.5)**	**40.0**	**0.0**	**19.1**	**0.0**	**0.5**	**(75.6)**	**50.4**	**0.0**	**(24.7)**
Equity at 31 December	**140.3**	**(3.8)**	**(178.9)**	**741.7**	**65.7**	**765.0**	**140.3**	**0.6**	**(162.4)**	**701.7**	**65.7**	**745.9**

* Translation reserve includes reserve for foreign exchange adjustment of foreign subsidiaries and hyperinflation restatement of non-monetary items 1 January for the Argentinian activities.

Statement of changes in equity

Parent company			**2018**					**2017**		
DKKm	**Share capital**	**Hedging reserve**	**Retained earnings**	**Proposed dividend**	**Total equity**	**Share capital**	**Hedging reserve**	**Retained earnings**	**Proposed dividend**	**Total equity**
Equity at 1 January	**140.3**	**(0.4)**	**659.1**	**65.7**	**864.7**	**140.3**	**0.8**	**656.7**	**65.7**	**863.5**
Transfer	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)	0.1	0.0	0.0
Profit for the year	-	-	(26.5)	65.7	39.2	-	-	2.3	65.7	68.0
Items that can be reclassified to profit for the year										
Value adjustment of hedging instruments:										
Recognised in other comprehensive income	-	(1.7)	-	-	(1.7)	-	3.5	-	-	3.5
Transferred to revenue	-	(0.2)	-	-	(0.2)		(4.3)	-	-	(4.3)
Transferred to production costs	-	0.8	-	-	0.8	-	(0.7)	-	-	(0.7)
Transferred to financial income and expenses	-	(0.2)	-	-	(0.2)	-	0.1	-	-	0.1
Tax	-	0.3	-	-	0.3	-	0.3	-	-	0.3
Other comprehensive income	**0.0**	**(1.0)**	**0.0**	**0.0**	**(1.0)**	**0.0**	**(1.1)**	**0.0**	**0.0**	**(1.1)**
Total comprehensive income	**0.0**	**(1.0)**	**(26.5)**	**65.7**	**38.2**	**0.0**	**(1.2)**	**2.4**	**65.7**	**66.9**
Transactions with owners										
Dividend paid	-	-	-	(65.7)	(65.7)	-	-	-	(65.7)	(65.7)
Changes in equity in the year	**0.0**	**(1.0)**	**(26.5)**	**0.0**	**(27.5)**	**0.0**	**(1.2)**	**2.4**	**0.0**	**1.2**
Equity at 31 December	**140.3**	**(1.4)**	**632.6**	**65.7**	**837.2**	**140.3**	**(0.4)**	**659.1**	**65.7**	**864.7**

Notes

General

Statement of comprehensive income

Statement of cash flows

Balance sheet

Other

Notes

01 Accounting policies

Basis of preparation
The consolidated financial statements and the parent company financial statements for the year ended 31 December 2018 of the group and Brødrene Hartmann A/S, respectively, have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies. Brødrene Hartmann A/S is a limited liability company and has its registered office in Denmark.

The consolidated financial statements and the parent company financial statements are presented in Danish kroner, DKK, which is the presentation currency used for the group's operations and the functional currency of the parent company. The consolidated financial statements and the parent company financial statements are prepared on the basis of the historical cost convention, with the exception of derivative financial instruments, which are measured at fair value, and non-monetary items of the group's Argentinian subsidiaries, which are restated for hyperinflation.

The accounting policies have been applied consistently in the financial year and to comparative figures, with the exception of the rules of IAS 29 on financial reporting in hyperinflationary economies, which were implemented in 2018 without restatement of comparative figures, see note 36.

Consolidated financial statements
The consolidated financial statements comprise the parent company, Brødrene Hartmann A/S, and entities in which the parent company directly or indirectly holds the majority of voting rights or which the parent company in some other way controls (subsidiaries). Entities in which the group holds between 20% and 50% of the voting rights and over which it exercises influence, but which it does not control, are considered associates.

The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the subsidiaries by combining like items. The financial statements used for the annual report of the group have been prepared in accordance with the group's accounting policies.

On consolidation, intra-group income and expenses, shareholdings, dividends, balances, and realised and unrealised gains and losses on intra-group transactions are eliminated. The parent company's investments in the consolidated subsidiaries are set off against the parent company's share of the subsidiaries' fair value of identified net assets determined at the date of consolidation.

Foreign currency translation
A functional currency is designated for each of the reporting entities in the group. The functional currency is the currency used in the primary economic environment in which the reporting entity operates.

Transactions denominated in currencies other than the functional currency are transactions in foreign currency. On initial recognition, transactions denominated in foreign currency are translated into the functional currency at the exchange rate at the transaction date.

Gains and losses arising between the rate at the transaction date and the rate at the date of payment are recognised in the statement of comprehensive income under financial income and expenses, net. Receivables, payables and other monetary items denominated in foreign currency are translated into the functional currency at the exchange rate at the balance sheet date. Differences between the rate at the balance sheet date and the rate at the transaction date or the exchange rate stated in the latest annual report are recognised in the statement of comprehensive income under financial income and expenses.

On recognition of foreign subsidiaries with functional currencies other than DKK, comprehensive income statement items are translated at the foreign exchange rate at the transaction date, with the exception of comprehensive income statement items for the Argentinian subsidiaries, which are translated at the foreign exchange rate at the balance sheet date under the rules on restatement for hyperinflation. The rate at the transaction date is calculated as the average rate of the relevant month. Balance sheet items of foreign subsidiaries, including goodwill, are translated at the foreign exchange rate at the balance sheet date.

Foreign exchange differences arising on the translation of opening equity of these entities at the rate at the balance sheet date and on the translation of comprehensive income statement items from average rates to the rate at the balance sheet date are recognised in the consolidated financial statements under other comprehensive income and in equity in the translation reserve.

On full or partial divestment of a foreign entity, the part of the accumulated foreign exchange adjustment that is recognised in equity and that is attributable to that entity is recognised in profit or loss for the year together with any gains or losses from the divestment.

Statement of comprehensive income
The accounting policies applied to the items in the statement of comprehensive income are described in the respective notes to the statement of comprehensive income.

Statement of cash flows
The statement of cash flows shows the group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents and the group's opening and closing cash and cash equivalents.

Cash flows from operating activities
Cash flows from operating activities are determined using the indirect method as operating profit before special items adjusted for non-cash items, changes in working capital, interest paid and interest received, income taxes paid and restructuring costs paid.

Cash flows from investing activities
Cash flows from investing activities comprise payments in connection with acquisition and disposal of intangible assets and property, plant and equipment, acquisition of subsidiaries, capital injections in subsidiaries, dividend received from associates and subsidiaries and government grants received.

Cash flows from financing activities
Cash flows from financing activities comprise the raising and repayment of loans, changes in the amount or composition of the share capital, including purchase and sale of treasury shares and related costs, and dividend payments to shareholders. The parent company provides funding for the subsidiaries, and loans to subsidiaries and repayments on such loans are stated in the cash flow statement of the parent company under financing activities.

Cash and cash equivalents
Cash and cash equivalents comprise cash and overdraft facilities repayable on demand.

Notes

01 Accounting policies – continued

Balance sheet
The accounting policies applied to the items in the balance sheet are described in the respective notes to the balance sheet, except as stated below.

Income 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. Joint taxation contributions payable and receivable are recognised as income tax in the balance sheet.

Prepayments
Prepayments include expenses paid in respect of subsequent financial years.

Equity
Dividend
The amount proposed in dividends for the year is stated as a separate item in equity. Proposed dividend is recognised as a liability at the time it is adopted at the annual general meeting.

Treasury shares
Costs of acquisition and divestment and dividend received on treasury shares acquired by the parent company or the subsidiaries are recognised in equity as retained earnings.

Translation reserve
The translation reserve in the consolidated financial statements includes accumulated foreign exchange differences on the translation of the financial statements of foreign subsidiaries from their functional currency to the presentation currency of the group. The reserve also includes the effects of hyperinflation restatement of non-monetary items in Argentina at 1 January 2018.

Hedging reserve
The hedging reserve contains the accumulated net change in the fair value of hedging transactions qualifying as cash flow hedges for which the hedged transaction has not yet been realised.

Financial liabilities
Financial liabilities comprise payables to credit institutions, trade payables, payables to subsidiaries and associates and other payables.

Payables to credit institutions are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, payables to credit institutions are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value (capital loss) is recognised in profit or loss over the term of the loan.

Other liabilities are measured at amortised cost.

02 Accounting regulations

New financial reporting standards and interpretations in 2018
Hartmann has implemented all new and revised financial reporting standards and interpretations adopted by the EU that are effective for financial years beginning on 1 January 2018, including IFRS 9 and IFRS 15. In addition, Hartmann implemented IAS 29 on financial reporting in hyperinflationary economies in 2018.

IFRS 9
Effective 1 January 2018, Hartmann implemented IFRS 9 'Financial Instruments', which replaced IAS 39. The standard introduced a new model for classification and measurement of financial assets and liabilities based on the business model applied by the entity and the characteristics of the underlying cash flows. It also introduced a new impairment model for financial assets.

The new impairment model for financial assets has not significantly affected Hartmann's ongoing impairment process and therefore has not had any financial effect on the group or the parent company. Implementing the standard has only affected the disclosure requirements regarding trade receivables.

In addition, the standard changed the hedge accounting criteria, including the scope of items that may be hedged and instruments that may be used as hedging instruments. In management's opinion, Hartmann's current IAS 39 policies comply with the new requirements.

IFRS 15
Effective 1 January 2018, Hartmann implemented IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 replaced revenue standards IAS 11 and IAS 18 and interpretations.

The new standard introduced a new model for recognition and measurement of revenue from sales contracts with customers. The new model provides a five-step model to be applied to all sales contracts with customers to determine when and how revenue is to be recognised in the income statement.

Implementing IFRS 15 did not appreciably affect the recognition of revenue in 2018. The new rules will only potentially affect an insignificant part of Hartmann Technology's revenue due to deferred recognition of revenue from certain services provided in connection with sales of machinery. In the current financial year, Hartmann Technology's sales of machinery took place in the first half, and all services related to these sales were provided in the financial year.

IAS 29
Effective 1 July 2018, Argentina was placed on the IPTF list of hyperinflationary economies. As a consequence, Hartmann has implemented IAS 29 on financial reporting in hyperinflationary economies effective Q3 2018. In accordance with IAS 29, the implementation has been made with retroactive effect from 1 January 2018 without restatement of comparative figures. Accordingly, the 2018 accounting figures for Hartmann's operations in Argentina have been restated for inflation before translation into the group's presentation currency, DKK.

As regards Hartmann's operations in Argentina, income and expenses for the full financial year are translated into DKK using the ARS/DKK rate at the balance sheet date. Prior to translation into DKK, the income statement and the non-monetary items of the balance sheet that relate to Argentina are restated for changes in the purchasing power (inflation) of the Argentine peso in the period from initial recognition to the balance sheet date.

The effect of restating the income statement and the non-monetary items of the balance sheet for inflation in the current financial year is recognised

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as financial income. The effect of restating the non-monetary items of the balance sheet for inflation in the period from initial recognition in a prior financial year to the end of the preceding financial year is recognised in equity under other comprehensive income as a translation reserve.

New financial reporting standards which have not yet come into force and which have not been adopted early
The IASB has issued a new standard, IFRS 16 'Leases', that must be implemented by the group and the parent company for financial years beginning on or after 1 January 2019. Under IFRS 16, which replaces IAS 17, the lessee must recognise all leases with a term of more than 12 months, unless the leased asset is of low value. Each lease must be recognised in the balance sheet in the form of a lease obligation and an asset representing the lessee's right to use the underlying asset.

IFRS 16 implementation will affect the income statement in that lease payments are replaced by depreciation of the leased asset and interest on the lease liability.

Hartmann has estimated the effect of recognising leases under IFRS 16. The calculations show that total assets at 1 January 2019 will increase by DKK 74.9 million for the group and by DKK 10.0 million for the parent company as a result of the recognition of leased property, plant and equipment and lease liabilities.

Based on the lease composition at 31 December 2018, IFRS 16 will mean that annual group leasing expenses of DKK 10.2 million are replaced by depreciation of DKK 9.0 million and interest of DKK 2.6 million in the first year. Implementation will thus increase the group's operating profit by DKK 1.2 million, but reduce its pre-tax profit by DKK 1.4 million.

For the parent company, leasing expenses of DKK 2.4 million will be replaced by depreciation of DKK 2.3 million and interest of DKK 0.1 million in the first year. The parent company's operating profit will thus increase by DKK 0.1 million, while its pre-tax profit is not expected to be affected by recognition under IFRS 16.

Capitalisation of leases under IFRS 16 will also affect the group's key figures and financial ratios. The group's invested capital at 1 January 2019 will be affected in the amount of DKK 74.9 million, and based on the composition of leases at 31 December 2018, implementation is expected to reduce the return on invested capital (ROIC) by about 0.8 of a percentage point and the equity ratio by about 1.7 percentage points.

The new IFRS 16 rules are not expected to have any significant effect on the profit margin due to the negligible positive effect on operating profit.

Any new leases entered into in 2019 will be recognised as additions of leased assets and liabilities, respectively, which will increase the expected effect on the above-mentioned accounting items and ratios in 2019.

03 Significant accounting estimates and judgments

In applying the group's and the parent company's accounting policies, management is required to make judgments, estimates and assumptions concerning the carrying amount of assets and liabilities that cannot be immediately inferred from other sources.

The judgments, estimates and assumptions made are based on historical experience and other relevant factors which management considers reasonable under the circumstances, but which are inherently uncertain and unpredictable. Estimates and underlying assumptions are assessed on an ongoing basis.

Changes to accounting estimates are recognised in the reference period in which the change occurs and in future reference periods if the change affects both the period in which the change occurs and subsequent reference periods.

Significant accounting estimates, assumptions and uncertainties
The recognition and measurement of assets and liabilities often depend on future events that are somewhat uncertain. In that connection, it is necessary to make an assumption that reflects management's assessment of the most likely course of events.

A number of assumptions and uncertainties are worth noting since they have had a significant influence on the assets and liabilities recognised in the consolidated financial statements and the parent company financial statements and may require corrections in subsequent financial years if the assumed course of events fails to materialise as expected. Except as stated below, these assumptions and uncertainties are described in the respective notes to the financial statements.

CHP plant in Tønder
In 2008, district heating company Tønder Fjernvarmeselskab filed a complaint with the Danish Energy Regulatory Authority concerning the pricing of district heating supplied by Hartmann.

Overruling previous decisions in the case, the Danish Energy Board of Appeal made a decision on 28 November 2017 concerning the principles for pricing district heating supplied by Hartmann's combined heat and power plant in the period from 2003 up to and including 8 January 2015, when district heating supplies were discontinued. Hartmann still disagrees on the principles applied by the Energy Board of Appeal in fixing heating prices and is proceeding with the lawsuit for purposes of obtaining a legal assessment of the dispute.

Based on an internal review of the decision and indications from external advisers, management believes that the case is very likely to be referred back once more to the Energy Board of Appeal. In management's opinion, renewed consideration by the Danish Energy Board of Appeal is likely to result in a change of the principle for fixing heating prices. Estimating the financial implications to amount to an expense of DKK 12 million, Hartmann wrote down the group's receivable from Tønder Fjernvarmeværk by DKK 12 million in 2017.

Based on the decision of the Energy Board of Appeal of 28 November 2017, the case was remitted for reconsideration by the Danish Utility Regulator for purposes of the Regulator allowing inclusion of a profit in Hartmann's prices as of 1 January 2012. Hartmann and Tønder Fjernvarmeselskab both provided comments to the Utility Regulator in 2018. The Regulator has yet to make a decision on the parties' unsettled amount.

Hartmann has estimated the related costs at about DKK 15 million and the cash flow effect at a positive DKK 24 million. Tønder Fjernvarme on its part has raised a claim of DKK 88 million, which Hartmann has rejected.

Notes

04 Segment information

Activities	2018			2017		
	Europe	Americas	Total reporting segments	Europe	Americas	Total reporting segments
External revenue						
Moulded-fibre packaging	1,225.7	883.9	2,109.6	1,174.5	917.3	2,091.8
Machinery and technology	114.8	0.0	114.8	115.5	0.0	115.5
Revenue	**1,340.5**	**883.9**	**2,224.4**	**1,290.0**	**917.3**	**2,207.3**
Hyperinflation restatement of revenue	-	(17.3)	(17.3)	-	-	-
Revenue as per statement of comprehensive income	**1,340.5**	**866.6**	**2,207.1**	**1,290.0**	**917.3**	**2,207.3**
Operating profit before special items	151.8	98.4	250.2	157.8	102.5	260.3
Other segment information						
Depreciation and amortisation	57.6	67.5		70.0	64.8	
Investments in intangible assets and property plant and equipment	61.8	63.3		113.2	97.7	
Net working capital	213.8	73.9		144.6	167.2	
Invested capital	611.6	699.6		547.4	816.0	
Segment assets	893.3	850.0	1,743.3	840.6	933.0	1,773.6

Reconciliation	2018	2017
Performance targets		
Operating profit before special items for reporting segments	250.2	260.3
Hyperinflation restatement of operating profit before special items	(11.5)	-
Non-allocated corporate functions	(25.7)	(26.7)
Eliminations	1.5	1.7
Operating profit before special items as per statement of comprehensive income	**214.5**	**235.3**
Special items	(32.7)	(13.9)
Operating profit as per statement of comprehensive income	**181.8**	**221.4**
Profit after tax in associates	0.0	0.1
Financial income	33.0	10.7
Financial expenses	(78.9)	(64.4)
Profit before tax as per statement of comprehensive income	**135.9**	**167.8**
Assets		
Assets for reporting segments	1,743.3	1,773.6
Hyperinflation restatement of non-monetary items	33.2	-
Non-allocated assets	137.7	116.2
Eliminations	(80.3)	(24.7)
Assets as per balance sheet	**1,833.9**	**1,865.1**

Notes

04 Segment information – continued

Geographical distribution

DKKm	Denmark	Rest of Europe	North and South America*	Rest of world	Total group
2018					
Revenue	35.6	1,090.1	925.4	156.0	2,207.1
Intangible assets and property, plant and equipment	164.4	260.4	634.3	10.8	1,069.9
2017					
Revenue	37.0	1,037.2	949.6	183.5	2,207.3
Intangible assets and property, plant and equipment	166.7	261.1	645.7	12.5	1,086.0

* North and South America refer to the geographical continents.

§ Accounting policies

Segment information
The reporting of business segments is in accordance with the internal reporting to the executive board and the board of directors. The executive board and the board of directors constitute Hartmann's chief operating decision maker. Hartmann's activities are segmented on the basis of the geographical location of the reporting units. No operating segments have been aggregated to represent the reporting segments.

With the exception that the transition to IAS 29 is not included in the management reporting, the internal management reporting complies with the group's accounting policies. The effects of restatement for hyperinflation are shown as separate reconciling items in this note.

§ Accounting policies

Business decisions on resource allocation and performance evaluation for each of the segments are made on the basis of the operating profits of the individual segments before special items. Decisions relating to financing and taxation are made on the basis of information on Hartmann as a whole and are not allocated to the reporting segments. Intra-segmental transactions are priced on an arm's length basis.

Segment income and expenses as well as segment assets and liabilities comprise those items that in the internal management reporting are directly attributed to each individual segment and those items that are indirectly allocated to the individual segment on a reliable basis. Profits in associates, financial income and expenses, income taxes, investments in associates, tax assets and tax liabilities and cash and bank debt are not allocated to reporting segments.

The reporting segments are:

- **Europe** – comprising production and sales of moulded-fibre packaging. The products are manufactured at factories in Europe (including Israel) and are primarily sold to egg producers, egg packing businesses, retail chains and buyers of industrial packaging. The segment also comprises production and sales of machinery and technology to manufacturers of moulded-fibre packaging in selected markets.

- **Americas** – comprising production and sales of moulded-fibre packaging. The products are primarily manufactured at the North and South American factories and sold to egg and fruit producers, egg and fruit packing businesses and retail chains.

Other segment information
External revenue is allocated to geographical areas on the basis of the customer's geographical location. Allocation of intangible assets and property, plant and equipment is based on the geographical location and use of the assets.

No single customer represents more than 10% of external revenue. Revenue from external customers attributable to a single foreign country is immaterial.

Notes

05 Revenue

	Group		Parent company	
DKKm	2018	2017	2018	2017
Moulded-fibre packaging	2,092.3	2,091.8	1,279.9	1,218.2
Machinery and technology	114.8	115.5	167.6	186.0
Revenue	**2,207.1**	**2,207.3**	**1,284.0**	**1,226.2**

§ Accounting policies

Revenue

The group and the parent company recognise revenue from the following categories:

- Sales of moulded-fibre packaging to egg and fruit producers, packing businesses and retail chains and to buyers of industrial packaging.
- Sales of machinery and technology to manufacturers of moulded-fibre packaging.

Revenue from sales of moulded-fibre packaging and from machinery and technology is recognised when the goods have been delivered in accordance with the agreed terms of delivery and control of the goods has thus been transferred to the customer.

Trade receivables are recognised when the goods have been delivered to the customer and an unconditional right to consideration for the goods has thus been obtained, as only the passage of time is required before payment of the consideration is due.

For sales of moulded-fibre packaging, the general terms of payment are 30 days. For sales of machinery and technology, prepayments are received in instalments that in aggregate make up the main part of the contract sum.

06 Production costs

	Group		Parent company	
DKKm	2018	2017	2018	2017
Cost of sales	1,133.1	1,091.6	838.5	779.6
Staff costs included in cost of sales	(302.1)	(291.9)	(113.9)	(98.0)
Inventory write-downs	4.7	0.8	0.2	(1.3)
Staff costs, see note 9	409.9	423.3	160.8	147.6
Depreciation and amortisation, see notes 16 and 17	123.5	123.7	27.4	34.9
Other production costs	200.4	203.4	73.8	64.8
Production costs	**1,569.5**	**1,550.9**	**986.8**	**927.6**

Development costs of DKK 6.3 million for both the group and the parent company (2017: DKK 15.6 million) are included in other production costs.

§ Accounting policies

Production costs

Production costs comprise direct and indirect costs, including depreciation and amortisation and wages and salaries, incurred in generating the revenue for the year. Production costs also comprise development costs not qualifying for capitalisation.

Notes

07 Selling and distribution costs

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Staff costs, see note 9	69.6	69.5	15.1	15.8
Depreciation and amortisation, see notes 16 and 17	2.5	3.3	0.2	0.2
Other selling and distribution costs	251.8	252.6	165.4	143.2
Selling and distribution costs	**323.9**	**325.4**	**180.7**	**159.2**

Other selling and distribution costs mainly comprise freight costs.

Accounting policies

Selling and distribution costs
Selling and distribution costs comprise the costs of freight, sales staff, advertising, exhibitions, depreciation and amortisation and credit losses.

08 Administrative expenses

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Staff costs, see note 9	58.2	47.5	36.4	29.6
Depreciation and amortisation, see notes 16 and 17	7.8	6.2	6.8	5.5
Other administrative expenses	33.2	42.1	18.1	24.9
Administrative expenses	**99.2**	**95.8**	**61.3**	**60.0**

Accounting policies

Administrative expenses
Administrative expenses comprise the expenses of the administrative staff, management, office premises, office expenses, depreciation and amortisation.

09 Staff costs

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Wages, salaries and remuneration	492.3	469.5	193.9	173.9
Pension costs, defined benefit plans	3.4	3.0	-	-
Pension contributions, defined contribution plans	40.9	42.1	17.0	15.9
Other social security costs	23.7	25.7	3.2	3.2
Staff costs	**560.3**	**540.3**	**214.1**	**193.0**
Staff costs are recognised in the following comprehensive income statement items:				
Production costs	409.9	423.3	160.8	147.6
Selling and distribution costs	69.6	69.5	15.1	15.8
Administrative expenses	58.2	47.5	36.4	29.6
Special costs	22.6	0.0	1.8	0.0
	560.3	**540.3**	**214.1**	**193.0**
Number of employees				
Average number of full-time employees	1,996	1,994	415	410

For information about pension obligations, see note 26.

Remuneration of the board of directors
The remuneration paid to the members of the board of directors is a fixed fee approved by the shareholders at the annual general meeting. Ordinary committee members each receive an annual fee of DKK 225,000. The vice chairman receives a fee equal to the ordinary fee multiplied by 1.5, and the chairman receives a fee equal to the ordinary fee multiplied by three. In addition, members of the audit committee receive a fee as set out in seperate table.

DKKm	**2018**	**2017**
Chairman	0.7	0.7
Vice chairman	0.4	0.4
Ordinary board members	1.1	1.1
	2.2	**2.2**

Notes

09 Staff costs – continued

Remuneration of the executive board
The remuneration paid to the members of the executive board is based on a fixed salary, defined contribution pension, bonus and other benefits in the form of company car and telephone. Bonuses are individual and performance-related. The remuneration policy for members of the executive board includes a one-year bonus programme.

The one-year bonus programme is based on financial targets and cannot exceed 50% of the individual's basic salary before pension.

Hartmann may terminate the executive service agreements of the members of Hartmann's executive board at 12 months' notice. In the event of a change of ownership of a controlling interest in the company, their notice of termination will be extended to 18 months effective from the date of transfer of control. The extended notice will apply for a period of 18 months after the transfer.

DKKm	Salary	Bonus	Pension	Other benefits	Total
2018					
Torben Rosenkrantz-Theil (appointed on 15 March 2018)	2.7	0.1	0.3	0.2	3.3
Flemming Steen (appointed on 18 September 2018)	0.8	0.0	0.0	0.0	0.8
Ulrik Kolding Hartvig (resigned on 18 February 2018)	0.5	0.0	0.1	0.2	0.8
Marianne Rørslev Bock (resigned on 18 September 2018)	2.0	0.1	0.2	0.2	2.5
	6.0	**0.2**	**0.6**	**0.6**	**7.4**

In addition to the above, continuing remuneration of DKK 1.8 million was paid in 2018 in relation to Ulrik Kolding Hartvig.

DKKm	Salary	Bonus	Pension	Other benefits	Total
2017					
Ulrik Kolding Hartvig	3.4	(0.4)	0.4	0.2	3.6
Marianne Rørslev Bock	2.3	(0.2)	0.3	0.2	2.6
	5.7	**(0.6)**	**0.7**	**0.4**	**6.2**

Bonus relates to accrued bonus for executive board members in respective financial years. The negative bonus in 2017 relates to adjustment of the executive board's three-year bonus programme. The three-year bonus programme was discontinued in 2018 without any costs related.

Remuneration of the audit committee
The remuneration paid to the members of the audit committee is a fixed fee approved by the shareholders at the annual general meeting. Ordinary committee members each receive an annual fee of DKK 112,500. The chairman receives a fee of DKK 337,500.

DKKm	2018	2017
Chairman	0.3	0.3
Ordinary committee members	0.1	0.1
	0.4	**0.4**

Shares held by members of the executive board and the board of directors

	No. of shares			
	01.01.2018	Purchased	Sold	31.12.2018
Executive board				
Torben Rosenkrantz-Theil	0	0	0	0
Flemming Steen	0	0	0	0
Board of directors				
Agnete Raaschou-Nielsen	2,000	0	0	2,000
Steen Parsholt	5,000	0	0	5,000
Jørn Mørkeberg Nielsen	2,700	0	0	2,700
Jan Klarskov Henriksen	0	0	0	0
Andy Hansen	56	0	0	56
Palle Skade Andersen	0	0	0	0

Notes

10 Other operating income

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Gain on sale of intangible assets and property, plant and equipment	0.0	0.1	0.0	0.0
Other operating income	**0.0**	**0.1**	**0.0**	**0.0**

Accounting policies

Other operating income and expenses

Other operating income and expenses comprise items of a secondary nature, including gains and losses from disposal of intangible assets and property, plant and equipment.

11 Special items

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Impairment of trade receivables	0.0	12.1	0.0	12.1
Legal costs	0.0	1.8	0.0	1.8
Severance payments and continuing remuneration	22.5	0.0	4.5	0.0
Decommissioning costs	7.5	0.0	5.9	0.0
Consultancy fees	2.7	0.0	2.1	0.0
Special costs	**32.7**	**13.9**	**12.5**	**13.9**
Special items	**(32.7)**	**(13.9)**	**(12.5)**	**(13.9)**
If special items had been recognised in operating profit before special items, they would have been recognised in the following items in the statement of comprehensive income:				
Revenue	0.0	(12.1)	0.0	(12.1)
Production costs	(8.8)	0.0	(6.2)	0.0
Selling and distribution costs	(17.5)	0.0	(1.5)	0.0
Administrative expenses	(6.4)	(1.8)	(4.8)	(1.8)
	(32.7)	**(13.9)**	**(12.5)**	**(13.9)**

Hartmann launched 'Perform 2018' in Q1 2018, a programme that, through efficiency-enhancing measures, cost cuts and sales promoting initiatives, set out to outweigh the repercussions of the discovery of fipronil-contaminated eggs in Europe in 2017, subdued packaging sales during Easter and slower-than-expected utilisation of the group's capacity in North America. 'Perform 2018' involved the transfer of a number of functions from Hartmann's office in Germany to the group's Hungarian organisation; the transfer of test centre activities from Germany to other factories and comprehensive organisational adjustments.

The costs related to the 'Perform 2018' programme and continuing remuneration for former CEO Ulrik Kolding Hartvig have been recognised under special items in 2018.

The special items for 2017 related to the case concerning the pricing of district heating supplied by Hartmann's combined heat and power plant to Tønder Fjernvarmeselskab during the period from 2003 up to and including 8 January 2015. Hartmann disagreed on the key principle governing the fixing of heating prices laid down in a decision by the Energy Board of Appeal and proceeded with the lawsuit for purposes of obtaining a legal assessment of the dispute. Based on an internal review of the decision and indications from external advisers, management believed that the case was very likely to be referred back once more to the Energy Board of Appeal. Management believed renewed consideration by the Energy Board of Appeal would likely result in a change of the principle for fixing heating prices. Hartmann estimated the financial implications to amount to an expense of DKK 12.1 million, and the carrying amount of the receivable from Tønder Fjernvarme was thus reduced by DKK 12.1 million from the original amount of DKK 39.0 million. The value was unchanged at 31 December 2018.

In addition, legal costs of DKK 1.8 million relating to the pending and related cases were recognised in 2017.

Accounting policies

Special items

Special items comprise significant non-recurring income and expenses of a special nature relative to the group's earnings-generating operating activities, such as the costs of extensive restructuring of processes and basic structural changes. Other significant amounts of a non-recurring nature are also recognised under this item, including impairment of intangible assets and property, plant and equipment and gains and losses on the divestment of activities. These items are presented separately in order to facilitate the comparability of the statement of comprehensive income and in order to provide a true and fair view of consolidated and parent company operating profits.

Notes

12 Financial income and expenses

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Interest income from subsidiaries	-	-	11.7	12.3
Interest income, cash and cash equivalents etc.	-	0.1	0.0	0.0
Other interest income	5.0	7.7	4.4	0.1
Interest income from financial assets not measured at fair value through profit or loss	**5.0**	**7.8**	**16.1**	**12.4**
Dividend from subsidiaries	-	-	5.2	24.4
Dividend from associates	-	-	0.1	0.0
Reversal of prior-year impairment of investments in subsidiaries, see note 18	-	-	3.9	0.0
Monetary gain on hyperinflation restatement	6.8	-	-	-
Foreign exchange gains	20.6	2.3	3.1	0.0
Interest rate effect on discounting of non-current receivables	0.0	0.2	0.0	0.0
Derivative financial instruments	0.6	0.4	0.3	0.2
Financial income	**33.0**	**10.7**	**28.7**	**37.0**
Interest expenses, credit institutions	16.6	23.0	11.9	10.9
Net interest on defined benefit plans, see note 26	1.2	1.1	-	-
Other financial expenses	3.7	3.2	0.4	0.6
Interest expenses from financial liabilities not measured at fair value through profit or loss	**21.5**	**27.3**	**12.3**	**11.5**
Foreign exchange losses	56.8	36.6	10.1	27.6
Derivative financial instruments	0.6	0.5	0.1	0.3
Financial expenses	**78.9**	**64.4**	**22.5**	**39.4**
Financial income and (expenses)	**(45.9)**	**(53.7)**	**6.2**	**(2.4)**

§ Accounting policies

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised foreign exchange adjustments, amortisation and surcharges and allowances under the tax prepayment scheme. Also included are realised and unrealised gains and losses relating to derivative financial instruments not qualifying as effective hedges as well as monetary gains on restatement for hyperinflation.

Notes

13 Tax on profit/loss for the year

	Group		Parent company	
DKKm	2018	2017	2018	2017
Breakdown of tax for the year:				
Tax on profit for the year	39.8	45.8	9.7	(4.9)
Tax on other comprehensive income	6.2	(1.9)	(0.3)	(0.3)
	46.0	**43.9**	**9.4**	**(5.2)**
Tax on profit for the year has been calculated as follows:				
Current tax	31.8	25.0	9.0	10.0
Change in deferred tax	5.9	11.2	1.1	(1.2)
Change in deferred tax relating to prior years	(0.9)	39.2	(0.8)	0.2
Change in income tax rate	1.4	0.2	0.0	0.0
Tax relating to prior years	1.6	(29.8)	0.4	(13.9)
Tax on profit for the year	**39.8**	**45.8**	**9.7**	**(4.9)**
Tax on profit for the year may be specified as follows:				
Profit before tax	135.9	167.8	48.9	63.1
Dividend from subsidiaries and associates	-	-	(5.3)	(24.4)
Reversal of impairment of investments in subsidiaries	-	-	(3.9)	0.0
Profit after tax in associates	0.0	0.0	-	-
	135.9	**167.8**	**39.7**	**38.7**
Tax charged at 22%	29.9	36.9	8.7	8.5
Adjustment of tax calculated for foreign subsidiaries relative to 22%	1.8	2.6	-	-
Tax effect of:				
Change in income tax rate	1.4	0.2	0.0	0.0
Recognised deferred tax assets in foreign subsidiaries	(1.9)	(3.0)	0.0	0.0
Non-taxable income and non-deductible expenses	(0.8)	(0.5)	0.5	0.1
Hyperinflation restatement	5.9	-	-	-
Other tax expenses	1.1	0.2	0.9	0.2
Deferred tax relating to prior years	(0.9)	39.2	(0.8)	0.2
Tax relating to prior years	1.6	(29.8)	0.4	(13.9)
Tax on profit for the year	**39.8**	**45.8**	**9.7**	**(4.9)**
Effective tax rate	**29**	**27**	**24**	**(13)**

	Group		Parent company	
DKKm	2018	2017	2018	2017
Tax on other comprehensive income:				
Actuarial losses on defined benefit plans	3.5	(2.2)	0.0	0.0
Hyperinflation restatement of non-monetary items, 1 January	4.2	-	-	-
Value adjustment of hedging instruments:				
Recognised in other comprehensive income	(2.0)	2.4	(0.4)	0.8
Transferred to revenue	0.4	(2.0)	0.0	(0.9)
Transferred to production costs	0.2	(0.2)	0.2	(0.2)
Transferred to financial income and expenses	(0.1)	0.1	(0.1)	0.0
Tax on other comprehensive income	**6.2**	**(1.9)**	**(0.3)**	**(0.3)**

The higher effective tax rate in 2018 was primarily attributable to deferred tax on restatements for hyperinflation in Argentina.

§ Accounting policies

Tax on profit for the year

The group's Danish entities are jointly taxed with its principal shareholder, Thornico Holding A/S, and its Danish subsidiaries. The current Danish income tax liability is allocated among the jointly taxed entities in proportion to their taxable income (full allocation subject to reimbursement in respect of tax losses).

Tax for the year, comprising current income tax for the year, joint taxation contributions for the year and changes in deferred tax for the year, including such changes as follow from changes in the tax rate, is recognised in profit/loss for the year, other comprehensive income or in equity, depending on where the item is recognised.

Notes

14 Earnings per share

	Group	
	2018	**2017**
Average no. of shares	7,015,090	7,015,090
Average no. of treasury shares	100,000	100,000
Average no. of shares in circulation	**6,915,090**	**6,915,090**
Average dilutive effect of outstanding subscription rights	0	0
Average no. of shares, diluted	**6,915,090**	**6,915,090**
Profit for the year attributable to the shareholders of Brødrene Hartmann A/S, DKKm	**96.1**	**122.0**
Earnings per share, DKK	13.9	17.6
Diluted earnings per share, DKK	13.9	17.6

15 Cash flows

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
(Gains) and losses on disposal of intangible assets and property, plant and equipment	(0.1)	(0.1)	0.0	0.0
Hyperinflation restatement	7.9	-	-	-
Adjustment for other non-cash items	**7.8**	**(0.1)**	**0.0**	**0.0**
Inventories	27.5	(33.9)	23.5	(20.8)
Receivables	(42.5)	(15.9)	(64.3)	9.9
Pension obligations	(6.0)	(6.4)	0.0	0.0
Prepayments from customers	(37.2)	5.9	(31.4)	5.9
Trade payables	12.5	(20.6)	(9.5)	12.1
Other payables etc.	22.3	(17.1)	33.1	12.4
Change in working capital etc.	**(23.4)**	**(88.0)**	**(48.6)**	**19.5**
Credit institutions at 1 January	612.2	632.4	607.7	618.8
Raising of non-current debt	0.0	162.8	0.0	162.8
Repayment of non-current debt	(2.4)	(175.5)	0.0	(170.0)
Foreign exchange adjustments	5.9	(8.1)	8.0	(4.5)
Other changes	0.3	0.6	0.3	0.6
Credit institutions at 31 December	**616.0**	**612.2**	**616.0**	**607.7**

16 Intangible assets

Group

DKKm	**Goodwill**	**Other**	**Total**
Cost at 1 January 2018	69.9	40.1	110.0
Hyperinflation restatement of cost at 1 January 2018	0.3	17.5	17.8
Foreign exchange adjustment	(6.3)	(15.2)	(21.5)
Additions	0.0	7.0	7.0
Cost at 31 December 2018	**63.9**	**49.4**	**113.3**
Amortisation and impairment at 1 January 2018	0.0	8.6	8.6
Hyperinflation restatement of amortisation and impairment at 1 January 2018	0.0	3.4	3.4
Foreign exchange adjustments	0.0	(3.0)	(3.0)
Amortisation	0.0	5.5	5.5
Amortisation and impairment at 31 December 2018	**0.0**	**14.5**	**14.5**
Carrying amount at 31 December 2018	**63.9**	**34.9**	**98.8**
Cost at 1 January 2017	79.2	42.5	121.7
Foreign exchange adjustment	(9.3)	(7.0)	(16.3)
Additions	0.0	4.6	4.6
Cost at 31 December 2017	**69.9**	**40.1**	**110.0**
Amortisation and impairment at 1 January 2017	0.0	6.2	6.2
Foreign exchange adjustments	0.0	(1.4)	(1.4)
Amortisation	0.0	3.8	3.8
Amortisation and impairment at 31 December 2017	**0.0**	**8.6**	**8.6**
Carrying amount at 31 December 2017	**69.9**	**31.5**	**101.4**

Other intangible assets include the Sanovo Greenpack trademark carried at DKK 8.0 million (2017: DKK 10.2 million). Management expects this value can be sustained indefinitely as the trademark enjoys a strong position in the South American markets, which are expected to remain profitable in the long term. The trademark is thus believed to have an indefinite useful life. The development in 2018 can be ascribed entirely to exchange rate developments and restatement for hyperinflation.

Notes

16 Intangible assets – continued

Parent company

DKKm	Goodwill	Other	Total
Cost at 1 January 2018	10.7	6.1	16.8
Additions	0.0	7.0	7.0
Cost at 31 December 2018	**10.7**	**13.1**	**23.8**
Amortisation and impairment at 1 January 2018	0.0	1.5	1.5
Amortisation	0.0	2.9	2.9
Amortisation and impairment at 31 December 2018	**0.0**	**4.4**	**4.4**
Carrying amount at 31 December 2018	**10.7**	**8.7**	**19.4**
Cost at 1 January 2017	10.7	1.8	12.5
Additions	0.0	4.3	4.3
Cost at 31 December 2017	**10.7**	**6.1**	**16.8**
Amortisation and impairment at 1 January 2017	0.0	0.5	0.5
Amortisation	0.0	1.0	1.0
Amortisation and impairment at 31 December 2017	**0.0**	**1.5**	**1.5**
Carrying amount at 31 December 2017	**10.7**	**4.6**	**15.3**

	Group		**Parent company**	
DKKm	**2018**	**2017**	**2018**	**2017**
Amortisation is recognised in the statement of comprehensive income in the following items:				
Production costs	1.1	0.1	0.3	0.0
Selling and distribution costs	1.9	2.7	0.0	0.0
Administrative expenses	2.5	1.0	2.6	1.0
	5.5	**3.8**	**2.9**	**1.0**

Impairment testing
Management has tested goodwill and other intangible assets with indefinite useful lives for impairment in each of the cash-generating units to which such assets have been allocated.

Group		**Goodwill**		**Trademarks**	
DKKm	**Segment**	**2018**	**2017**	**2018**	**2017**
Cash-generating unit					
Argentina	Americas	0.1	0.2	1.6	3.0
Brazil	Americas	53.1	59.0	6.4	7.2
Europe Moulded Fibre	Europe	10.7	10.7	0.0	0.0
Total		**63.9**	**69.9**	**8.0**	**10.2**

Parent company		**Goodwill**	
DKKm	**Segment**	**2018**	**2017**
Cash-generating unit			
Europe Moulded Fibre	Europe	10.7	10.7
Total		**10.7**	**10.7**

Key assumptions
The recoverable amounts for the units are based on the value in use determined by calculating expected net cash flows on the basis of the 2019 forecast approved by the board of directors and projections for the period 2020-2023. The average growth rates applied for the terminal period are assessed not to exceed long-term average growth rates on the markets of the individual units. The calculation of the value in use includes expected investments for the period 2019-2023, and expected investments to maintain the capital apparatus are included in the terminal period.

Argentina
The rate of growth applied for the period 2019-2023 and the terminal period takes into account the expected rate of inflation. Price increases on a level with expected inflation are assumed to be realisable. Growth during the terminal period has been determined at 4.9% (2017: 4.9%). A pre-tax discount rate of 45% has been applied for 2019 (2017: 29% for 2018), which includes an expected rate of inflation of 36% (2017: 15%). The discount rate has been adjusted for a decrease in the expected inflation rate for the period 2020-2023 and for the terminal period, in which a pre-tax rate of 19% has been applied (2017: 22%).

Brazil
The rate of growth applied for the period 2019-2023 and the terminal period takes into account the expected rate of inflation. Price increases on a level with expected inflation are assumed to be realisable. Growth during the terminal period has been determined at 4.6% (2017: 4.3%). A pre-tax discount rate of 12% has been applied for the 2019-2023 period and for the terminal period (2017: 12%).

Notes

16 Intangible assets – continued

Sensitivity analysis
A sensitivity analysis has been performed of key assumptions in the impairment test made in respect of the cash-generating units in South America for purposes of identifying the highest discount rate and the lowest growth rate in the terminal period that will not result in impairment losses. The sensitivity analysis is outlined below:

Key assumptions	Argentina	Brazil
Pre-tax discount rate applied in the terminal period	19.3%	11.5%
Highest pre-tax discount rate in the terminal period	20.7%	17.3%
Growth rate applied in the terminal period	4.9%	4.6%
Lowest growth rate in the terminal period	2.1%	< 0%

Europe Moulded Fibre
The calculation of expected cash flows takes into account the effect of restructuring measures implemented in the European production network and at the head office as well as the expected development in selling prices on the European markets, which has been characterised by intensifying price competition. Growth during the terminal period has been determined at 1.0% (2017: 1.0%), in line with the expected inflation rate. A pre-tax discount rate of 8% (2017: 10%) has been applied for the full period.

Conclusion
Based on the tests performed, management has concluded that no intangible assets are impaired. While management acknowledges that in the South American markets there is a higher risk of financial scenarios that may change assumptions to the effect that the carrying amount of goodwill and trademarks with indefinite useful lives will exceed the recoverable amount, management finds such scenarios predominantly unlikely. Management monitors macro-economic developments in Argentina and Brazil on a continuous basis and currently finds it predominantly unlikely that changes in assumptions would lead to the carrying amount of goodwill and trademarks with indefinite useful lives significantly exceeding the recoverable amount.

Significant accounting estimates and judgments

Recoverable amount of goodwill and trademarks with an indefinite useful life
In order to determine whether goodwill and trademarks with indefinite useful lives are impaired, values in use for the cash-generating units to which such assets have been allocated must be calculated. The calculation of the value in use assumes that an estimate of future expected cash flows in the individual cash-generating unit has been made and that a reasonable discount rate has been determined.

§ Accounting policies

Goodwill
On initial recognition, goodwill is recognised at cost in the balance sheet. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortised but tested for impairment at least once a year. See the section on impairment of intangible assets. The carrying amount of goodwill is allocated to the group's cash-generating units at the date of acquisition. Cash-generating units are determined based on the management structure and internal financial controlling.

Other intangible assets
Other intangible assets are software, customer relations and trademarks.

Software is measured at cost less accumulated amortisation. Software is amortised using the straight-line method over its expected useful life, which is 3-5 years.

Customer relations acquired in connection with business combinations are measured at cost less accumulated amortisation. Customer relations are amortised using the straight-line method over the expected useful life, which is ten years.

Trademarks with an indefinite useful life and acquired in connection with business combinations are measured at cost. Trademarks with an indefinite useful life are not amortised but tested for impairment at least once a year. See the section on impairment of intangible assets.

Impairment of intangible assets
Goodwill and trademarks with an indefinite useful life are tested for impairment annually, the first impairment test being performed prior to the end of the year of acquisition. Goodwill and trademarks with an indefinite useful life are tested at least once a year together with the other non-current assets and current net assets of the cash-generating unit to which the assets have been allocated and are written down to the recoverable amount in profit or loss if the carrying amount is higher. Impairment losses are not reversed. The recoverable amount is calculated as the net present value of expected future net cash flows from the cash-generating unit to which the goodwill and trademarks with indefinite useful lives are related.

Other intangible assets are written down in accordance with the accounting policies governing impairment of property, plant and equipment set out in note 17.

Notes

17 Property, plant and equipment

DKKm	2018 Land and buildings	2018 Plant and machinery	2018 Other fixtures and fittings, tools and equipment	2018 Plant under construction	2018 Total	2017 Land and buildings	2017 Plant and machinery	2017 Other fixtures and fittings, tools and equipment	2017 Plant under construction	2017 Total
Group										
Cost at 1 January	592.3	2,189.6	104.2	21.7	2,907.8	560.8	2,039.1	106.5	166.2	2,872.6
Hyperinflation restatement of cost at 1 January	25.9	35.5	6.0	0.6	68.0	-	-	-	-	-
Foreign exchange adjustment	(27.2)	(57.2)	(6.3)	(0.5)	(91.2)	(27.1)	(55.3)	(1.3)	(18.7)	(102.4)
Transfer	0.0	18.2	3.6	(21.8)	(0.0)	50.5	97.0	0.0	(147.5)	0.0
Additions	10.1	38.9	1.5	71.4	121.9	12.6	157.6	11.9	21.7	203.8
Disposals	(32.8)	(205.1)	(24.6)	0.0	(262.5)	(4.5)	(48.8)	(12.9)	0.0	(66.2)
Cost at 31 December	**568.3**	**2,019.9**	**84.4**	**71.4**	**2,744.0**	**592.3**	**2,189.6**	**104.2**	**21.7**	**2,907.8**
Depreciation and impairment at 1 January	291.0	1,548.9	83.3	0.0	1,923.2	281.1	1,510.1	89.5	0.0	1,880.7
Hyperinflation restatement of depreciation at 1 January	1.2	4.1	10.3	0.0	15.6	-	-	-	-	-
Foreign exchange adjustment	(3.3)	(27.6)	(3.7)	0.0	(34.6)	(2.3)	(21.7)	(0.4)	0.0	(24.4)
Transfer	0.0	3.6	(3.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	17.8	105.5	7.5	0.0	130.8	16.7	107.6	7.1	0.0	131.4
Disposals	(32.8)	(204.8)	(24.5)	0.0	(262.1)	(4.5)	(47.1)	(12.9)	0.0	(64.5)
Depreciation and impairment at 31 December	**273.9**	**1,429.7**	**69.3**	**0.0**	**1,772.9**	**291.0**	**1,548.9**	**83.3**	**0.0**	**1,923.2**
Carrying amount at 31 December	**294.4**	**590.2**	**15.1**	**71.4**	**971.1**	**301.3**	**640.7**	**20.9**	**21.7**	**984.6**
Parent company										
Cost at 1 January	167.2	831.7	70.1	11.2	1,080.2	166.4	815.2	74.9	4.3	1,060.8
Transfer	0.0	11.2	0.0	(11.2)	0.0	0.0	4.3	0.0	(4.3)	0.0
Additions	5.0	1.9	0.4	7.7	15.0	0.8	58.0	5.2	11.2	75.2
Disposals	(0.5)	(170.7)	(21.1)	0.0	(192.3)	0.0	(45.8)	(10.0)	0.0	(55.8)
Cost at 31 December	**171.7**	**674.1**	**49.4**	**7.7**	**902.9**	**167.2**	**831.7**	**70.1**	**11.2**	**1,080.2**
Depreciation and impairment at 1 January	153.7	710.3	60.9	0.0	924.9	151.4	722.6	66.5	0.0	940.5
Depreciation	2.5	26.4	4.0	0.0	32.9	2.3	33.5	4.4	0.0	40.2
Disposals	(0.5)	(170.7)	(21.1)	0.0	(192.3)	0.0	(45.8)	(10.0)	0.0	(55.8)
Depreciation and impairment at 31 December	**155.7**	**566.0**	**43.8**	**0.0**	**765.5**	**153.7**	**710.3**	**60.9**	**0.0**	**924.9**
Carrying amount at 31 December	**16.0**	**108.1**	**5.6**	**7.7**	**137.4**	**13.5**	**121.4**	**9.2**	**11.2**	**155.3**

Notes

17 Property, plant and equipment – continued

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Breakdown of depreciation and impairment losses:				
Depreciation	130.8	131.4	32.9	40.2
Part of government grants recognised as income	(2.5)	(2.0)	(1.4)	(0.6)
	128.3	**129.4**	**31.5**	**39.6**
Depreciation and impairment losses are recognised in the following comprehensive income statement items:				
Production costs	122.4	123.6	27.1	34.9
Selling and distribution costs	0.6	0.6	0.2	0.2
Administrative expenses	5.3	5.2	4.2	4.5
	128.3	**129.4**	**31.5**	**39.6**

§ Accounting policies

Property, plant and equipment
Items of property, plant and 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 asset is available for use. The cost of self-constructed assets comprises costs related to wages and salaries, materials, components and sub-suppliers. Borrowing costs are not recognised if production periods are short. 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.

Subsequent costs, e.g. for the replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset when it is likely that the expenditure of the replacement involves future financial benefits to the group.

The carrying amount of the replaced components ceases to be recognised in the balance sheet and is transferred to profit or loss. All other costs related to general repair and maintenance are recognised in profit or loss as and when incurred.

§ Accounting policies – continued

Items of property, plant and equipment are depreciated on a straight-line basis over their expected useful lives:

- Buildings and building components, 10-25 years
- Plant and machinery, 3-25 years
- Fixtures and operating equipment, 5-10 years
- IT equipment including basic programs, 3-5 years

Land is not depreciated. The depreciation basis is determined taking into account the residual value of the asset and any impairment losses. The residual value is determined at the date of acquisition and is reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation will cease. If the depreciation period or the residual value is changed, the effect on depreciation going forward is recognised as a change in accounting estimates.

Depreciation is recognised in the statement of comprehensive income as production costs, selling and distribution costs and administrative expenses, respectively.

Gains or losses on the disposal of property, plant and equipment are stated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the statement of comprehensive income in other operating income or in other operating expenses.

Impairment of property, plant and equipment
Items of property, plant and equipment are reviewed for impairment once a year. When there is an indication that an asset may be impaired, the recoverable amount of that asset is determined. The recoverable amount is the higher of the asset's net selling price and the net present value of expected future net cash flows. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or its cash-generating unit. Impairment losses are recognised in profit or loss.

Impairment losses on property, plant and equipment are reversed to the extent that changes have occurred in the assumptions and estimates on the basis of which the impairment loss was recognised. Impairment losses are reversed only to the extent that the new carrying amount of the asset does not exceed the carrying amount it would have had net of depreciation if the impairment loss had not been recognised.

Notes

18 Investments in subsidiaries

DKKm	Parent company 2018	Parent company 2017
Cost at 1 January	981.8	858.5
Additions	44.6	123.3
Cost at 31 December	**1,026.4**	**981.8**
Impairment at 1 January	30.2	30.2
Reversal of impairment losses in the year	(3.9)	0,0
Impairment at 31 December	**26.3**	**30.2**
Carrying amount at 31 December	**1,000.1**	**951.6**

The year's addition of DKK 44.6 million relates to the contribution of capital to Sanovo Greenpack Argentina SRL. The addition of DKK 123.3 million in 2017 related to the establishment of a subsidiary in the USA.

Reversal of impairment losses of DKK 3.9 million in 2018 relates to full reversal of prior-year impairment losses on the Hartmann Italiana S.r.l. subsidiary.

§ Accounting policies

Investments in subsidiaries in the parent company financial statements
Investments in subsidiaries are measured at cost. Where the recoverable amount is lower than cost, the investments are written down to this lower value. In connection with reversal of impairment losses, the carrying amount is revalued at the recoverable amount, which cannot exceed cost.

Dividend from investments in subsidiaries in the parent company financial statements
Dividend from investments in subsidiaries is recognised in the parent company's profit or loss for the financial year in which it is declared.

Name	Registered office	Ownership interest
Hartmann Canada Inc.	Canada	100%
Hartmann Dominion Inc. (subsidiary of Hartmann Canada Inc.)	Canada	100%
Hartmann d.o.o.	Serbia	100%
Hartmann Finance A/S	Denmark	100%
Hartmann France S.a.r.l.	France	100%
Hartmann-Hungary Kft.	Hungary	100%
Hartmann Italiana S.r.l.	Italy	100%
Hartmann-Mai Ltd.	Israel	100%
Hartmann Papirna Ambalaža d.o.o.	Croatia	100%
Hartmann Pólska Sp. z o.o.	Poland	100%
Hartmann-Schwedt GmbH	Germany	100%
Hartmann (UK) Ltd.	England	100%
Hartmann USA Inc. (subsidiary of Hartmann Canada Inc.)	USA	100%
Hartmann US Inc.	USA	100%
Hartmann-Varkaus Oy	Finland	100%
Hartmann Verpackung AG	Switzerland	100%
Hartmann Verpackung GmbH (subsidiary of Hartmann-Schwedt GmbH)	Germany	100%
Molarsa Chile SPA (subsidiary of Moldeados Argentinos SA)	Chile	100%
Moldeados Argentinos SA (subsidiary of Projects A/S)	Argentina	100%
Projects A/S	Denmark	100%
Sanovo Greenpack Argentina SRL (subsidiary of Projects A/S)	Argentina	100%
Sanovo Greenpack Embalagens Do Brasil Ltda (subsidiary of Projects A/S)	Brazil	100%

§ Accounting policies – continued

Impairment of investments in subsidiaries in the parent company financial statements
Investments in subsidiaries are reviewed for impairment once a year. If there are indications that an investment may be impaired, the recoverable amount of that investment is computed as the net present value of expected future net cash flows. An impairment loss is recognised if the carrying amount is higher than the recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses are reversed to the extent that changes have occurred in the assumptions and estimates on the basis of which the impairment loss was recognised, but the revalued carrying amount cannot exceed cost.

Notes

19 Receivables from subsidiaries (non-current)

	Parent company	
DKKm	2018	2017
Carrying amount at 1 January	413.1	544.1
Foreign exchange adjustment	5.1	(38.0)
Additions	13.8	24.8
Disposals	(130.1)	(117.8)
Carrying amount at 31 December	**301.9**	**413.1**

§ Accounting policies

Receivables from subsidiaries in the parent company financial statements
Receivables from subsidiaries are measured at amortised cost, which usually corresponds to nominal value less expected credit losses. Where a receivable is considered to be impaired, an impairment loss covering the total expected credit loss is recognised.

20 Investments in associates

	Group		Parent company	
DKKm	2018	2017	2018	2017
Cost at 1 January	1.2	1.2	1.2	1.2
Cost at 31 December	**1.2**	**1.2**	**1.2**	**1.2**
Value adjustments at 1 January	1.9	1.8	0.0	0.0
Dividend	(0.1)	0.0	-	-
Share of profit for the year	0.0	0.1	-	-
Value adjustments at 31 December	**1.8**	**1.9**	**0.0**	**0.0**
Carrying amount at 31 December	**3.0**	**3.1**	**1.2**	**1.2**

Name	Registered office	Ownership interest	Gross profit	Profit for the year*	Assets	Liabilities	Equity
2018							
DanFiber A/S	Allerød	49.0%	4.4	0.1	26.6	20.5	6.1
2017							
DanFiber A/S	Allerød	49.0%	4.5	0.2	28.6	22.3	6.3

* Profit for the year is attributable to continuing operations and is identical to comprehensive income for the year.

Notes

20 Investments in associates – continued

§ Accounting policies

Investments in associates in the consolidated financial statements
Investments in associates are measured using the equity method. Investments in associates are measured in the balance sheet at the proportionate share of the companies' net asset value calculated in accordance with the group's accounting policies.

Investments in associates in the parent company financial statements
Investments in subsidiaries and associates are measured at cost. Where the cost is higher than the recoverable amount, the carrying amount is reduced to the lower value. In connection with reversal of impairment losses, the carrying amount is revalued at the recoverable amount, which cannot exceed cost.

Profit/loss from investments in associates in the consolidated financial statements
The proportionate share of the profit/loss from associates after tax and after elimination of the proportionate share of intra-group gains is recognised in the consolidated statement of comprehensive income.

Dividend from investments in associates in the parent company financial statements
Dividend from investments in associates is recognised in the parent company's profit or loss for the financial year in which it is declared.

21 Other receivables (non-current)

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Carrying amount at 1 January	0.0	1.6	0.0	0.0
Foreign exchange adjustment	0.0	0.0	0.0	0.0
Received	0.0	(1.1)	0.0	0.0
Write-down	0.0	(0.7)	0.0	0.0
Interest rate effect on discounting	0.0	0.2	0.0	0.0
Carrying amount at 31 December	**0.0**	**0.0**	**0.0**	**0.0**

The Hungarian subsidiary received government grants in the form of reduced future tax payments during the 2008-2017 period. No grants receivable have been recognised since end-2017.

Due to lower than expected taxable income in 2017, the receivable was reassessed and written down in 2017. See also note 27.

§ Accounting policies

Other receivables (non-current)
Other receivables consist of government grants receivable and are measured at amortised cost. The carrying amount of government grants receivable is reassessed on an annual basis.

Notes

22 Deferred tax

Temporary differences between the carrying amount and the tax base

DKKm	Intangible assets	Property, plant and equipment	Current assets	Liabilities	Other	Tax loss carried forward	Total
Group							
Deferred tax at 1 January 2018	6.5	10.6	0.2	(17.5)	(13.1)	(24.3)	(37.6)
Foreign exchange adjustment	(1.7)	(1.9)	0.0	0.9	0.0	1.1	(1.6)
Adjustment relating to prior years	0.0	(0.1)	0.0	(0.8)	0.0	0.0	(0.9)
Hyperinflation restatement	0.0	4.2	0.0	0.0	00	0.0	4.2
Recognised in profit for the year, net	0.3	29.3	0.4	(7.0)	(4.0)	(11.8)	7.2
Recognised through other comprehensive income, net	0.0	0.0	0.0	3.5	(1.5)	0.0	2.0
Deferred tax at 31 December 2018	**5.1**	**42.1**	**0.6**	**(20.9)**	**(18.6)**	**(35.0)**	**(26.7)**
Deferred tax at 1 January 2017	8.8	(7.5)	(0.1)	(16.5)	(43.9)	(28.8)	(88.0)
Foreign exchange adjustment	(1.6)	0.1	0.1	0.9	0.0	2.3	1.8
Adjustment relating to prior years	0.0	6.4	0.0	0.0	32.8	0.0	39.2
Recognised in profit for the year, net	(0.7)	11.6	0.2	0.2	(2.2)	2.2	11.3
Recognised through other comprehensive income, net	0.0	0.0	0.0	(2.1)	0.2	0.0	(1.9)
Deferred tax at 31 December 2017	**6.5**	**10.6**	**0.2**	**(17.5)**	**(13.1)**	**(24.3)**	**(37.6)**
Parent company							
Deferred tax at 1 January 2018	1.1	0.9	0.7	(2.2)	0.0	0.0	0.5
Adjustment relating to prior years	0.0	0.0	0.0	(0.8)	0.0	0.0	(0.8)
Recognised in profit for the year, net	0.6	1.1	0.0	(0.5)	(0.1)	0.0	1.1
Recognised through other comprehensive income, net	0.0	0.0	0.0	0.0	(0.3)	0.0	(0.3)
Deferred tax at 31 December 2018	**1.7**	**2.0**	**0.7**	**(3.5)**	**(0.4)**	**0.0**	**0.5**
Deferred tax at 1 January 2017	1.0	0.6	0.8	(1.3)	0.7	0.0	1.8
Adjustment relating to prior years	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Recognised in profit for the year, net	0.1	0.1	(0.1)	(0.9)	(0.4)	0.0	(1.2)
Recognised through other comprehensive income, net	0.0	0.0	0.0	0.0	(0.3)	0.0	(0.3)
Deferred tax at 31 December 2017	**1.1**	**0.9**	**0.7**	**(2.2)**	**0.0**	**0.0**	**0.5**

The item 'Other' includes the expected tax effect of corresponding adjustments in the respective subsidiaries of the ongoing tax audit of the group's transfer prices for prior financial years. 'Other' also includes deferred tax of recapture balances relating to losses utilised in foreign subsidiaries.

Notes

22 Deferred tax – continued

Deferred tax assets and liabilities

	2018			2017		
DKKm	**Deferred tax assets**	**Deferred tax liabilities**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**	**Net**
Group						
Intangible assets	(3.2)	8.3	5.1	(3.7)	10.2	6.5
Property, plant and equipment	(16.8)	58.9	42.1	(13.2)	23.8	10.6
Current assets	(0.1)	0.7	0.6	(0.5)	0.7	0.2
Liabilities	(20.9)	0.0	(20.9)	(17.5)	0.0	(17.5)
Other	(19.4)	0.8	(18.6)	(13.7)	0.6	(13.1)
Tax loss carry-forwards	(35.0)	0.0	(35.0)	(24.3)	0.0	(24.3)
Deferred tax (assets)/liabilities	**(95.4)**	**68.7**	**(26.7)**	**(72.9)**	**35.3**	**(37.6)**
Set-off within legal tax entities	47.3	(47.3)	0.0	21.0	(21.0)	0.0
Total deferred tax (assets)/liabilities, net	**(48.1)**	**21.4**	**(26.7)**	**(51.9)**	**14.3**	**(37.6)**
Parent company						
Intangible assets	0.0	1.7	1.7	0.0	1.1	1.1
Property, plant and equipment	(0.9)	2.9	2.0	(1.3)	2.2	0.9
Current assets	0.0	0.7	0.7	0.0	0.7	0.7
Liabilities	(3.5)	0.0	(3.5)	(2.2)	0.0	(2.2)
Other	(0.9)	0.5	(0.4)	(0.5)	0.5	0.0
Total deferred tax (assets)/liabilities, net	**(5.3)**	**5.8**	**0.5**	**(4.0)**	**4.5**	**0.5**
Set-off within legal tax entities	5.3	(5.3)	0.0	4.0	(4.0)	0.0
Total deferred tax liabilities, net	**0.0**	**0.5**	**0.5**	**0.0**	**0.5**	**0.5**

Other group items primarily concern the expected effects of pending tax audits in Europe.

Notes

22 Deferred tax – continued

Unrecognised deferred tax assets

	Group		Parent company	
DKKm	2018	2017	2018	2017
Unrecognised deferred tax assets at 1 January	5.2	11.8	0.0	0.0
Foreign exchange adjustment	(0.4)	(1.3)	0.0	0.0
Disposals	(1.8)	(5.3)	0.0	0.0
Unrecognised deferred tax assets at 31 December	**3.0**	**5.2**	**0.0**	**0.0**

Disposals for the year of DKK 1.8 million related to a reassessment of previously unrecognised deferred tax assets in Brazil and Germany, which have now been recognised in profit for the year (2017: DKK 5.3 million relating primarily to Brazil).

Deferred tax assets that are not expected to be realised or are otherwise subject to significant risks of not being utilised are not recognised. Unrecognised deferred tax assets relates to the subsidiary in Brazil (2017: Brazil and Germany). The utilisation of unrecognised tax assets is not subject to any time limit.

Significant accounting estimates and judgments

Deferred tax assets

In the measurement of deferred tax assets, it is assessed whether, on the basis of financial forecasts and operating plans, future earnings will allow for and render probable the utilisation of the temporary differences between tax bases and carrying amounts and tax loss carry-forwards. The net carrying amount of deferred tax assets for the group amounted to DKK 26.7 million at 31 December 2018 (2017: DKK 37.6 million), of which DKK 21.2 million can be attributed to the estimated tax effect of corresponding adjustments relating to pending tax audits in Hungary. The decrease reflects the utilisation of tax assets in Canada and the USA.

§ Accounting policies

Deferred tax

Deferred tax is measured using the balance sheet liability method on 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 office buildings and other items where temporary differences – other than business acquisitions – arise at the date of acquisition without affecting either the profit or loss for the year or the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured on the basis of planned use of the asset as decided by management, or settlement of the liability, respectively. Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised under other non-current assets at the expected value of their utilisation, either as a set-off against tax on future earnings or as a set-off against deferred tax liabilities within the same legal tax entity and jurisdiction. Adjustment is made to deferred tax relating to eliminations made of unrealised intra-group gains and losses. Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Impairment of deferred tax assets

Deferred tax assets are reviewed for impairment annually and are written down if it is deemed likely that the deferred tax asset cannot be utilised against tax on future income or set off against deferred tax liabilities in the same legal tax entity and jurisdiction. This assessment takes into account the type and nature of the recognised deferred tax asset, the estimated time frame for the set-off of the asset, etc.

Notes

23 Inventories

	Group		Parent company	
DKKm	2018	2017	2018	2017
Raw materials and consumables	116.9	141.3	40.4	58.0
Work in progress	4.0	12.5	5.9	12.0
Finished goods and goods for resale	75.7	86.8	23.9	23.8
Inventories	**196.6**	**240.6**	**70.2**	**93.8**
Inventories recognised at net realisable value	8.8	5.8	3.4	2.8

The group has not pledged any inventories as collateral in favour of any third party.

§ Accounting policies

Inventories
Inventories are measured at cost using the FIFO method.

Goods for resale, raw materials and consumables are measured at cost, comprising the purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct labour costs and production overheads. Production overheads comprise indirect materials and labour costs as well as maintenance and depreciation of production machinery, factory buildings and equipment and factory administration and management costs.

Where the net realisable value is lower than cost, inventories are written down to such lower value. The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and developments in the expected selling price.

24 Trade receivables

	Group		Parent company	
DKKm	2018	2017	2018	2017
Trade receivables, gross	368.4	371.6	226.1	213.5
Changes in credit loss allowance:				
Allowance at 1 January	42.0	27.6	37.1	23.3
Additions in the year	0.3	18.2	0.3	16.2
Reversal in the year	(3.6)	(3.8)	(2.6)	(2.4)
Allowance at 31 December	38.7	42.0	34.8	37.1
Trade receivables, net	**329.7**	**329.6**	**191.3**	**176.4**

The total impairment loss relates partly to doubtful debts, primarily customers in receivership or under reconstruction, partly to impairment of the receivable from Tønder Fjernvarmeselskab, see note 3. As these matters have still to be settled, no losses were recognised in the year.

§ Accounting policies

Trade receivables
Trade receivables are measured at amortised cost, which usually corresponds to nominal value less expected credit losses.

A total expected credit loss on trade receivables is recognised for the group and the parent company, respectively, based on the simplified 'expected credit loss' model. Expected credit losses are reassessed in connection with each financial reporting to reflect the change in credit risk since initial recognition. Expected credit losses are presented in a provision matrix to reflect historical credit losses incurred by the group and the parent company, respectively, adjusted for specific circumstances relating to each customer, insured receivables and general market conditions for each customer.

Credit loss allowances are recognised in the statement of comprehensive income under selling and distribution costs.

Notes

24 Trade receivables – continued

The provision matrix below illustrates the risk profile of the group's and the parent company's trade receivables. As the credit loss patterns of the group and the parent company are not very different for the various customer segments, a breakdown by customer groups is not provided.

		Overdue by				
DKKm	Not overdue	0-30 days	31-60 days	61-90 days	over 90 days	Total
Group						
31 December 2018						
Expected loss rate	0%	0%	0%	3%	61%	11%
Trade receivables	290.1	12.5	2.5	0.4	62.9	368.4
Expected credit loss	0.1	0.0	0.0	0.0	38.6	38.7
31 December 2017						
Expected loss rate	0%	0%	0%	3%	58%	11%
Trade receivables	271.5	23.3	3.4	1.9	71.5	371.6
Expected credit loss	0.1	0.1	0.0	0.1	41.7	42.0
Parent company						
31 December 2018						
Expected loss rate	0%	0%	0%	0%	61%	15%
Trade receivables	163.6	4.5	1.0	(0.1)	57.1	226.1
Expected credit loss	0.0	0.0	0.0	0.0	34.8	34.8
31 December 2017						
Expected loss rate	0%	0%	0%	0%	59%	17%
Trade receivables	138.0	11.7	0.6	0.1	63.1	213.5
Expected credit loss	0.1	0.0	0.0	0.0	37.0	37.1

25 Share capital

DKKm		Parent company
Share capital at 1 January 2014		140.3
Share capital at 31 December 2018	**7,015,090 shares of DKK 20 each**	**140.3**

No shares carry special rights.

Treasury shares

Brødrene Hartmann A/S has been authorised by the shareholders to acquire up to 10% of its own shares. The authorisation is valid until 09 April 2019.

At 31 December 2018, Hartmann held 100,000 treasury shares (2017: 100,000) representing a nominal value of DKK 2 million, or 1.4% of the total share capital. The value of the shares at 31 December 2018 was DKK 25.3 million (2017: DKK 32.0 million).

Dividend

Proposed dividend

For the financial year ended 31 December 2018, the board of directors has proposed a dividend of DKK 65.7 million (2017: DKK 65.7 million), corresponding to DKK 9.50 (2017: DKK 9.50) per share to be paid to the shareholders immediately after the annual general meeting to be held on 9 April 2019, subject to the shareholders' approval of the proposal. As the dividends are subject to approval by the shareholders, they have not been recognised as a liability in the balance sheet at 31 December 2018. Proposed dividend does not include dividend on treasury shares.

Dividend paid

In the financial year ended 31 December 2018, Hartmann distributed dividends of DKK 65.7 million (2017: DKK 65.7 million), corresponding to DKK 9.50 (2017: DKK 9.50) per share.

Notes

26 Pension obligations

Defined contribution plans
Hartmann offers pension plans to certain groups of employees. These pension plans are generally defined contribution plans. Under these pension plans, Hartmann recognises regular payments of premiums (e.g. a fixed amount or a fixed percentage of the salary) to independent insurers who are responsible for the pension obligations.

Under a defined contribution plan, the group carries no risk in relation to future developments in interest rates, inflation, mortality or disability. Once the contributions under a defined contribution plan have been paid, Hartmann has no further pension obligations towards existing or former employees.

Defined benefit plans
Under a defined benefit plan, Hartmann has an obligation to pay a specific benefit (e.g. retirement pension in the form of a fixed proportion of the exit salary). Under these plans, Hartmann carries the risk in relation to future developments in interest rates, inflation, mortality, etc. A change in the assumptions upon which the calculation is based results in a change in the actuarial present value.

In the event of changes in the assumptions used in the calculation of defined benefit plans for existing and former employees, actuarial gains and losses are recognised in other comprehensive income.

The total pension obligations relate to funded plans in the subsidiary Hartmann Canada Inc. and unfunded plans in the subsidiary Hartmann Verpackung GmbH.

The weighted average duration of the obligations is 16-18 years in Canada and 15 years in Germany.

	Group	
DKKm	**2018**	**2017**
Recognition of defined benefit plans in the statement of comprehensive income:		
Pension costs for the year	3.4	2.9
Costs of plan administration for the year	0.5	0.7
Interest expenses on asset cap	0.5	0.4
Interest expenses, net	0.7	0.7
Recognised in profit for the year	**5.1**	**4.7**
Return on plan assets (excluding amounts recognised in interest expenses, net)	6.2	(3.4)
Actuarial losses:		
– From changes in demographic assumptions	0.6	0.0
– From changes in financial assumptions	(11.4)	8.5
– From experience-based adjustments	0.5	0.3
Change in assets not recognised due to asset cap	(9.0)	2.7
Tax	3.5	(2.2)
Recognised in other comprehensive income	**(9.6)**	**5.9**
Recognised in comprehensive income	**(4.5)**	**10.6**
Recognition of defined benefit plans in the balance sheet:		
Present value of plans with plan assets	95.3	105.9
Market value of plan assets	(98.3)	(97.8)
Net obligation of plans with plan assets	(3.0)	8.1
Present value of plans without plan assets	30.2	29.9
Assets not recognised due to asset cap	4.5	13.4
Recognised net obligation	**31.7**	**51.4**

The majority of pensions fall due more than one year after the balance sheet date.

Notes

26 Pension obligations – continued

DKKm	Group 2018	Group 2017
Change in defined benefit plan obligations		
Present value of pension obligations at 1 January	135.8	129.0
Foreign exchange adjustment	(3.6)	(5.6)
Pension costs for the year	3.4	2.9
Interest on pension obligation	4.1	4.2
Contributions from plan participants	2.8	2.8
Actuarial losses:		
– From changes in demographic assumptions	0.6	0.0
– From changes in financial assumptions	(11.4)	8.5
– From experience-based adjustments	0.5	0.3
Pension benefits paid	(6.7)	(6.3)
Present value of pension obligations at 31 December	**125.5**	**135.8**
Changes in defined benefit plan assets		
Fair value of plan assets at 1 January	97.8	89.1
Foreign exchange adjustment	(3.5)	(5.2)
Return on plan assets (excluding amounts recognised in interest expenses, net)	(6.2)	3.4
Interest on plan assets	3.4	3.5
Administrative expenses	(0.5)	(0.6)
Employer contributions	11.9	11.9
Pension benefits paid	(4.6)	(4.3)
Fair value of plan assets at 31 December	**98.3**	**97.8**
Breakdown of actual return on plan assets		
Return on plan assets (excluding amounts recognised in interest expenses, net)	(6.2)	3.4
Interest on plan assets	3.4	3.5
	(2.8)	**6.9**

Hartmann expects to contribute DKK 10.3 million (2017: DKK 10.0 million relating to 2018) to pension plans in 2019.

	2018 DKKm	2018 %	2017 DKKm	2017 %
Composition of plan assets:				
Shares and investment funds	72.8	74.1	73.0	74.6
Bonds and other securities	25.5	25.9	24.8	25.4
	98.3	**100.0**	**97.8**	**100.0**

Plan assets are measured at fair value based on prices quoted in an active market. No plan assets have any relation to group entities.

The primary assumption applied in the calculation of pension obligations is the discount rate. The sensitivity analysis below indicates the development of the pension obligation on a change in the discount rate by 1 percentage point up or down.

DKKm	2018 +1% point	2018 -1% point	2017 +1% point	2017 -1% point
Pension obligation sensitivity to changes in the discount rate:				
– Germany	(2.8)	3.1	(2.9)	3.1
– Canada, wage earners	(10.8)	13.9	(12.2)	15.9
– Canada, salaried employees	(3.9)	5.0	(4.7)	6.1

Notes

26 Pension obligations – continued

%	Group 2018	Group 2017
Defined benefit plans have been calculated based on the following actuarial assumptions:		
Discount rate		
– Germany	1.58	1.58
– Canada, wage earners	4.00	3.40
– Canada, salaried employees	3.90	3.40
Expected pay rise		
– Germany	-	-
– Canada, wage earners	-	-
– Canada, salaried employees	3.00	3.00

§ Accounting policies

Pension obligations
Payments relating to defined contribution plans, under which the group regularly pays fixed contributions into an independent pension fund, are recognised in profit or loss in the period in which they are earned, and outstanding payments are recognised in the balance sheet under other payables.

For defined benefit plans, annual actuarial calculations are made of the present value of future benefits payable under the pension plan. The present value is calculated based on assumptions about future developments in variables such as salary levels and interest, inflation and mortality rates. The present value is only calculated for benefits earned by the employees through their employment with the group to date. The actuarial calculation of present value less the fair value of any plan assets is recognised in the balance sheet as pension obligations. The pension costs for the year, based on actuarial estimates and financial forecasts at the beginning of the year, are recognised in profit or loss. The difference between the forecast development in pension assets and liabilities and the realised values is called actuarial gains or losses and is recognised in the statement of comprehensive income through other comprehensive income. If a pension plan constitutes a net asset, the asset is recognised only to the extent that it equals the value of future repayments under the plan or it leads to a reduction of future contributions to the plan.

27 Government grants

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Government grants at 1 January	7.5	10.2	1.4	2.0
Foreign exchange adjustment	(0.2)	0.0	-	-
Disposals	0.0	(0.7)	0.0	0.0
Recognised in the statement of comprehensive income	(2.5)	(2.0)	(1.4)	(0.6)
Government grants at 31 December	**4.8**	**7.5**	**0.0**	**1.4**
Of which recognised as non-current liabilities	3.8	5.9	0.0	0.9
Of which recognised as current liabilities	1.0	1.6	0.0	0.5
	4.8	**7.5**	**0.0**	**1.4**

Hartmann regularly receives government grants for development-related and energy-saving projects.

In 1995, Brødrene Hartmann A/S received a major grant for the construction of a combined heat and power plant. The grant has been recognised in full in the statement of comprehensive income at 31 December 2018.

In addition, the Hungarian subsidiary has received government grants in the form of direct grants and reduced tax payments in the years 2008-2017. The grants were capped at 50% of the DKK 72.3 million investment made in the period 2006-2008, of which direct grants represented DKK 9.0 million. Government grants in the form of reduced tax payments amount to an accumulated DKK 25.2 million for the grant period. The grants are currently not subject to any repayment obligations. The amounts recognised in non-current liabilities and current liabilities, respectively, relate to amortisation of grants received, which are recognised over the economic life of the investments to which the grants relate.

§ Accounting policies

Government grants
Government grants relating to property, plant and equipment are recognised in the balance sheet under liabilities. The grants are recognised in profit or loss over the useful lives of the assets.

Notes

28 Provisions

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Warranty commitments at 1 January	0.4	3.5	0.4	3.5
Additions	0.8	0.4	0.8	0.4
Disposals	(0.4)	(3.5)	(0.4)	(3.5)
Warranty commitments at 31 December	**0.8**	**0.4**	**0.8**	**0.4**
Restructuring at 1 January	0.0	2.4	0.0	2.4
Additions	0.0	0.0	0.0	0.0
Paid	0.0	(2.4)	0.0	(2.4)
Restructuring at 31 December	**0.0**	**0.0**	**0.0**	**0.0**
Provisions at 31 December	**0.8**	**0.4**	**0.8**	**0.4**

Provision has been made for warranty commitments in cover of contract-related warranty complaints for goods already delivered. Provisions for restructuring in the comparative period comprise restructuring measures decided in 2015 in connection with organisational adjustments of the European production network and the head office, as well as costs related to the closure of Hartmann's German factory.

§ Accounting policies

Provisions
Provisions are recognised when, as a result of events occurring before or at the balance sheet date, the group has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at management's best estimate of the amount required to settle the obligation at the balance sheet date.

Warranty commitments are recognised as goods are sold and are calculated on the basis of historical warranty costs.

Restructuring costs are recognised as liabilities when a detailed, formal restructuring plan has been announced not later than at the balance sheet date to the parties affected by the plan.

29 Other payables

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Wages, salaries and holiday pay, etc.	80.6	70.9	39.1	34.0
VAT and other indirect taxes	1.0	0.8	0.0	0.0
Forward exchange contracts	5.3	3.3	2.0	3.2
Other debt	70.8	60.5	59.4	48.3
Other payables	**157.7**	**135.5**	**100.5**	**85.5**

Other payables primarily consist of unpaid customer bonuses and provisions for repayment of a public energy grant received in 2016 from the Danish state.

§ Accounting policies

Other payables
Other payables are measured at amortised cost.

30 Fees to shareholder-appointed auditor

DKKm	Group 2018	Group 2017	Parent company 2018	Parent company 2017
Fees to Deloitte				
Statutory audit	2.9	3.1	1.4	1.1
Tax and VAT-related services	0.6	0.6	0.0	0.1
Other services	0.9	0.7	0.9	0.3
Fees to shareholder-appointed auditor	**4.4**	**4.4**	**2.3**	**1.5**

Fees paid to Deloitte Statsautoriseret Revisionspartnerselskab (Deloitte Danmark) for non-audit services amount to DKK 0.9 million for both the group and the parent company and concern financial services (2017: DKK 0.4 million concerning general accounting and tax services).

Notes

31 Collateral and contingent liabilities

Guarantees
Brødrene Hartmann A/S has provided a parent company guarantee to Hartmann (UK) Ltd. (CRN 00734190) to allow the subsidiary to claim exemption from audit under section 479A of the British Companies Act 2006. At 31 December 2018, the amount owed to creditors of Hartmann (UK) Ltd. was DKK 0.7 million (2017: DKK 0.4 million).

Joint taxation
Brødrene Hartmann A/S and its Danish subsidiaries are taxed jointly with Thornico Holding A/S, which is the management company.

The company and its Danish subsidiaries thus have secondary liability with respect to income taxes etc. and any obligations to withhold taxes on interest, royalties and dividends applying to the jointly taxed entities. Such secondary liability is, however, capped at an amount equal to the portion of the share capital in the company held directly or indirectly by the ultimate parent company.

The total tax obligation of the jointly taxed entities is disclosed in the financial statements of the management company.

Pending litigation
As stated in note 3, Hartmann is a party to a dispute with district heating company Tønder Fjernvarmeselskab.

In 2008, district heating company Tønder Fjernvarmeselskab filed a complaint with the Danish Energy Regulatory Authority concerning the pricing of district heating supplied by Hartmann.

Overruling previous decisions in the case, the Danish Energy Board of Appeal made a decision on 28 November 2017 concerning the principles for pricing district heating supplied by Hartmann's combined heat and power plant in the period from 2003 up to and including 8 January 2015, when district heating supplies were discontinued. Hartmann still disagrees on the principles applied by the Energy Board of Appeal in fixing heating prices and is proceeding with the lawsuit for purposes of obtaining a legal assessment of the dispute.

Based on an internal review of the decision and indications from external advisers, management believes that the case is very likely to be referred back once more to the Energy Board of Appeal. In management's opinion, renewed consideration by the Danish Energy Board of Appeal is likely to result in a change of the principle for fixing heating prices. Estimating the financial implications to amount to an expense of DKK 12 million, Hartmann wrote down the group's receivable from Tønder Fjernvarmeværk by DKK 12 million in 2017.

Based on the decision of the Energy Board of Appeal of 28 November 2017, the case was remitted for reconsideration by the Danish Utility Regulator for purposes of the Regulator allowing inclusion of a profit in Hartmann's prices as of 1 January 2012. Hartmann and Tønder Fjernvarmeselskab both provided comments to the Utility Regulator in 2018. The Regulator has yet to make a decision on the parties' unsettled amount.

Hartmann has estimated the related costs at about DKK 15 million and the cash flow effect at a positive DKK 24 million. Tønder Fjernvarme on its part has raised a claim of DKK 88 million, which Hartmann has rejected.

Furthermore, the group is a party to a limited number of lawsuits and disputes. In management's opinion, these lawsuits and disputes will not significantly affect the financial position of the group or the parent company.

Notes

32 Operating leases

	Group		Parent company	
DKKm	2018	2017	2018	2017
Expected maturity				
In 1 year or less	14.9	12.1	4.5	4.8
In 1-5 years	36.0	37.2	8.1	9.1
After 5 years	45.9	55.8	0.0	2.0
Rental and leasing obligations	**96.8**	**105.1**	**12.6**	**15.9**
Rental and leasing expenses, operating leases	12.1	14.3	4.8	6.3

33 Financial risks

General
Hartmann's financial results and equity are influenced by a number of financial risks, including interest rate, currency, liquidity and credit risks.

See note 34 for a specification of financial instruments.

Financial risk management
The guidelines for managing Hartmann's financial risks are set out in the group's finance and credit policies, which are approved by the board of directors once a year.

Hartmann uses financial instruments to hedge some of the financial risks that arise out of the group's commercial activities. The group does not engage in transactions for the purpose of speculation.

Hartmann has centralised the management of financial risks in its finance function, which also acts as a service centre to all subsidiaries.

Interest rate risk
Hartmann's interest rate risk relates mainly to the group's interest-bearing debt to credit institutions.

Management of interest rate risk
As part of the group's currency policy, Hartmann seeks to reduce to the greatest extent possible the impact of interest rate fluctuations on its profits and financial position.

Financing is primarily arranged in the form of non-current, committed credit facilities in DKK and USD.

It is Hartmann's policy to assess on an ongoing basis if benefits may be gained from converting a proportion of the group's non-current credit facilities into fixed-rate facilities using interest-rate swaps.

The group's credit facilities carry a floating rate, and Hartmann has opted not to convert them into fixed-rate facilities.

A 1 percentage point change in the general interest rate level related to committed credit facilities in DKK would affect pre-tax profits by approximately DKK 6 million (2017: approx. DKK 6 million).

Currency risk
Hartmann's currency risks consist of transaction risk and translation risk.

Hartmann is exposed to transaction risks due to cross-border transactions leading to contractual cash flows in foreign currency.

The USD/CAD exchange rate exposure constitutes one of the group's single largest transaction risks. This exposure results from the main part of sales generated in the North American business being invoiced in USD, while a significant part of costs is incurred in CAD.

Other significant transaction risks relate to the currencies CHF, EUR, GBP, HRK, HUF and PLN.

Due to our foreign subsidiaries, Hartmann is exposed to currency translation risks insofar as a part of the group's earnings and net assets relates to these foreign subsidiaries and is therefore translated and included in the consolidated financial statements, which are presented in DKK.

In addition, the group is exposed to currency translation risks in connection with the granting of intra-group loans to foreign subsidiaries.

In terms of net positions, foreign subsidiaries reporting in the currencies ARS, BRL, CAD, HRK, HUF, ILS and USD and intra-group loans denominated in USD represent Hartmann's greatest translation exposures.

Notes

33 Financial risks – continued

Currency table

Exchange rate, DKK per 100		2018	2017
ARS	Average rate	24.0	40.1
	Year-end rate	17.3	32.9
	Change in year-end rate, %	(47.6)	(26.1)
BRL	Average rate	173.6	207.1
	Year-end rate	168.0	187.4
	Change in year-end rate, %	(10.3)	(13.5)
CAD	Average rate	487.3	508.3
	Year-end rate	478.5	495.0
	Change in year-end rate, %	(3.3)	(5.5)
EUR	Average rate	745.3	743.9
	Year-end rate	746.7	744.5
	Change in year-end rate, %	0.3	0.1
GBP	Average rate	842.5	849.5
	Year-end rate	834.8	839.1
	Change in year-end rate, %	(0.5)	(3.4)
HRK	Average rate	100.5	99.7
	Year-end rate	100.7	100.1
	Change in year-end rate, %	0.7	1.8
HUF	Average rate	2.34	2.41
	Year-end rate	2.33	2.40
	Change in year-end rate, %	(3.0)	0.0
ILS	Average rate	176.3	183.3
	Year-end rate	174.0	179.3
	Change in year-end rate, %	(2.9)	(2.5)
PLN	Average rate	175.0	174.8
	Year-end rate	173.6	178.2
	Change in year-end rate, %	(2.6)	5.7
USD	Average rate	631.5	660.1
	Year-end rate	652.2	620.8
	Change in year-end rate, %	5.1	(12.0)

Management of currency risk
As part of the group's currency policy, Hartmann seeks to reduce to the greatest extent possible the impact of exchange rate fluctuations on its profits and financial position.

The group's exposure to fluctuations in exchange rates is illustrated by the graph below, which shows the change in the profit for the year on a 5% increase in relevant exchange rates.

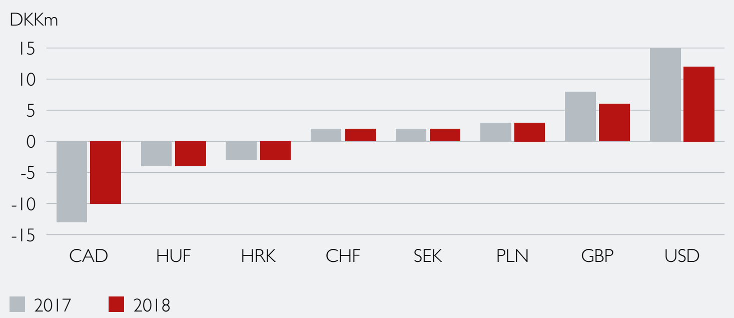
Hartmann hedges its transaction risks to the effect that primary currencies are continuously hedged for a period of not less than nine and not more than 12 months. Gains and losses on derivative financial instruments are recognised in profit or loss as the hedged transactions are realised. The effectiveness of hedges is assessed on an ongoing basis.

A 5% increase in the year-end exchange rate against DKK or EUR would result in fair value adjustment of other comprehensive income by DKK 0.2 million (2017: DKK 0.1 million).

Translation risks associated with the translation of earnings and net assets in the group's foreign subsidiaries into DKK are not hedged as they have no direct impact on cash resources or underlying cash flows.

Translation risks associated with intra-group loans are hedged if they are deemed to potentially have a material impact on consolidated profits.

Change in profit for the year on 5% change in exchange rate



Notes

33 Financial risks – continued

Liquidity risk
Liquidity risk is the risk that Hartmann will be unable to meet its obligations as they fall due because of its inability to liquidate assets or obtain adequate funding.

Management of liquidity risk
It is Hartmann's policy to maintain maximum flexibility and sufficient cash resources to allow the company to continue to operate adequately in case of unforeseen fluctuations in liquidity.

The group's non-current committed facility is a loan of DKK 350 million. In 2015, the group raised a five-year loan of DKK 400 million for the purpose of acquiring subsidiaries in South America. Both credit facilities were extended in 2018 to expire at 31 January 2020. In addition, Hartmann has short-term credit facilities of DKK 200 million.

The interest margin on both long-term loans is floating and is fixed each quarter based on the group's earnings.

The loans are subject to standard covenants which Hartmann must observe in order to maintain the loans, including financial covenants concerning the financial ratios 'Equity ratio' and 'Net interest-bearing debt' relative to 'Operating profit/(loss) before depreciation, amortisation and impairment'. The group complied with all covenants in 2018.

The agreement on the loans further contains a number of provisions whereby significant credit facilities may be withdrawn in the event of a change of control of Hartmann.

The agreement also contains cross-default clauses.

The group's short-term liquidity is managed primarily by the transfer of liquidity from the subsidiaries to the parent company for the purpose of directing cash to entities with cash requirements. Cash pooling is used to effectively manage the group's liquidity in GBP, PLN and EUR.

Financing in Hartmann's subsidiaries is primarily arranged through the parent company. However, local conditions may result in financing being arranged through one of the group's foreign banks.

The drawing rights are short-term credit facilities on which the group may draw and which may at any time be terminated by the bank.

The group's undrawn credit facilities with banks amounted to DKK 290 million at 31 December 2018 (2017: DKK 241 million). Cash amounted to DKK 83 million at 31 December 2018 (2017: DKK 53 million). Total liquidity available to the group thus amounted to DKK 373 million at 31 December 2018 (2017: DKK 294 million). The group's total liquidity has been calculated with due consideration to compliance with covenants.

Management believes the group has sufficient cash resources to cover planned operations and ongoing investments.

Credit risk
Hartmann's credit risk arises in relation to the risk of losses on receivables, financial instruments with a positive fair value and cash.

Management of credit risk
It is Hartmann's policy to take out credit insurance on its trade receivables. Local conditions may make it impossible to take out credit insurance, in which case a stricter internal credit assessment procedure is applied.

A total expected credit loss on trade receivables is recognised. Expected credit losses reflect historical credit losses incurred by the group and the parent company, respectively, adjusted for specific circumstances relating to each customer, insured receivables and general market conditions for each customer. The credit risk relating to receivables is therefore considered to be reflected in carrying amounts.

It is Hartmann's policy to limit trading in derivative financial instruments and investments of surplus liquidity to banks with satisfactory credit ratings from one or more credit rating agencies.

Hartmann does not have any significant credit risk in relation to derivative financial instruments or cash. The maximum credit risk corresponds to the carrying amount.

Capital structure
It is the group's objective to maintain a level of flexibility sufficient to carry out and fulfil its strategic objectives while at the same time delivering competitive returns to its shareholders. The group also strives to secure financial stability for the purpose of reducing the cost of capital.

It is the general objective of the board of directors to distribute excess capital by way of dividends in order to maintain Hartmann's equity ratio at a maximum of 45%. Our dividend distributions will always take into account current growth plans and liquidity needs. The loan agreement further contains restrictions with respect to Brødrene Hartmann A/S's possibility of distributing dividends, since changes in the general dividend policy are subject to consent from the bank.

At the annual general meeting to be held on 9 April 2019, the board of directors will propose that the company distribute dividends of DKK 9.50 per share for the financial year ended 31 December 2018 (2017: DKK 9.50 per share).

Notes

34 Financial instruments

Maturities of financial liabilities including interest payments

	2018					2017				
DKKm	Carrying amount	Payment obligation	In 1 year or less	In 1-5 years	After 5 years	Carrying amount	Payment obligation	In 1 year or less	In 1-5 years	After 5 years
Group										
Credit institutions	616.0	628.6	11.4	617.2	0.0	612.2	633.0	18.1	614.9	0.0
Overdraft facilities	43.9	43.9	43.9	0.0	0.0	80.9	80.9	80.9	0.0	0.0
Trade payables	169.6	169.6	169.6	0.0	0.0	165.5	165.5	165.5	0.0	0.0
Payables to associates	4.8	4.8	4.8	0.0	0.0	4.6	4.6	4.6	0.0	0.0
Other payables	157.7	157.7	157.7	0.0	0.0	135.5	135.5	135.5	0.0	0.0
	992.0	**1,004.6**	**387.4**	**617.2**	**0.0**	**998.7**	**1,019.5**	**404.6**	**614.9**	**0.0**
Parent company										
Credit institutions	616.0	628.6	11.4	617.2	0.0	607.7	627.9	9.8	618.1	0.0
Overdraft facilities	43.9	43.9	43.9	0.0	0.0	61.0	61.0	61.0	0.0	0.0
Trade payables	61.1	61.1	61.1	0.0	0.0	70.6	70.6	70.6	0.0	0.0
Payables to subsidiaries	181.9	181.9	181.9	0.0	0.0	165.9	165.9	165.9	0.0	0.0
Payables to associates	4.3	4.3	4.3	0.0	0.0	4.6	4.6	4.6	0.0	0.0
Other payables	100.5	100.5	100.5	0.0	0.0	85.5	85.5	85.5	0.0	0.0
	1,007.7	**1,020.3**	**403.1**	**617.2**	**0.0**	**995.3**	**1,015.5**	**397.4**	**618.1**	**0.0**

Notes

34 Financial instruments – continued

	Group				Parent company			
	2018		2017		2018		2017	
Financial instrument categories DKKm	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Derivative financial instruments to hedge future cash flows	0.2	0.2	4.2	4.2	0.2	0.2	2.7	2.7
Financial assets used as hedging instruments	**0.2**	**0.2**	**4.2**	**4.2**	**0.2**	**0.2**	**2.7**	**2.7**
Trade receivables	329.7	329.7	329.6	329.6	191.3	191.3	176.4	176.4
Other receivables	83.3	83.3	80.8	80.8	43.1	43.1	21.0	21.0
Cash	83.2	83.2	52.6	52.6	3.7	3.7	3.8	3.8
Loans and receivables	**496.2**	**496.2**	**463.0**	**463.0**	**238.1**	**238.1**	**201.2**	**201.2**
Derivative financial instruments to hedge future cash flows	5.3	5.3	3.3	3.3	2.0	2.0	3.2	3.2
Financial liabilities used as hedging instruments	**5.3**	**5.3**	**3.3**	**3.3**	**2.0**	**2.0**	**3.2**	**3.2**
Credit institutions	659.9	660.2	693.1	693.7	659.9	660.2	668.7	668.7
Other liabilities	338.7	338.7	303.8	303.8	351.1	351.1	323.3	323.3
Financial liabilities measured at amortised cost	**998.6**	**998.9**	**996.9**	**997.5**	**1,011.0**	**1,011.3**	**992.0**	**992.0**

Notes

34 Financial instruments – continued

Fair value of derivative financial instruments
Hartmann's primary currency exposure relates to sales denominated in currencies other than the functional currency of the individual group entities. Forward exchange contracts are used to hedge future cash flows. The fair value of forward contracts is based on observable data (level 2) and has been recognised in receivables and payables at 31 December 2018. Changes in the fair value of financial instruments qualifying as hedges of future cash flows are recognised in other comprehensive income.

	Group						Parent company					
	2018			2017			2018			2017		
DKKm	Positive	Negative	Net	Positive	Negative	Net	Positive	Negative	Net	Positive	Negative	Net
Forward contract, CHF/DKK	0.1	(0.4)	(0.3)	1.1	0.0	1.1	0.1	(0.4)	(0.3)	1.1	0.0	1.1
Forward contract, EUR/HRK	0.0	(0.6)	(0.6)	0.0	(0.5)	(0.5)	0.0	(0.6)	(0.6)	0.0	(0.5)	(0.5)
Forward contract, EUR/HUF	0.0	(0.4)	(0.4)	0.3	(0.3)	0.0	0.0	(0.4)	(0.4)	0.3	(0.3)	0.0
Forward contract, GBP/DKK	0.1	(0.1)	0.0	0.8	(0.4)	0.4	0.1	(0.1)	0.0	0.8	(0.4)	0.4
Forward contract, PLN/DKK	0.0	(0.2)	(0.2)	0.0	(2.0)	(2.0)	0.0	(0.2)	(0.2)	0.0	(2.0)	(2.0)
Forward contract, SEK/DKK	0.0	(0.3)	(0.3)	0.4	0.0	0.4	0.0	(0.3)	(0.3)	0.4	0.0	0.4
Forward contract, USD/CAD	0.0	(3.3)	(3.3)	1.5	(0.1)	1.4	-	-	-	-	-	-
	0.2	**(5.3)**	**(5.1)**	**4.1**	**(3.3)**	**0.8**	**0.2**	**(2.0)**	**(1.8)**	**2.6**	**(3.2)**	**(0.6)**
Expected maturity												
In 1 year or less	0.2	(5.3)	(5.1)	4.1	(3.3)	0.8	0.2	(2.0)	(1.8)	2.6	(3.2)	(0.6)
	0.2	**(5.3)**	**(5.1)**	**4.1**	**(3.3)**	**(0.8)**	**0.2**	**(2.0)**	**(1.8)**	**2.6**	**(3.2)**	**(0.6)**

§ Accounting policies

Derivative financial instruments
The group uses forward exchange contracts to limit its currency exposure. Derivative financial instruments are not used for speculative purposes. Derivative financial instruments are recognised at cost at the date of transaction and are subsequently recognised at fair value at the balance sheet date. The fair value of derivative financial instruments is recognised in other receivables (positive value) and other payables (negative value). Realised and unrealised gains and losses on contracts are recognised in the statement of comprehensive income under financial income and expenses, unless the derivative financial instruments have been used to hedge future cash flows. Value adjustments of derivative financial instruments to hedge future cash flows are recognised in other comprehensive income if the hedge is effective.

Value adjustments of any ineffective part of the relevant derivative financial instruments are recognised in financial income and expenses. When the hedged transaction is realised, the gain or loss on the hedging instrument is recognised in the same item as the hedged item, and the amount recognised in other comprehensive income is reversed. If a hedged transaction is no longer expected to take place, the accumulated net gains or net losses are transferred from other comprehensive income to profit or loss. The fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods.

Notes

34 Financial instruments – continued

Hedging of future cash flows DKKm	2018 Notional amount	 Fair value	 Recognised in other comprehensive income	2017 Notional amount	 Fair value	 Recognised in other comprehensive income
Group						
Forward contract, CHF/DKK	18.9	(0.3)	(0.3)	40.1	1.1	1.1
Forward contract, SEK/DKK	20.5	(0.3)	(0.3)	21.6	0.4	0.4
Forward contract, EUR/HRK	66.3	(0.6)	(0.6)	71.9	(0.5)	(0.5)
Forward contract, DKK/HRK	0.0	0.0	0.0	9.8	0.0	0.0
Forward contract, EUR/HUF	31.6	(0.4)	(0.4)	43.0	0.0	0.0
Forward contract, GBP/DKK	75.1	0.0	0.0	88.1	0.5	0.5
Forward contract, PLN/DKK	28.6	(0.2)	(0.2)	58.8	(2.0)	(2.0)
Forward contract, USD/CAD	68.0	(3.2)	(3.2)	92.2	1.3	1.3
	309.0	**(5.0)**	**(5.0)**	**425.5**	**0.8**	**0.8**
Parent company						
Forward contract, CHF/DKK	18.9	(0.3)	(0.3)	40.1	1.1	1.1
Forward contract, SEK/DKK	20.5	(0.3)	(0.3)	21.6	0.4	0.4
Forward contract, EUR/HRK	66.3	(0.6)	(0.6)	71.9	(0.5)	(0.5)
Forward contract, DKK/HRK	0.0	0.0	0.0	9.8	0.0	0.0
Forward contract, EUR/HUF	31.6	(0.4)	(0.4)	43.0	0.0	0.0
Forward contract, GBP/DKK	75.1	0.0	0.0	88.1	0.5	0.5
Forward contract, PLN/DKK	28.6	(0.2)	(0.2)	58.8	(2.0)	(2.0)
	241.0	**(1.8)**	**(1.8)**	**333.3**	**(0.5)**	**(0.5)**

All forward contracts are transferred to profit or loss within one year.

Notes

34 Financial instruments – continued

	2018				2017			
Fair value hedging	**Monetary items**		**Hedged through hedging instruments**	**Net position**	**Monetary items**		**Hedged through hedging instruments**	**Net position**
DKKm	**Assets**	**Liabilities**			**Assets**	**Liabilities**		
Group								
ARS	44.3	(17.9)	0.0	26.4	59.7	(41.5)	0.0	18.2
BRL	59.8	(25.5)	0.0	34.3	63.5	(33.6)	0.0	29.9
CAD	20.4	(31.5)	0.0	(11.1)	22.6	(23.2)	0.0	(0.6)
CHF	7.6	(0.9)	0.0	8.8	5.7	(1.8)	0.0	3.9
EUR	103.6	(42.7)	0.0	60.9	86.5	(45.8)	0.0	40.7
GBP	30.4	(1.4)	0.0	29.0	27.2	(1.2)	0.0	26.0
HUF	19.2	(24.5)	0.0	(5.4)	17.5	(19.7)	0.0	(2.2)
ILS	31.9	(7.6)	0.0	24.3	29.7	(8.0)	0.0	21.7
PLN	17.6	(0.6)	0.0	16.9	19.5	(1.2)	0.0	18.3
SEK	5.1	(0.2)	0.0	4.9	7.9	(1.5)	0.0	6.4
USD	52.0	(177.0)	0.0	(125.0)	38.5	(226.4)	0.0	(187.9)
Other currencies	31.3	(17.2)	0.0	14.1	34.3	(11.6)	0.0	22.7
Parent company								
BRL	35.2	0.0	0.0	35.2	40.8	0.0	0.0	40.8
CAD	2.2	0.0	0.0	2.2	1.5	0.0	0.0	1.5
CHF	6.9	(0.7)	0.0	6.2	3.7	(2.0)	0.0	1.7
EUR	322.1	(145.6)	0.0	176.6	304.0	(132.1)	0.0	171.9
GBP	30.4	(4.8)	0.0	25.6	27.1	(4.1)	0.0	23.0
HUF	0.0	(31.6)	0.0	(31.6)	6.2	(39.1)	0.0	(32.9)
PLN	17.5	(1.7)	0.0	15.8	19.5	(2.7)	0.0	16.8
SEK	5.1	(0.2)	0.0	4.9	7.9	(1.5)	0.0	6.4
USD	111.8	(166.5)	0.0	(54.8)	197.1	(216.2)	0.0	(19.1)
Other currencies	12.1	(8.2)	0.0	3.9	10.7	(13.0)	0.0	(2.3)

Notes

34 Financial instruments – continued

Hedging of net assets in foreign subsidiaries DKKm	**2018** Investment	Amount hedged	Net position	The year's value adjustment recognised in other comprehensive income	**2017** Investment	Amount hedged	Net position	The year's value adjustment recognised in other comprehensive income
Group								
ARS	94.4	0.0	94.4	(22.8)	47.6	0.0	47.6	(17.2)
BRL	185.5	0.0	185.5	(21.5)	203.3	0.0	203.3	(31.5)
CAD	184.4	0.0	184.4	(5.6)	159.0	0.0	159.0	(8.3)
CHF	1.9	0.0	1.9	0.1	1.8	0.0	1.8	(0.2)
EUR	79.2	0.0	79.2	0.2	66.4	0.0	66.4	(0.4)
GBP	3.3	0.0	3.3	0.0	2.7	0.0	2.7	(0.2)
HRK	54.6	0.0	54.6	0.4	43.2	0.0	43.2	0.9
HUF	119.8	0.0	119.8	(3.5)	114.5	0.0	114.5	0.1
ILS	46.3	0.0	46.3	(1.4)	47.6	0.0	47.6	(1.2)
PLN	1.2	0.0	1.2	0.0	1.4	0.0	1.4	0.0
USD	173.2	0.0	173.2	8.1	160.2	0.0	160.2	(17.5)
Other currencies	1.8	0.0	1.8	(0.2)	3.5	0.0	3.5	(0.1)
	945.6	**0.0**	**945.6**	**(45.8)**	**851.2**	**0.0**	**851.2**	**(75.6)**

Interest rate risk DKKm	Nominal value	Carrying amount	Interest rate	Interest rate risk	Nominal value	Carrying amount	Interest rate	Interest rate risk
Group								
Credit institutions, fixed-rate	0.0	0.0	-	-	4.5	4.5	19.0%	Fair value
Credit institutions, floating rate	616.3	616.0	1.8%	Cash flow	608.3	607.7	1.6%	Cash flow
Overdraft facilities, floating rate	43.9	43.9	1.0%	Cash flow	80.9	80.9	1.0%	Cash flow
Parent company								
Credit institutions, floating rate	616.3	616.0	1.8%	Cash flow	608.3	607.7	1.6%	Cash flow
Overdraft facilities, floating rate	43.8	43.8	1.0%	Cash flow	61.0	61.0	1.0%	Cash flow
Receivables from subsidiaries								
Fixed rate	34.5	34.5	8.0%	Fair value	40.0	40.0	8%	Fair value
Floating rate	267.4	267.4	0.4%-4.2%	Cash flow	373.1	373.1	0.8%-3.3%	Cash flow

Notes

35 Related parties

Sales of goods to related parties are made at ordinary selling prices. Purchases of goods are also made at market prices less discounts offered on the basis of volumes purchased.

No collateral or guarantees have been provided in respect of any balances at the balance sheet date. Receivables and trade payables are settled in cash. No credit losses or provisions for credit losses have been recognised on receivables from related parties.

In addition to distribution of dividend and payment of remuneration, the related party transactions below are stated in the statement of comprehensive income and the balance sheet.

	Group		Parent company	
DKKm	**2018**	**2017**	**2018**	**2017**
Companies with a controlling interest				
Joint taxation contributions paid	8.3	5.2	8.3	5.2
Adjustment of joint taxation contributions paid in prior years	(10.5)	0.0	(10.5)	0.0
Other receivables	2.0	6.2	0.0	0.0
Other payables	0.6	3.0	0.0	0.0
Associates				
Production costs	63.5	59.6	60.9	56.1
Payables to associates	4.8	4.6	4.3	4.6
Subsidiaries				
Revenue	-	-	60.0	46.3
Production costs	-	-	435.4	432.6
Other income/(expenses) recognised in operating profit	-	-	(1.6)	11.4
Interest income	-	-	11.7	12.3
Receivables from subsidiaries, non-current	-	-	301.9	413.1
Receivables from subsidiaries, current	-	-	76.4	51.2
Payables to subsidiaries	-	-	181.9	165.9
Other related parties				
Revenue	0.0	0.1	0.0	0.1

Companies with a controlling interest in Brødrene Hartmann A/S consist of Thornico Food & Food Technology Group A/S, which is the immediate majority owner, and Thornico Holding A/S, which is the ultimate majority owner. Brødrene Hartmann A/S is included in the consolidated financial statements of Thornico Holding A/S.

Associates consist of Danfiber A/S, see note 20.

Subsidiaries consist of companies in which Brødrene Hartmann A/S has a controlling interest, see note 18. Transactions with subsidiaries have been eliminated in the consolidated financial statements in accordance with the group's accounting policies.

Other related parties consist of other companies controlled by Hartmann's ultimate majority owner, Thornico Holding A/S, that are not controlled by Brødrene Hartmann A/S.

The company's related parties also comprise the members of the board of directors and the executive board as well as these persons' family members. Remuneration paid to members of the executive board and the board of directors is disclosed in note 9.

36 Accounting effect of hyperinflation in Argentina

Transition to hyperinflation

Argentina was placed on the International Practices Task Force's (IPTF) list of hyperinflationary economies effective 1 July 2018 based on a number of qualitative and quantitative characteristics, including that the 3-year cumulative inflation rate exceeded 100% following a prolonged period of rising inflation.

Based on the IPTF's classification, Hartmann has implemented IAS 29 on financial reporting in hyperinflationary economies for the group's Argentinian subsidiaries.

Under IAS 29, the accounting figures for the Argentinian subsidiaries must be restated to reflect the purchasing power at the end of the reporting period. In that connection, non-monetary items, including non-current assets, inventories and equity, and the income statement are restated to reflect the purchasing power at the balance sheet date. Monetary items such as receivables, payables, bank debt, etc. already reflect the purchasing power at the closing date as these items consist of balances, receivables or payables in the relevant monetary unit.

IAS 29, in combination with IAS 21 on currency translation, also requires all the year's transactions in the hyperinflationary exchange rate, the Argentine peso, ARS, to be translated into the group's presentation currency, Danish kroner, DKK, using the exchange rate at the balance sheet date. Accordingly, while the group

Notes

36 Accounting effect of hyperinflation in Argentina – continued

usually translates income statement transactions at the exchange rate at the date of transaction, all transactions in Argentina have been translated into DKK using the exchange rate at 31 December 2018.

As the group's presentation currency, DKK, is not hyperinflationary, IAS 21 and IAS 29 do not require the group's comparative figures to be restated to reflect the purchasing power at the end of 2018. Previously reported group figures have therefore not been restated.

Basis for hyperinflation restatements

Price index:

Hyperinflation restatements of the accounting figures for the Argentinian activities are based on developments in the general price index in Argentina, which is the Wholesale Price Index (WPI) for the period from the acquisition of Hartmann's Argentinian activities at the beginning of January 2015 up to December 2016 and the National Consumer Price Index (IPC) for the period from January 2017.

Exchange rate:

All accounting numbers concerning the Argentinian activities, in the balance sheet as well as the income statement, are translated into the group's presentation currency, DKK, using the ARS/DKK exchange rate at the balance sheet date, as opposed to the group's usual practice of translating the income statement using the exchange rate at the transaction date.

Inflation and exchange rate developments in 2018:

Following a prolonged period of rising inflation in Argentina, the cumulative 3-year inflation rate exceeded 100% in May 2018. The rate of inflation in Argentina in 2018 was 48%. Hartmann's activities in Argentina lifted packaging sales and improved efficiency in 2018.

The ARS/DKK exchange rate fell from 32.9 at the beginning of the year to 17.3 at the end of the year following sharp ARS devaluations in May and in August. In terms of hyperinflation restatement, the adverse impact on Hartmann's results of foreign exchange developments thus significantly outweighed the positive effects of inflationary developments in Argentina in 2018.

Recognised hyperinflation restatements

Inflation restatements in local currency:

- Intangible assets, items of property, plant and equipment and inventories in Hartmann's business in Argentina have been restated for the effects of inflation based on changes in the price index in the period from initial recognition up to 31 December 2018 or, if relevant, the date of disposal or cost of sales in 2018. The restatements were made effective the date of initial recognition of the items, however not earlier than 6 January 2015 when Hartmann acquired the Argentinian activities and the non-monetary items were translated and recognised in the consolidated financial statements at fair value, reflecting the purchasing power at 6 January 2015. The restatement has significantly increased the value of the group's intangible assets and property plant and equipment and moderately increased the value of inventories. The restatement has also led to higher expenses in the income statement in the form of higher cost of sales relating to the restated inventories and significantly higher amortisation and depreciation charges due to the restated cost of intangible assets and property plant and equipment.

- The equity of the Argentinian business has been restated for the effects of inflation based on developments in the price index in financial year 2018 in order to reflect the purchasing power at the balance sheet date. The revaluation of equity based on developments in the price index in the financial year has been recognised with set-off against financial income and expenses in the income statement.

- All income statement transactions in 2018 have been restated to reflect changes in the price index in the period from the month of recognition in the income statement up to 31 December, with the exception of amortisation and depreciation of intangible assets and property, plant and equipment, which has been recalculated based on the inflation-adjusted cost of intangible assets and property plant and equipment as stated above. The recalculation of amortisation and depreciation is based on the normal useful lives of the relevant Argentinian assets. The restatement for inflation of the income statement has significantly increased the value of income statement items in local currency due to developments in the price index from the date of recognition to the end of the year.

- The effect of restating the income statement and the balance sheet for inflation in the current financial year has been recognised with set-off against financial income from hyperinflation restatement. The effect of restating balance sheet items for inflation from initial recognition in a prior financial year to the end of 2017 has been recognised with set-off against a separate item under other comprehensive income for 2018 and the translation reserve under equity.

Retranslation from ARS to DKK

- The financial statements of the Argentinian operations after inflation restatements in local currency have been translated into DKK by translating the balance sheet and all income statement transactions in the financial year using the ARS/DKK exchange rate at the balance sheet date (17.3). While the translation of the items in the balance sheet is unchanged compared with the usual practice, the new translation principle has had a significant effect on the items of the income statement, which have been translated based on an exchange rate of 17.3 as opposed to translation at the exchange rate at the transaction date.

Recognition time and method:

IAS 29 was implemented effective 1 January 2018, and restatements for hyperinflation were recognised for the first time in the interim report for Q3 2018, at the total effect for the period 1 January to 30 September. Only the effect of developments in the price index and the exchange rate between 1 October and 31 December 2018 was recognised in Q4 2018.

Notes

36 Accounting effect of hyperinflation in Argentina – continued

Hyperinflation restatements in 2018
The table below shows the total effect in 2018 of restating Hartmann's Argentinian subsidiaries for hyperinflation.

	Restatement of			
	Non-monetary items	**Income statement**	**Currency translation**	**Total restatement**
Revenue	-	41.0	(58.3)	(17.3)
Cost of sales	(3.8)	(22.5)	32.1	5.8
Depreciation and amortisation	(5.5)	-	1.9	(3.6)
Other costs	-	(8.8)	12.4	3.6
Operating profit before special items	**(9.3)**	**9.7**	**(11.9)**	**(11.5)**
Special items	-	(0.2)	0.3	0.1
Operating profit	**(9.3)**	**9.5**	**(11.6)**	**(11.4)**
Financial items	7.0	(7.9)	10.6	9.7
Profit before tax	**(2.3)**	**1.6**	**(1.0)**	**(1.7)**
Tax on profit for the year	6.0	(1.6)	2.1	(5.5)
Profit for the year	**(8.3)**	**-**	**1.1**	**(7.2)**
Intangible assets	7.0	-	-	7.0
Property, plant and equipment	25.6	-	-	25.6
Deferred tax	(3.2)	-	-	(3.2)
Inventories	0.6	-	-	0.6
Assets	**30.0**	**-**	**-**	**30.0**
Profit for the year	(8.3)	-	1.1	(7.2)
Foreign exchange adjustment of foreign subsidiaries	(12.5)	-	13.7	1.2
Hyperinflation restatement of non-monetary items, 1 January	50.4	-	(16.9)	33.5
Tax	(6.3)	-	2.1	(4.2)
Equity	**23.3**	**-**	**-**	**23.3**
Deferred tax	6.8	-	-	6.8
Equity and liabilities	**30.0**	**-**	**-**	**30.0**

37 Events after the balance sheet date

No events have occurred after the balance sheet date of significance to the consolidated financial statements or the parent company financial statements other than what has been recognised or mentioned in this annual report.

Key figures and financial ratios by quarter (unaudited)

	Q4			Q3			Q2		Q1	
DKKm	2018	2018 excl. IAS 29	2017	2018	2018 excl. IAS 29	2017	2018	2017	2018	2017
Statement of comprehensive income										
Revenue	588	566	564	453	492	557	542	514	624	572
- Europe, moulded-fibre packaging	341	341	319	283	283	279	286	275	315	302
- Europe, machinery and technology	5	5	30	6	6	61	35	5	69	19
- Americas	243	221	215	163	202	217	222	234	239	251
Operating profit	49	48	74	13	26	69	60	32	92	61
Special items	(3)	(3)	(14)	(9)	(9)	0	(16)	0	(6)	0
Financial income and expenses, net	0	3	(9)	(7)	(20)	(12)	(30)	(30)	(9)	(3)
Profit before tax	47	48	51	(2)	(2)	57	14	2	77	58
Profit for the period	33	37	29	(5)	(1)	48	10	1	58	43
Comprehensive income	65	53	(1)	7	(8)	38	(12)	(45)	29	49
Cash flows										
Cash flows from operating activities	105	105	123	22	22	43	66	57	71	35
Cash flows from investing activities	(58)	(58)	(31)	(32)	(32)	(39)	(28)	(65)	(11)	(71)
Cash flows from financing activities	0	0	(58)	0	0	(2)	(66)	(17)	(1)	(2)
Total cash flows	47	47	34	(10)	(10)	2	(28)	(25)	59	(37)
Balance sheet										
Assets	1,834	1,804	1,865	1,770	1,750	1,987	1,756	1,976	1,821	2,013
Investments in property, plant and equipment	55	54	31	30	32	39	36	64	11	70
Net working capital	287	287	312	336	336	351	332	302	337	320
Invested capital	1,321	1,288	1,339	1,309	1,286	1,413	1,289	1,372	1,320	1,416
Net interest-bearing debt	577	577	641	620	620	737	614	745	576	678
Equity	765	742	746	704	689	747	697	709	775	819
Financial ratios, %										
Profit margin	8.4	8.4	13.0	2.9	5.4	12.4	11.1	6.2	14.7	10.7
Return on invested capital (ROIC) (rolling 12 months)	16.0	17.2	17.1	17.7	18.9	16.2	21.7	15.0	19.4	18.0
Return on equity (rolling 12 months)	12.8	14.1	16.2	12.4	13.0	18.2	19.6	16.6	18.4	22.7
Equity ratio	41.7	41.1	40.0	39.8	39.4	37.6	39.7	35.9	42.6	40.7
Gearing	75.4	77.8	85.9	88.1	90.0	98.8	88.0	105.1	74.3	82.7

For definitions of financial ratios, see page 82.

Definitions of financial ratios

Operating profit
Operating profit before special items

Net working capital
Inventories + receivables + other current operating assets - trade payables - other current operating liabilities (excluding restructuring)

Invested capital
Net working capital + intangible assets + property, plant and equipment + other non-current receivables - pension obligations - government grants

Net interest-bearing debt
Credit institutions + overdraft facilities - cash

Profit margin

$$\frac{\text{Operating profit before special items} \times 100}{\text{Revenue}}$$

Return on invested capital (ROIC)

$$\frac{\text{Operating profit before special items} \times 100}{\text{Average invested capital}}$$

Return on equity

$$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$$

Equity ratio

$$\frac{\text{Equity at year-end} \times 100}{\text{Assets at year-end}}$$

Gearing

$$\frac{\text{Net interest-bearing debt} \times 100}{\text{Equity at year-end}}$$

Earnings per share (EPS)

$$\frac{\text{Profit for the year}}{\text{Average no. of shares (excluding treasury shares)}}$$

Cash flow per share

$$\frac{\text{Cash flows from operating activities}}{\text{Average no. of shares (excluding treasury shares)}}$$

Book value per share

$$\frac{\text{Equity at year-end}}{\text{No. of shares (excluding treasury shares) at year-end}}$$

Share price/earnings (P/E)

$$\frac{\text{Share price}}{\text{Earnings per share (EPS)}}$$

Payout ratio

$$\frac{\text{Total dividend paid} \times 100}{\text{Profit for the year}}$$

Earnings per share (EPS) are calculated according to IAS 33.

Operating profit, profit margin and return on invested capital (ROIC) are calculated on the basis of operating profit before special items as this is the group's key performance indicator.

Other financial ratios are calculated in accordance with the recommendations of the Danish Finance Society.

Management statement

The board of directors and the executive board today considered and approved the annual report of Brødrene Hartmann A/S for the financial year ended 31 December 2018.

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

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

We are of the opinion that the management report includes a fair review of the development and performance of the group's and the parent company's business and financial position, the results for the year, cash flows and financial position as well as a description of the principal risks and uncertainties that the group and the parent company face.

The annual report is recommended for approval by the annual general meeting.

Gentofte, 26 February 2019

Executive board:

Torben Rosenkrantz-Theil
CEO

Flemming Steen
CFO

Board of directors:

Agnete Raaschou-Nielsen
Chairman

Steen Parsholt
Vice chairman

Jørn Mørkeberg Nielsen

Jan Klarskov Henriksen

Andy Hansen

Palle Skade Andersen

Independent auditor's report

To the shareholders of Brødrene Hartmann A/S

Opinion
We have audited the consolidated financial statements and the parent company financial statements of Brødrene Hartmann A/S for the financial year 1 January - 31 December 2018, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes, including the accounting policies, for the group as well as 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 under the Danish Financial Statements Act.

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

Our opinion is consistent with our audit book comments issued to the audit committee and the board of directors

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 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 audit opinion.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 were not provided.

We were first appointed auditors of Brødrene Hartmann A/S on 21 April 2009 for financial year 2009. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of ten years up to and including the financial year 2018.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2018. 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.

Impairment testing of goodwill and intangible assets with indefinite useful lives and other non-current assets
Consolidated goodwill has been allocated to three cash-generating units; Argentina, Brazil and Europe Moulded Fibre. Reference is made to note 16 to the consolidated financial statements. No impairment losses were recognised in the year.

In performing our audit procedures, we focused on this area because impairment testing relies on significant, complex management estimates concerning future earnings and the fixing of discount rates.

In performing our audit procedures, we focused in particular on the impairment test performed in relation to Argentina because this region faces a high rate of inflation and revaluation of carrying amounts as a result of the implementation of IAS 29 on hyperinflation, which leads to increased complexity of accounting estimates and a higher risk of impairment.

How our audit addressed the matter
As part of our audit procedures, we assessed whether the model applied to calculate values in use is appropriate and whether management's expectations regarding future earnings and the documentation submitted provide a reasonable basis for a calculation of value in use.

We:

- obtained supporting documentation for significant assumptions applied for purposes of the impairment testing, focused on expectations regarding revenue, earnings, investments and inflation, and discussed these with management;
- compared the earnings estimates applied in the calculation model with the latest forecasts and projections approved by the board of directors and historical results;
- using our internal valuation experts, we valuated the assumptions applied for purposes of the impairment testing, including the use of dynamic discount rates in the impairment test

Independent auditor's report

performed in relation to Argentina based on the country's high level of inflation, and evaluated whether the impairment test was prepared on a consistent basis and using generally recognised methods;

- tested management's sensitivity calculations; and

- assessed whether the disclosures are in accordance with the requirements of applicable accounting standards and are sufficient and adequate.

Restatement for hyperinflation in Argentina
Effective 1 July 2018, Argentina was classified as a hyperinflationary economy for financial reporting purposes, and the 2018 financial reporting for the group's activities in Argentina has consequently been restated for the effects of hyperinflation in accordance with IAS 29 'Financial reporting in hyperinflationary economies', and income statement items have been translated into Danish kroner using the exchange rate at the balance sheet date, whereas income statement items for other countries have been translated on the basis of the exchange rates at the transaction date. Reference is made to notes 2 and 36 to the consolidated financial statements. Restating for the effects of hyperinflation affected 2018 revenue by a negative net amount of DKK 17.3 million, the profit for the year negatively by DKK 7.2 million and equity at 31 December 2018 positively by DKK 23.3 million.

In performing our audit, we focused on the restatement for the effects of hyperinflation due to the significant impact on the consolidated figures and the complexity of and the management estimates associated with the implementation of IAS 29.

How our audit addressed the matter
As part of our audit procedures, we reviewed and assessed the principles applied by management for purposes of translating the financial reporting of the Argentinian business, including the inflation index chosen for translation purposes and the classification and presentation of translation effects.

We:

- reviewed the group's implementation of IAS 29, including the effects at 1 January 2018 recognised in other comprehensive income and in equity in the translation reserve, respectively;

- assessed whether the inflation index applied to restate for the effects of hyperinflation is appropriate and based on recognised official indexes;

- evaluated the calculation method applied to restate for hyperinflation and currency translation and randomly tested underlying calculations and statements against supporting documentation; and

- assessed whether the disclosures are in accordance with the requirements of IAS 29 and are sufficient and adequate.

Special items
Costs recognised as special items amount to DKK 32.7 million (2017: DKK 13.9 million), see note 11 to the consolidated financial statements.

The recognition of income and expenses as special items may affect the presentation of the group's results and the comparability with prior years. Moreover, due to the size and non-recurring nature of the items, the identification, classification and measurement of items presented as special items rely on estimates. Also, there is a risk of non-consistent use of the group's accounting policies for special items.

For those reasons, we focused on special items in performing our audit procedures.

How our audit addressed the matter
As part of our audit procedures, we assessed whether the overall presentation and classification of income and expenses recognised under special items is appropriate and in accordance with the group's accounting policies.

We:

- considered whether income and expenses recognised under special items exclusively represent significant non-recurring income and expenses of a special nature relative to the group's earnings-generating operating activities;

- assessed the completeness of the items recognised as special items, focusing in particular on whether additional income and expenses should have been classified as special items;

- checked the calculation of income and expenses recognised under special items, which included verifying amounts to underlying documentation and contract documents, and assessed – where relevant – whether the estimates applied by management in calculating the amounts are reasonable; and

Independent auditor's report

- assessed whether the disclosures in the notes are sufficient and adequate.

Action against Tønder Fjernvarmeselskab
Brødrene Hartmann A/S is a party to a pending lawsuit against Tønder Fjernvarmeselskab concerning the collection of a receivable relating to district heating supplied to Tønder Fjernvarmeselskab from Brødrene Hartmann's combined heat and power plant in the period from 2003 up to and including 8 January 2015, when district heating supplies were discontinued. Tønder Fjernvarmeselskab disagrees on the pricing and has raised a counterclaim as described in note 3, which Brødrene Hartmann A/S has rejected.

We attached significance to this area because the outcome of the case is subject to uncertainty. If the outcome of the case is different than anticipated by management, this may have a significant impact on the consolidated financial statements and the parent company financial statements.

How our audit addressed the matter
As part of our audit of management's assessment of the case and its accounting treatment, we:

- discussed the pending case with management and obtained management's memo concerning the case and the estimates made in relation thereto;

- reviewed relevant documentation supporting management's assessment of the case and the write-down calculated on the recognised receivable from Tønder Fjernvarmeselskab, including correspondence in the case, decisions made by the Danish Energy Regulatory Authority and the Danish Energy Board of Appeal and the counterclaim raised by Tønder Fjernvarmeselskab;

- obtained an assessment from and conducted discussions with the group's external legal advisers to ensure that the legal assessments obtained support the accounting treatment; and

- reviewed the disclosures to ensure that they adequately describe the case, the uncertainty associated with its outcome and its potential impact on the financial statements.

Statement on the management report
Management is responsible for the management report.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the management report, 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 report and, in doing so, consider whether the management report 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 report provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management report 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 misstatement of the management report.

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 under 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 parent 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 International Standards on Auditing and additional

Independent auditor's report

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 these parent financial statements.

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

- identify and assess the risks of material misstatement of the 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 inadequate, 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 parent 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; and

- 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 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, 26 February 2019

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

Kim Takata Mücke	Morten Dandanell Kiærskou
State-authorised	State-authorised
public accountant	public accountant
mne10944	mne33749

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