NILFISK ANNUAL REPORT 2018

# **Transforming** the business

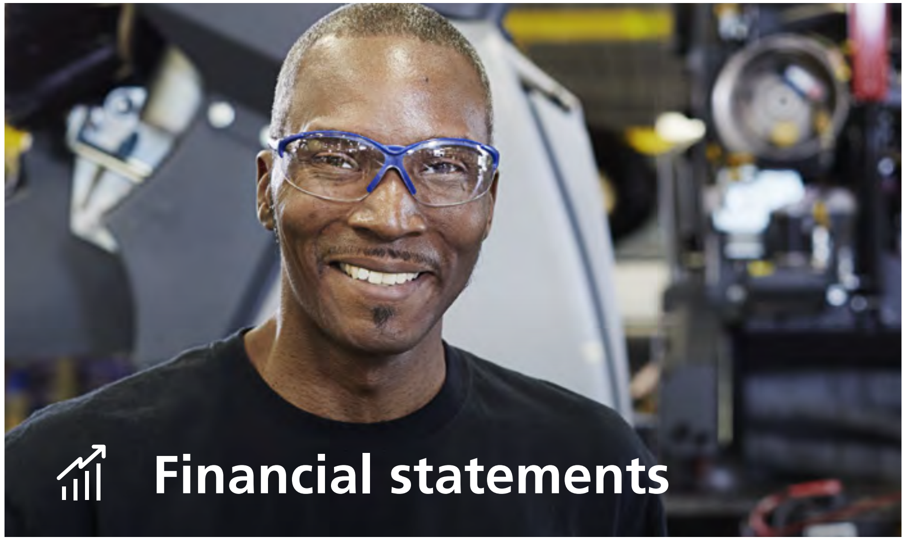
Generalforsamling: 26.03.2019
Dirigent: **Marlene Winther Plas**


# Redefining **industry standards**

Nilfisk is an established leader in cleaning technology; our products are designed by some of the most knowledgeable experts in the industry, and our solutions ensure a high hygienic standard across a variety of applications. We are committed to a cleaner world, and we are driven by our passion for innovation, knowledge, sustainability, and transformative technologies.

In the recent years, Nilfisk has embarked on a strategic journey. We set out to transform the company to sustain our position as a leader in the professional cleaning industry and prepare our organization to compete in the new era of intelligent cleaning. As a trusted partner when it comes to equipment and services anywhere in the world, we make it our business to help our customers maximize their performance.


Management review


Financial statements

# **Transformation** – our response to changing market dynamics

2018 has been a year marked by change and transition. Not just for Nilfisk as a company, but for the entire professional cleaning industry.

The industry is undergoing significant changes, driven by new technologies and changing customer dynamics. Cleaning is becoming intelligent. Smart applications that create new value from data are being introduced across the industry, and at Nilfisk we are seeking to digitally enable the customer experience and create new business models. We know that our customers increasingly want a partner who can add value to their businesses beyond the machine. At the same time, low-cost competitors are offering simple machines to the market, adding to the competitive pressures.

Our strategy Nilfisk Next is our response to these changes and trends. In the years ahead, Nilfisk will experience a two-pronged transformation: we will increase the profitability of the core business to fund the necessary investments in developing the cleaning solutions of tomorrow, while simultaneously positioning ourselves as the leader in intelligent cleaning.

This kind of transformation requires a sustainable multi-year plan for simplifying the company while building the necessary capabilities for future growth. With Nilfisk Next, we have such a plan in place.

For the Board of Directors, a highlight of 2018 for Nilfisk was the solid progress we have seen in the execution of this strategy and in the transformation of the company.

During the year, we have witnessed a significant simplification of the business with several divestments, an accelerated product platform pruning, and a consolidation of the manufacturing footprint. Some of these initiatives became a contributing factor to realizing organic growth below our expectations. However, we are confident that the actions taken during the year are in the long-term best interest of the company and of our shareholders.

We have four clear strategic drivers, each with defined road maps and actions for the years ahead. Simplify is about reducing operational complexity and harmonizing ways of working across Nilfisk, including consolidating the brand portfolio, standardizing our manufacturing setup, and harmonizing the IT landscape. Grow is about further enhancing our commercial capabilities and developing new business. We are focused on driving organic growth in all markets, engaging with large global accounts to drive growth and innovation, as well as growing the service business across markets by introducing new services and new business models. With Digitize we will be working to further scale the autonomous range, combined with launching new digital services. Finally, Lead is about continuously building the organization with capabilities and mindsets supporting the transformation.

Collectively, the leadership team has their long-term priorities in place, with clear road maps for the execution of the multi-year transformation of Nilfisk.

On a final note, we would like to thank our shareholders for your continued support and engagement in Nilfisk during the year. We would also like to thank the Nilfisk Leadership Team for their dedication to simplifying the business and paving the way for the future growth, and not least thank all 5,500 employees for contributing to Nilfisk's success.

On behalf of the Board of Directors,

**Jens Due Olsen**
Chairman

# **Good progress in simplifying Nilfisk** in a challenging year

Transformation! If there is one word characterizing 2018 at Nilfisk, it would be transformation. During the year, we executed significant initiatives as part of our Nilfisk Next strategy and the ongoing simplification of the company, creating the foundation for improved profitability and growth going forward.

However, 2018 was a challenging year in terms of delivering the financial results we expected. We realized total revenue of 1,054 mEUR and showed improvement on certain measures, while experiencing setbacks on others. Total organic growth of 2.0% for the full year was clearly below our expectations. This was partly due to an unsatisfactory performance in our US business. Another negative impact on total growth came from the accelerated exit from our production facility in Suzhou, China, which affected results in our Consumer and private label businesses.

EMEA was a bright spot in 2018: We saw continuous progress throughout the year with full-year organic growth of 3.6% excluding private label. This result was the sign of a healthy core business. In particular, large markets such as Germany and France showed solid performance.

When it comes to earnings, 2018 results were affected by increased prices for raw materials, rising tariffs, and a lower utilization of our production capacity. These factors negatively impacted our gross profit. Despite these challenging conditions, we delivered an operating performance of 11.5%, which was at the low end of the guided interval.

**Simplifying the business**

2018 was a year marked by solid progress in our strategy execution, and we worked intensely on simplifying our business, production, and portfolio.

We divested a number of non-core businesses with annual revenue of approximately 75 mEUR, most significantly our outdoor business and our US-based restoration business. We intend to operate in markets that are attractive, and where we have a strong position, and strategic reviews confirmed that we were not the best owners.

During 2018 we consolidated and simplified our production footprint by creating fewer and larger production hubs, significantly reducing complexity across sourcing, production, and distribution. In our product portfolio we took significant steps to reduce complexity, successfully pruning 109 product platforms corresponding to about 40% of our total portfolio.

**Nilfisk Next: Continuing the transformation journey**

After the initiatives undertaken in 2018, we are in a stronger position entering 2019, but the transformation will continue.

We need to stay in front and lead the future of intelligent cleaning while driving our business to the peak of its profitability. With this as a starting point, we have initiated the next phase in our multi-year strategy, Nilfisk Next. The strategy will help us leverage the benefits of being a global, digital company with an ability to scale initiatives quickly and efficiently across markets while providing the right solutions for our customers.

Nilfisk is in for a truly exciting year in 2019. Everything is in place to ramp up the transformation of Nilfisk for the long-term benefit of shareholders, customers and employees.

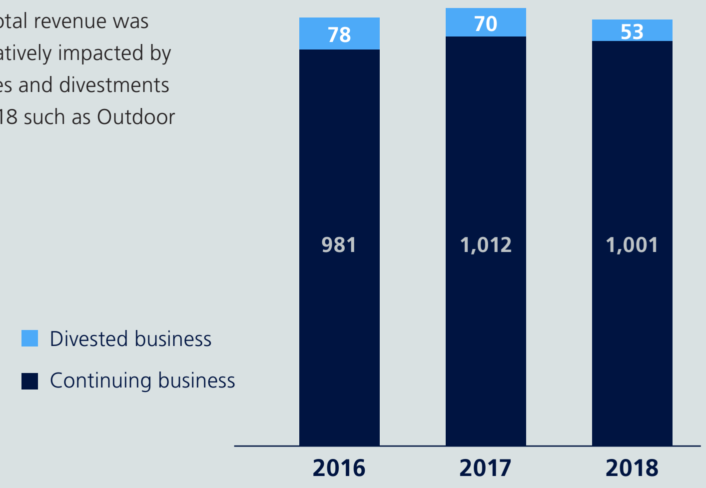
**Hans Henrik Lund**
CEO

# **Financial highlights** 2018

## **1,054** mEUR

**Revenue**

Compared to 2017, total revenue was down 28 mEUR, negatively impacted by foreign exchange rates and divestments completed during 2018 such as Outdoor and HydraMaster.




## **2.0**%

**Organic revenue growth**

Total organic growth was driven by a solid development in EMEA (excluding private label) and the Specialty Professional segment, but offset by unsatisfactory development in the US business. total organic growth in 2017 was 3.7%.

Overall, the total Nilfisk branded professional business; EMEA, Americas and APAC, including Industrial Vacuums Solutions and Nilfisk FOOD, showed organic growth of 2.8%.

## **11.5**%

**Operating performance**

The operating performance was up 0.1 percentage point from 2017. Including impact from the phantom share program, the EBITDA margin before special items was 11.9%, an increase of 0.8 percentage point.

## **18.9** mEUR

**EBIT**

EBIT was impacted by special items driven by the continued simplification. EBIT before special items was 87.4 mEUR, equivalent to a margin increase of 0.8% percentage points to 8.3%

## **16.7**%

**RoCE**

Return on Capital Employed was up 0.7 percentage point from 2017, driven by an increase in EBIT before special items.

KEY EVENTS 2018

# **Significant** divestments completed

Nilfisk completed several significant divestments throughout 2018 as part of its ongoing multi-year simplification strategy.

Over the course of the year, Nilfisk completed five divestments across the portfolio. The divestments followed a series of strategic reviews that concluded that the businesses in question were not a strategic fit to Nilfisk's core business and did not represent markets attractive to Nilfisk.

April

**Nordic Chemical & Utensils**
Nilfisk divested the Nordic Chemical & Utensils business, a distributor of detergents based in Sweden, with annual revenue of 10 mEUR. The divestment was completed in April.

September

**Rottest**
Completed in September, Nilfisk divested Rottest, a local manufacturer of high pressure washers in Turkey with annual revenue of 1 mEUR. Production accommodated local markets only.

December

**Nilfisk South Africa**
Most sales in South Africa came from local production and sale of chemicals and the import and sale of utensils, with limited synergies with the remaining Nilfisk business. Nilfisk decided to divest the South African business with annual revenue of 13 mEUR. The transaction was completed in December.

October

**HydraMaster**
Nilfisk completed a strategic review of its US-based carpet restoration business, HydraMaster, with annual revenue of 15 mEUR, and concluded that this business had limited synergies with the remaining professional business, and that the market had limited growth potential. The company was sold, and the divestment completed in October.

December

**Nilfisk Outdoor**
Following a strategic review, Nilfisk divested its outdoor business with annual revenue of 35 mEUR. The review concluded that the market for outdoor utility machines is highly price competitive, tender based, and requires heavy investment. Nilfisk's lack of scale in this market and the lack of synergies with its remaining professional business prompted the divestment. The Danish-based part of the business, comprised of machines in the 0.5 m3 segment, was sold and the transaction was completed in December. The Italian-based production was terminated, and the rights to the remaining product platforms in the 1.0-1.5 m3 segment were sold in the beginning of 2019.

KEY EVENTS 2018

# **Simplification** and growth

During 2018, Nilfisk reduced its manufacturing footprint significantly, exiting 7 out of 18 production sites.

**Reduced manufacturing footprint**
During 2018, Nilfisk made considerable progress in reducing our manufacturing footprint, exiting 7 out of 18 production sites. Some sites were exited following divestments, while others were exited as a result of specific initiatives aiming at reducing the production footprint.

**11/18**
Nilfisk production sites

End-2018 | End-2017

**Award-winning products**
*The Nilfisk SC6000 ride-on scrubber dryer won 1st place at the Tomorrow's Cleaning Awards 2018.*


**Nilfisk Liberty SC50 roll-out**
The roll-out of the autonomous scrubber Nilfisk Liberty SC50 continued, and the first machines were shipped to customers. Throughout the year, Nilfisk has seen a significant interest in the solution from customers, and the Nilfisk Liberty SC50 kickstarted a collaboration with three of the world's largest facility service providers. Another milestone was achieved in 2018 when the Nilfisk Liberty SC50 was certified according to a newly-established safety standard regulating robotic floorcare.

**Nilfisk Next strategy supporting transformation**
We refined our strategy, continuing our efforts from 2017 to simplify and grow the business while enhancing our focus on building the future of cleaning. Over the course of the year, we have executed key strategic initiatives that have, together with learnings from the year, positioned us to take our transformation to the next phase.

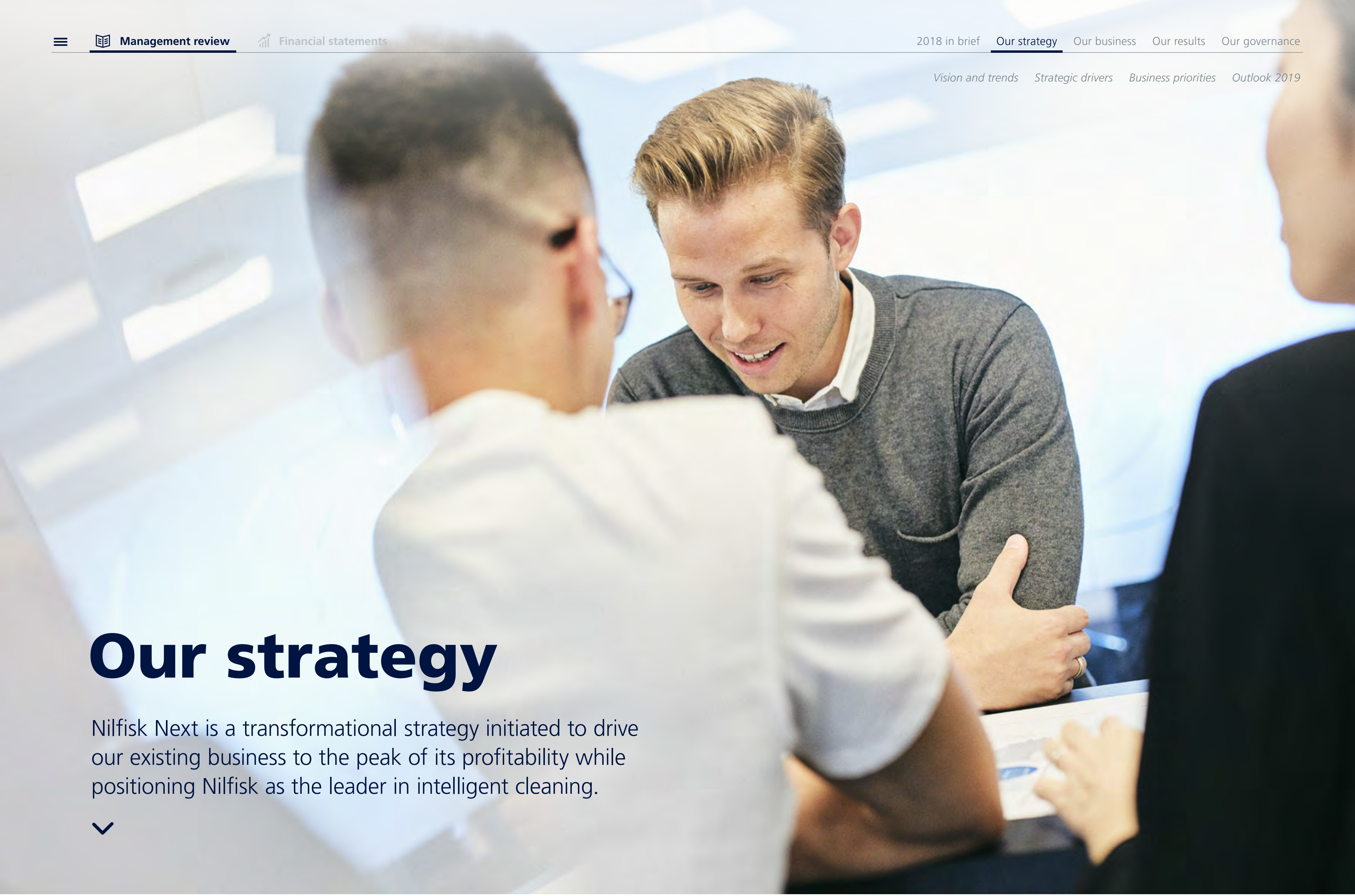
**Significant reduction of product portfolio**
Our program to simplify and streamline the Nilfisk product portfolio was executed according to plan and delivered above target. By year-end, Nilfisk had closed 109 product platforms – approximately 40% of our total portfolio.


**Innovative product launches**
*One of the 2018 product launches was the compact scrubber dryer SC401 equipped with the patented Nilfisk SilentTech™ technology and with a sound level of only 60-65db.*

# **5-year** consolidated financial **highlights**

| EUR million | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ***Income statement*** | | | | | |
| Revenue | 1,054.3 | 1,081.9 | 1,058.5 | 980.0 | 917.6 |
| EBITDA before special items | 125.5 | 120.1 | 116.8 | 98.0 | 107.3 |
| EBIT before special items | 87.4 | 81.5 | 75.8 | 63.8 | 77.4 |
| EBITDA | 69.8 | 99.5 | 96.8 | 98.0 | 120.2 |
| EBIT | 18.9 | 60.9 | 54.0 | 63.8 | 90.3 |
| Special items, net | -68.5 | -20.6 | -21.8 | 0.0 | 12.9 |
| Financial items, net | -11.3 | -8.9 | -11.0 | -7.9 | -10.3 |
| Result for the year | 10.0 | 40.3 | 29.5 | 41.8 | 58.1 |
| ***Cash flow*** | | | | | |
| Cash flow from operating activities | 33.1 | 41.4 | 114.7 | 59.8 | 75.7 |
| Cash flow from investing activities | -38.6 | -35.3 | -72.6 | -67.5 | -19.0 |
| – hereof investments in property, plant and equipment | -18.6 | -15.3 | -20.6 | -21.7 | -13.7 |
| Free cash flow excluding acquisitions and divestments | -8.6 | 6.1 | 74.2 | 19.8 | 45.7 |
| ***Balance sheet*** | | | | | |
| Total assets | 794.4 | 827.2 | 983.1 | 935.5 | 862.3 |
| Group equity | 147.5 | 137.5 | 224.8 | 200.7 | 334.8 |
| Working capital | 170.4 | 163.5 | 141.7 | 173.3 | 159.7 |
| Net interest-bearing debt | 369.3 | 359.7 | 265.8 | 300.9 | 105.9 |
| Capital employed | 516.8 | 497.2 | 490.6 | 501.6 | 440.7 |
| ***Financial ratios and employees*** | | | | | |
| Organic growth | 2.0% | 3.7% | 3.1% | 0.4% | 5.6% |
| Gross margin | 42.0% | 42.2% | 41.9% | 40.8% | 41.0% |
| EBITDA margin before special items | 11.9% | 11.1% | 11.0% | 10.0% | 11.7% |
| EBIT margin before special items | 8.3% | 7.5% | 7.2% | 6.5% | 8.4% |
| EBITDA margin | 6.6% | 9.2% | 9.1% | 10.0% | 13.1% |
| EBIT margin | 1.8% | 5.6% | 5.1% | 6.5% | 9.8% |
| Financial gearing | 2.9 | 3.0 | 2.3 | 3.1 | 1.0 |
| Overhead costs ratio | 33.1% | 34.1% | 33.9% | 33.7% | 32.1% |
| Working capital ratio | 18.5% | 16.2% | 17.6% | 20.0% | 19.2% |
| Return on capital employed (RoCE) | 16.7% | 16.0% | 14.6% | 12.9% | 17.6% |
| Number of full-time equivalents, year-end | 5,482 | 5,769 | 5,607 | 5,545 | 5,420 |

Please find definitions in Note 8.7



# Our strategy

Nilfisk Next is a transformational strategy initiated to drive our existing business to the peak of its profitability while positioning Nilfisk as the leader in intelligent cleaning.

## Nilfisk Next – continuing our transformation to build the future of cleaning

We refined our strategy as we continued our efforts from 2017 to simplify and grow the business. Nilfisk Next is also about enhancing our focus on building the future of cleaning and introducing significant transformations of the company.

To sustain our position as a leader in the cleaning industry and prepare Nilfisk to compete in the new era of intelligent cleaning, we continue to drive transformational changes across the business as described in a multi-year program of themes and actions.

### VISION

We will lead **intelligent cleaning** to make your business **smarter**

### OBJECTIVES

**Global company**
Globalize and standardize to drive leverage

**Solution partner**
Innovate with large sophisticated customers

**Digital leader**
Autonomize and digitize everyday interactions

### STRATEGY

Simplify

Digitize

Grow

Lead

## Vision and trends

Technology is enabling smarter cleaning solutions, and at Nilfisk we have a clear vision of making our customers' businesses smarter through intelligent cleaning solutions.

With connected and autonomous cleaning solutions becoming a part of our customers' businesses, and as cleaning solutions are interacting with their environments, the cleaning industry is set for change.

Our vision is ambitious and will require significant transformation across our business. Nilfisk Next sets the pace and is the guiding star in a multi-year transformation of Nilfisk.

Our strategy allows us to respond to the ongoing changes affecting the cleaning industry. Currently, we are seeing three key trends:

- Rising expectations from customers that their supplier will create value beyond the machine through optimized cleaning operations and the "Value of Clean"
- An accelerated technology race that includes autonomous cleaning solutions and new business models involving intelligent use of operational data
- A commoditization of machines and mounting price pressure from low-cost competitors offering "good enough" equipment

Sustaining our leading position in the professional cleaning industry while working towards our vision to be the leader in intelligent cleaning and deliver on our financial commitments will require a dual transformation of the company.

Our response to trends and changing market dynamics are reflected in Nilfisk Next, which outlines three overall strategic objectives. We want our customers, investors, and employees to characterize Nilfisk as:

**A global company:** Wherever we choose to do business, our global organization – with a standardized global set-up with uniform processes, systems, and capabilities in all markets – will enable us to reduce commercial complexity, simplify our operations, and deliver consistently high-quality cleaning solutions and services.

**A solution partner:** By adding value beyond the machine, we enhance our ability to provide complete solutions for our customers. We will co-innovate with the largest, most advanced global customers while driving growth among smaller to medium customers through an optimized mix of sales channels.

**A digital leader:** Resting upon a solid foundation consisting of a coherent IT backbone and uniform data architecture, we will scale our digital investments and provide a digital customer experience and buying experience while bringing digital solutions to market that enable our customers to clean smarter.

**Dual transformation**

Driving our core business to its peak profitability and create growth engines through investments in tomorrow's cleaning solutions.


## Strategic drivers

Nilfisk Next sets the overall strategic course for our company. With this strategy in place, we executed on many important initiatives throughout 2018, launching projects that will receive continued focus in the coming years. Viewed collectively, these strategic milestones have positioned us to take our transformation to the next level.

Nilfisk's transformation hinges upon four actionable drivers: Simplify, Grow, Digitize, and Lead. Each of the four drivers consists of several transformation themes where we have defined specific actions to execute over time.

| Business priorities | 2018 – Actions and achievements | 2019 – Goals and focus |
|---|---|---|
| **SIMPLIFY** | **Divestments**<br>• Nordic Chemical & Utensils, Rottest, HydraMaster, Nilfisk South Africa, and Nilfisk Outdoor<br><br>**Supply chain optimization**<br>• Exit of seven production sites<br>• Reduced number of suppliers by 9%<br>• Significant quality improvements in industrial products<br><br>**Portfolio rationalization**<br>• 109 product platforms pruned equivalent to almost 40% of all platforms<br><br>**Data and system harmonization**<br>• SAP ECC HANA migration<br><br>**Consumer business**<br>• Strategic review of Consumer initiated to determine the best future strategic direction for the business<br><br>**Cost saving program**<br>• Increased total savings potential from 35 mEUR to 50 mEUR by end of 2020. By end of 2018 executed initiatives of 33 mEUR<br>• Outsourcing of transactional finance tasks<br>• Consolidation of Customer Care functions initiated | **Brand consolidation**<br>• Our current multitude of brands across Nilfisk causes unnecessary complexity for our customers and partners, and across own value chain. Fewer brands with clearly defined value propositions will reduce complexity<br><br>**Standardize and outsource**<br>• Continue to standardize and consolidate back-office functions including distribution. Part of these efforts will be to look at outsourcing opportunities<br>• Consolidate ERP systems<br>• Further globalize and redesign the organization<br><br>**Supply chain optimization**<br>• Optimize distribution center footprint<br>• Reduce and optimize supplier base<br>• Digitize and automate core functions<br><br>**Portfolio rationalization**<br>• Continue consolidation of product portfolio |
| **GROW** | **EMEA**<br>• Solid organic growth of 3.6% excluding private label<br><br>**Service**<br>• Established a Global Service function to standardize and scale Nilfisk's service offering, focusing on commercial development and service management<br><br>**Mid-market**<br>• Global go-to-market approach developed for the Viper brand and implemented in all Viper focus markets<br><br>**Emerging markets**<br>• Double-digit growth in China in all four quarters of 2018 | **US growth plan**<br>• Accelerate the growth agenda in US by executing new go-to-market strategy, targeting specific customer segments and strategic accounts<br><br>**Country organic growth**<br>• Enhance growth from existing markets and portfolio by harmonizing local market units and organizing sales force effectively around commercial opportunities<br><br>**Large global accounts**<br>• Engage with the largest global customers in order to grow and innovate while expanding foothold with big national and smaller customers through clearly defined commercial priorities<br>• Grow and innovate with the largest global contract cleaners and fleet-buying customers<br><br>**Service growth**<br>• Continue global roll-out of ServiceMax to serve our key customers more efficiently<br>• Introduce new business models to fuel further growth in the aftermarket |

| Business priorities | 2018 Actions and achievements | 2019 Goals and focus |
|---|---|---|
| DIGITIZE | **Autonomize**<br>• The Nilfisk Liberty SC50 certified according to a newly established safety standard regulating robotic floorcare<br>• Machines shipped to customers world-wide including the largest contract cleaners<br><br>**Optimize**<br>• New web platform for more than 20 markets launched<br><br>**Digital core**<br>• HR management system implemented across all entities<br>• Continuous roll-out of CRM system Salesforce and Field service manage-ment system ServiceMax | **Autonomize**<br>• Scale the production of Nilfisk Liberty SC50 and prepare for full, global commercialization across several geographies<br><br>**Optimize**<br>• Develop and launch 'Nilfisk Online & Care', an e-commerce platform with full self-service capabilities<br>• Continue global roll-out of the CRM platform Salesforce<br><br>**Servitize**<br>• Launch new digital services enabling customers to optimize cleaning through data |
| LEAD | **Nilfisk Behaviors**<br>• Global launch and implementation of five new Nilfisk Behaviors supporting transformation<br><br>**Nilfisk Leadership Team**<br>• Appointment of new Head of EMEA, new Head of Global Marketing, and new Head of Strategy & Business Development<br><br>**Organization**<br>• New competencies added across functions, supported by continued leadership training activities<br>• Established new Marketing organization with enhanced focus on commercial management<br>• Established autonomous and digital competencies | **Nilfisk Behaviors**<br>• Continue the global roll-out of the Nilfisk Behaviors supporting the global transformation of Nilfisk<br><br>**Organization**<br>• Further globalize and redesign the organization, including implementing a blueprint restructuring project that introduces a global functional approach as well as organizing the sales force around commercial opportunities within selected customer segments and customer size<br>• Introduce new global approach to people development to strengthen individual and team performance<br>• Add digital competencies |

# **Outlook** 2019

2019 will be a continuation of the transformational journey Nilfisk embarked on in late 2017. We will focus on implementation of the Nilfisk Next strategy and continue to look for further ways to increase profitability while growing and investing to build the future.

We will direct particular effort towards transforming Nilfisk into a global company by standardizing our organization, including the set-up of our sales companies and organizing the sales force around commercial opportunities within selected customer segments and customer size.

We have based our guidance on a world economic outlook that we expect to be similar to 2018, however with lower visibility.

**Organic growth**

We expect organic growth in our Nilfisk branded professional business – EMEA, Americas and APAC, including Industrial Vacuums Solutions and Nilfisk FOOD – to be above 3.0%. We expect it to be driven by continued solid growth in EMEA and increased growth in Americas and APAC compared to 2018. However, we are aware of the adverse macroeconomic environment compared to 2018 and increased uncertainty created by our transformation initiatives, which may have a negative impact on organic growth.

In the consumer business, we are aiming for a continued stabilization of revenue with organic growth of approximately 0%, while private label sales in 2019 are expected to decline approximately 10% due to the planned exit of a large customer that was initiated in Q4 2017. For both businesses the focus will remain on continuing to improve profitability.

Accordingly, we estimate organic growth for the total business in 2019 to be approximately 2.0%.

**EBITDA margin before special items**

EBITDA margin before special items is expected to be above 12.0% in 2019, before the impact of the new financial reporting standard IFRS 16 Leases. The expected increase in the EBITDA margin compared to 2018 is seen coming from an improvement in the gross margin. This improvement will be primarily the result of the impact of the cost saving program, a positive impact from divestments made in 2018, and a positive net impact of market price adjustments after cost inflation including raw material prices and US tariffs.

The cost saving program is expected to have a positive impact on our results of 5-7 mEUR, the majority of which will be included in gross profit.

For 2019, we have dedicated approximately 20 mEUR to further investments to build the future. These investments include initiatives within digitalization and autonomous solutions; marketing activities such as customer insights, customer experience, design and services; along with IT investments. We expect that approximately 15 mEUR will be expensed in overhead cost while capital expenditure will increase by 5 mEUR. Accordingly, we expect overhead cost measured in percentage of revenue to increase compared to 2018.

The impact of IFRS 16 on the EBITDA margin before special items in 2019 is expected to be approximately 2.4 percentage points, leading to an IFRS 16-adjusted guidance of an EBITDA margin before special items of above 14.4%.

**Special items**

Restructuring costs are incurred in connection with the cost saving program. In 2019, we expect to incur 13-15 mEUR related to the execution of initiatives under the cost saving program.

In addition, we expect restructuring charges related to the strategic objectives of becoming a global, digital company providing the right

**2019 guidance**

Above **3.0%**
**Organic growth in the Nilfisk branded professional business**

Approximately **0.0%**
**Organic growth in the consumer business**

Approximately **-10.0%**
**Organic growth in the private label business**

Approximately **2.0%**
**Organic growth in the total business**

Above **14.4%**
**EBITDA margin before special items**
Expected EBITDA margin before special items adjusted for the new financial reporting standard IFRS 16

solutions for our customers, particularly relating to the implementation of a standardized global organization. We expect the cost will be incurred during the period 2019-2020 with total spend in the range of 15-20mEUR. The exact amount and timing of these costs is uncertain, since they depend on detailed local and functional assessments.

**Divestments and foreign exchange rates**
We made a number of divestments in 2018. Adjusting for these divestments, the 2018 revenue in the continuing business is 1,001 mEUR. We expect that the divestments completed in 2018 will have a negative impact on revenue growth in 2019 of 6%.

However, the divestments are expected to have positive impact on gross margin and EBITDA margin before special items in 2019 of 0.5-0.6 percentage point and between 0.2-0.3 percentage point, respectively. This effect is included in the guidance stated above.

Based on the forecasted average exchange rates for the year 2019[1], we expect a slightly negative impact on revenue.

## Forward-looking statements

Statements made about the future in this report reflect the Executive Management Board's current expectations with regard to future events and financial results. Statements about the future are by their nature subject to uncertainty, and the results achieved may therefore differ from the expectations, due to economic and financial market developments, legislative and regulatory changes in markets that the Nilfisk Group operates in, development in product demand, competitive conditions, energy and raw material prices, and other risk factors.

Nilfisk Holding A/S disclaims any liability to update or adjust statements about the future or the possible reasons for differences between actual and anticipated results except where required by legislation or other regulations.

The outlook, which should be read in conjunction with "Forward-looking statements" and our exposure to risk on page 49-50, is based on several important assumptions, including that relevant macroeconomic trends will not significantly change the current business conditions for Nilfisk during 2019 and that currency exchange rates will remain at the current levels.

**Mid-term targets**
In 2017, at the time of the demerger from NKT A/S, we issued mid-term targets covering the period 2020-2022.

We reiterate our expectations of organic growth for the total business in the range of 3.0%-5.0% given the current economic outlook.

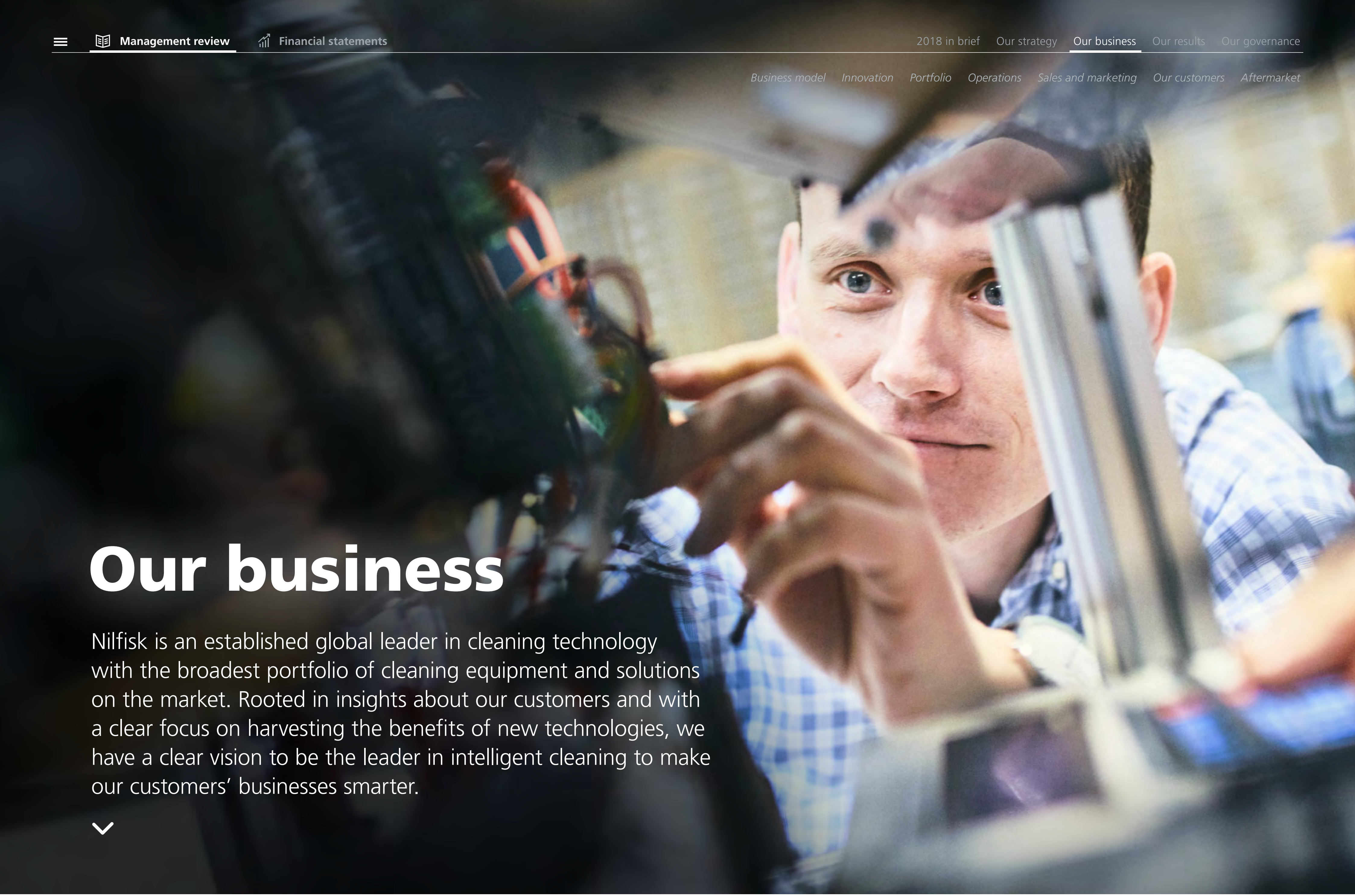
EBITDA before special items had been expected to be in the range of 13%-15% in the period 2020-2022. Given the impact of the divestments (0.2-0.3 percentage point) and IFRS 16, we are increasing the mid-term target range to approximately 15.5%-17.5% for the period 2020-2022. We expect 2020 to be at the lower end of that range.

Based on the guidance for 2019, this represents an increase in the EBITDA margin before special items from 2019 to 2020 of approximately 1.2 percentage points. We expect the increase to be approximately evenly split between improvement in the gross margin and improvements in overhead costs measured in percentage of revenue.

The improvement in the gross margin assumes that market price adjustments will compensate for cost inflation including increasing raw material prices. The margin uplift is expected to result from our ongoing cost saving program and simplification initiatives. Overhead costs will also benefit from the cost saving program and increased activity.

The mid-term target for RoCE issued in 2017 was a RoCE above 20%. Given the impact of IFRS 16, we now expect RoCE to be above 18% in 2022.

[1] The forecasted average exchange rates for 2019 are calculated using the realized average exchange rates for January 2019, and the average forward exchange rates for the last 11 months of 2019.



# Our business

Nilfisk is an established global leader in cleaning technology with the broadest portfolio of cleaning equipment and solutions on the market. Rooted in insights about our customers and with a clear focus on harvesting the benefits of new technologies, we have a clear vision to be the leader in intelligent cleaning to make our customers' businesses smarter.

## Our business model

Nilfisk is an established global leader in cleaning technology with the broadest portfolio of cleaning equipment and solutions on the market. We are among the global market leaders in the professional cleaning equipment industry, which has an estimated value of 7.5 bnEUR.

Through a combination of direct and indirect sales, we service contract cleaners, retailers, industrial customers and many more across more than 100 markets.

Our business model is based on creating value for our customers. There is a universal need for cleaning, and the effect of clean is valuable everywhere. By providing high-quality cleaning products and services we enable our customers to increase their productivity, and quality of life. Rooted in insights about our customers and with a clear focus on harvesting the benefits of new technologies, we have a clear vision to be the leader in intelligent cleaning to make our customers' businesses smarter.

### Resources

Capital provided by investors

Insights from customers and market analysis

Facilities for development

Innovation

A competent and diverse staff

**Innovation**

*Starting with customer insights, Nilfisk develops intelligent cleaning solutions and services rooted in new technologies and tailored to our customers' needs.*

**Portfolio**

*Across our extensive Nilfisk product portfolio, we aim to deliver a top-tier cleaning performance, complemented by services that increase productivity and reduce total cost of ownership.*

**Operations**

*A global production footprint combined with a distribution set-up that ensure operational efficiency and quality.*

**Sales and marketing**

*Through a global team of sales representatives combined with dealers and e-commerce, we build customer relationships and drive sales across our strategic customer segments.*

**Customers**

*With innovative cleaning solutions we increase cleaning productivity and quality for our customers – in short, we make our customers' businesses smarter though intelligent cleaning solutions and services.*

**Aftermarket**

*Through a broad range of aftermarket solutions and a global team of dedicated service technicians, we ensure that our customers get the support and service needed throughout the product life cycle.*

### Value Creation

**For our shareholders:**
- Dividends
- Optimal capital allocation

**For our customers:**
- Productivity increase
- Improved cleaning, hence enhanced quality of life for people

**For our employees and society:**
- Job creation and development
- Tax contribution
- Better cleaning solutions for the benefit of people and environment

## Innovation

We have more than 250 engineers and specialists around the world working to bring innovative solutions to market. During 2018, Nilfisk continued its progress towards building the future of cleaning.

At Nilfisk, innovation and product development start with customer insights, the guiding principle for the development of portfolios, products, and services via close cross-functional collaboration between R&D, marketing, external technology partners and customers.

**4.1%**
Share of revenue spent on R&D related activities, up from 3.1% in 2017

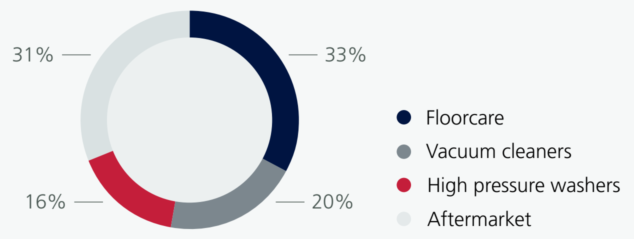
### Customer driven innovation

In 2018, Nilfisk took further measures, such as integrating product management functions into the marketing organization, to ensure that all R&D activities are customer-centric and driven by specific market needs. Nilfisk also partners directly with customers when it comes to co-innovation. In 2018 selected customers played an active role in the development of the autonomous solution, Nilfisk Liberty SC50, enabling us to develop a solution tailored to the everyday needs of customers.

### Building the future of cleaning

Nilfisk has a clear vision to be the leader in intelligent cleaning. Having the right people on board is fundamental to succeeding with this vision. During 2018, Nilfisk ramped up its capabilities within autonomous solutions and doubled the number of FTEs within our Connected Autonomous Solution organization. A digital service team was also established.

**SHARE OF REVENUE PER PRODUCT LINE**




In addition to in-house capabilities, Nilfisk continued to work with leading external technology partners during 2018. During 2019 Nilfisk will assess the market on an ongoing basis to ensure that we are partnering with the right companies at the right time, and to keep current with the latest technical solutions.

## Portfolio

Under two global master brands – Nilfisk and Viper – we develop, manufacture, and sell a comprehensive portfolio of cleaning solutions and services targeting the premium and value market for professional cleaning, complemented by cleaning solutions tailored to households.

During 2018, extensive work has been carried out to simplify the Nilfisk product portfolio. In Q1, an ambitious program was initiated to reduce complexity by slimming the portfolio. The program was executed according to plan and by year-end Nilfisk had closed 109 product platforms corresponding to about 40% of our total portfolio. An additional 16 platforms will be pruned in 2019 and 2020. This accomplishment has reduced complexity significantly across the value chain and created a much simpler portfolio for the benefit of customers, dealers and Nilfisk sales companies.

In the second half of 2018, Nilfisk took further measures to simplify our floorcare product line by deciding to prune the Nilfisk blueline floorcare portfolio. Over time, all blueline machines will be replaced by related products in the greyline portfolio. Going forward, Nilfisk will operate with one united product range within professional floorcare. We believe this decision will ultimately benefit customers, as it allows Nilfisk to focus our R&D resources.

### Cleaning smarter with digital services

During 2018 Nilfisk added capabilities to its digital service organization. Digital services allow Nilfisk and our customers to use data from cleaning machines – and over time also from the machines' surroundings – to optimize cleaning. Nilfisk will launch new unique digital offerings in 2019 that are tailored to customer needs, and will continue to expand the connected fleet of machines.

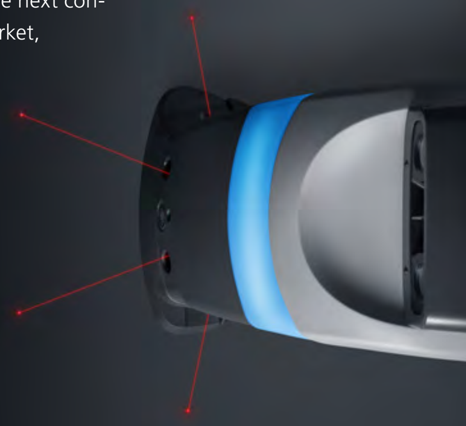
### Progress within autonomous cleaning solutions

In 2018 Nilfisk continued to mature and scale the production set-up for the Nilfisk Liberty SC50, the first autonomous cleaning solution from Nilfisk. Large, global customers were involved throughout the process to ensure that the features and functionalities Nilfisk Liberty SC50 met their everyday needs and requirements.

Nilfisk saw significant customer interest in the solution. Three of the world's largest facility service providers are working with us and now have Liberty SC50 machines in action.

Another milestone was achieved in Q2 when the Nilfisk Liberty SC50 was certified according to a newly-established safety standard regulating robotic floorcare. This is a key differentiator for Nilfisk, as the Nilfisk Liberty SC50 is now the first safety-certified autonomous solution on the market.

In addition to scaling the Nilfisk Liberty SC50, we continued working on bringing the next connected solutions to market, ensuring the necessary progress towards our long-term goal: a full portfolio of connected autonomous solutions covering all the applications our customers require.



## Consolidation of production footprint 2018

**Lemvig, Denmark**
With the divestment of Nilfisk Outdoor, completed in December 2018, Nilfisk exited its production site in Lemvig, Denmark.

**Suzhou, China**
Manufacturing of consumer and private label products were transferred to a third-party vendor, and the remaining production of professional equipment was consolidated in Nilfisk's other production facility in Dongguan, China. The closure of the Suzhou site was planned for Q4 2018 but executed in August due to a labor situation.

**Izmir, Turkey**
With the divestment of the local high-pressure washer Rottest, the production facility was transferred to the new owners of the company.

**Mukilteo, US**
With the divestment of HydraMaster, completed in October 2018, Nilfisk exited its production site in Mukilteo, Washington State, US.

**Guardamiglio, Italy**
Following a consolidation of production in two specialized sites in Hungary and the divestment of the Outdoor business, Nilfisk decided to exit the Guardamiglio manufacturing facilities.

**Singapore**
Manufacturing of the Den-Sin brand was transferred to Hungary, and the production facility in Singapore was closed in Q1 2018.

**Johannesburg, South Africa**
Following a divestment of the South African business, completed end-December 2018, the production site in Johannesburg was transferred to the new owners of the business.

## Operations

During 2018 Nilfisk has made considerable progress in our efforts to reduce operational complexity and increase efficiency in our production, see overview on page 20. Over the course of the year Nilfisk announced exits from seven production sites, bringing the total number of production sites down to 11. Some sites have been exited following divestments, while others were exited as a result of specific initiatives aiming at reducing the production footprint.

**11**
Total number Nilfisk production sites after 7 exits announced in 2018

As part of the simplification efforts we completed a consolidation of our EMEA production footprint, concentrating production further on our Hungarian sites. The site in Szigetszentmiklós specializes in floorcare equipment, while the site in Nagykanizsa specializes in high pressure washers and vacuum cleaners.

### Sourcing efficiency

Early in 2018 Nilfisk experienced an unusual delivery situation. We were impacted by shortages of product supply from our production facilities in Brooklyn Park, US, and our two production facilities in Hungary on selected product platforms. Consequently, Nilfisk examined the sourcing and production set-up for the product platforms in question and established new standards and processes within this operational area.

### Quality Management

Quality assurance is a key focus area for Nilfisk. During 2018, we continued improving our global quality management systems and continued the certification of our production sites. Our largest site in the US and our site in Mexico were certified according to the global standard for Quality Management (ISO 9001) and our site in Dongguan, China, was certified according to the global standard for Environmental Management (ISO 14001).

Throughout the year, Nilfisk has continued to optimize sourcing of our raw materials and components. As part of these efforts, Nilfisk has seen satisfactory progress on the ambition to significantly narrow down and strengthen our supplier base to reduce complexity, reducing the total number of suppliers by 9% during 2018.

### Continuing the transformation of our global operations

The simplification and consolidation of our production and distribution will continue throughout 2019, as Nilfisk looks at optimizing our distribution footprint. In addition, Nilfisk will work towards structuring our sites according to a ‘plant in plant’ principle, reflecting a set-up in which each production hub contains several smaller, specialized plants operating according to global standards tailored to each product platform. This set-up aims to leverage simplicity and agility and push for more global standardization, thereby supporting future growth by allowing Nilfisk to quickly respond to changing market demands.

## Sales and marketing

Nilfisk ensures strong customer access and a global sales coverage by balancing direct and indirect sales channels.

Nilfisk has a sales force of 1,800 full-time employees driving sales and service across more than 40 countries in EMEA, Americas and APAC. This is supplemented by e-commerce as well as an extensive network of dealers and distributors reaching customers across 100 markets.

### Commercial management

During 2018, Nilfisk has taken significant steps to further globalize sales and marketing to enhance our commercial engine and drive growth across markets.

One step has been the continued global roll-out of the customer relationship management (CRM) platform Salesforce, enabling our sales team to optimize their customer interactions, and allowing marketing to track marketing initiatives.

In addition, Nilfisk has started a global pricing project to identify and execute price and profitability improvements. This work will continue in 2019.

### A digital customer experience

Serving and growing our largest, global customers with advanced cleaning needs is important to Nilfisk. At the same time, we will continue to drive growth among small and medium sized businesses, optimizing our channel mix consisting of direct sales, dealers and e-commerce.

To support the digital customer experience, Nilfisk completed the first phase of a global web project during 2018. New websites were launched in 16 markets and more will follow during 2019. In parallel, Nilfisk will start to roll out ‘Nilfisk Online & Care’, an e-commerce platform with full self-service capabilities tailored to our more transactional customers. These buyers are looking to place an order quickly and efficiently, ultimately resulting in an optimized cost-to-serve.

**1,485**
Number of Nilfisk customer-facing representatives working on the shared CRM platform Salesforce, year-end 2018

### Customer and market insights

In 2018, Nilfisk built a global customer insights function, adding both new capabilities and resources to the organization. Today, customer insights are embedded in everything that we do – from portfolio planning and product development to optimizing our channel mix and customer journey.

## Our customers

The need for cleaning is universal, and everywhere the effect of clean is valuable to our customers. Nilfisk serves customers across the world targeting strategic customer segments.

Nilfisk focuses on customer segments with the highest financial attractiveness and where we see the best fit between our portfolio and position in the market. These segments are targeted using a dedicated sales force, which allows us to understand the needs of the customer – both now and in the future.

**91%**
The professional market accounted for approximately 91% of Nilfisk's total revenue in 2018

With a product portfolio spanning from advanced industrial vacuum solutions to high pressure washers and floorcare equipment Nilfisk has a unique offering in terms of breadth and depth. We see this as a competitive edge that is especially relevant for manufacturing industries and contract cleaners, whose cleaning needs are many and varied.

To further build our position with these customer segments and to harvest the full benefits of the broad portfolio, the Industrial Vacuum Solutions business was integrated into Nilfisk Professional Sales effective January 1, 2019. This change will benefit our industrial customers and reduce internal complexity.

### Global strategic accounts

Nilfisk is seeing a change in the market: the largest global customers are increasingly looking for a partner that can add value beyond the cleaning machine. That entails developing tailored solutions through co-innovation and advice on how to constantly optimize the value of clean. In addition, these customers are looking for a partner with a global presence and uniform ways of working across markets.

As a response, Nilfisk established a global strategic accounts team during 2018 to work closely together with our local sales teams in servicing our largest and most sophisticated customers. This team will be further developed during 2019.

## Aftermarket

With a comprehensive Aftermarket offering Nilfisk aims to ensure maximum uptime for our cleaning equipment used by customers around the world. Machine uptime is extremely important to our customers. In addition to a portfolio of cleaning equipment and solutions, Nilfisk provides value-added aftermarket offerings such as service solutions, parts, and accessories. The total aftermarket segment accounted for 31% of revenue in 2018.

### Global roll out of digital field management system

In 2018, Nilfisk has worked towards standardizing our aftermarket offerings to ensure that our customers are met with the same high service set-up across markets.

A new global service organization has been established to work more systematically and in a more standardized fashion with Nilfisk's service offerings, focusing on both commercial development and service management. Additionally, we continued the global roll-out of ServiceMax, a complete field service management system enabling our 800 service technicians working in Nilfisk to plan and prioritize our service efforts and provide excellent, efficient customer service experience on the go.

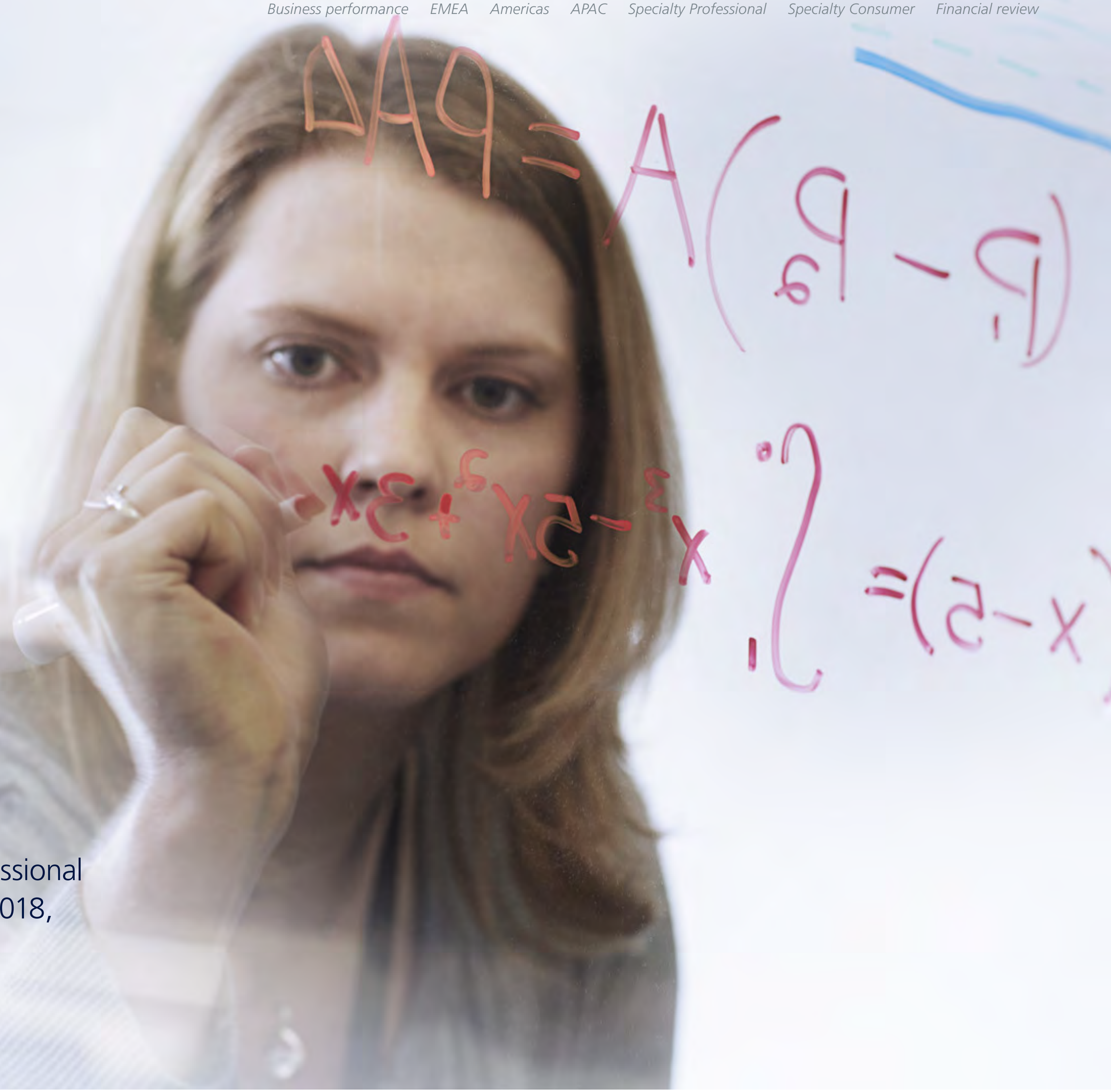
**800**
Nilfisk service technicians work daily to secure machine uptime for our customers

### Customer segments

Nilfisk has a substantial professional customer base operating in a wide range of sectors and industries. Our customers range from large global contract cleaners that buy fleets of machines across the product range to smaller businesses buying a single machine. We work with our customer segments in three overall business verticals, named Industry, CCI and ABCA:

**Industry** covers areas like manufacturing and warehouse & logistics, in which cleaning becomes an integrated part of the ongoing optimization and automation of facilities and production. **CCI** covers contract cleaners and institutions such as retail and education, where optimization of the cleaning task is a key focus, as well as exploiting new and flexible ways of cleaning supported by new digital opportunities. **ABCA** refers to Agriculture, Automotive and Building & Construction. Cleaning solutions to these industries reflect that areas like health and safety are particularly important to these customers, as well as regulatory requirements to the equipment are high.





# Our results

In 2018, Nilfisk realized total revenue of 1,054 mEUR and organic growth of 2.0%, which was below our initial guidance and impacted by divestments, simplification initiatives, and a disappointing performance in the US business. The Nilfisk branded professional business delivered 2.8% organic growth in 2018, driven by EMEA and Specialty Professional.

# Business **performance**

While executing several strategic initiatives supporting the transformation and simplification of the business, Nilfisk delivered organic growth of 2.0% for the year. This was below our initial guidance for the year. The guidance was adjusted in October, after weaker-than-expected growth in the US business cut organic growth in the continuing Nilfisk branded professional business to approximately 3%. Divestments and the closure of the Suzhou production prompted us to lower total full-year 2018 organic growth guidance to approximately 2%. With 2.0% organic growth the updated full-year guidance was met.

Organic growth was driven by EMEA and Specialty Professional. EMEA, excluding private label sales, showed organic growth of 3.6%, and Specialty Professional posted 11.4% organic growth.

Overall, the total Nilfisk branded professional business across EMEA, Americas, APAC and Specialty Professional showed organic growth of 2.8%, compared to 4.4% in 2017. EMEA excluding private label delivered solid growth of 3.6 in line with prior year, however, disappointing development in the US business meant that overall growth was below expectations.

The operating performance (the EBITDA margin before special items excluding impact from the phantom share program) was 11.5%, up 0.1 percentage point from 2017, and in the lower end of the initial guidance, however, in accordance with the updated guidance communicated in October.

## 2018 in brief

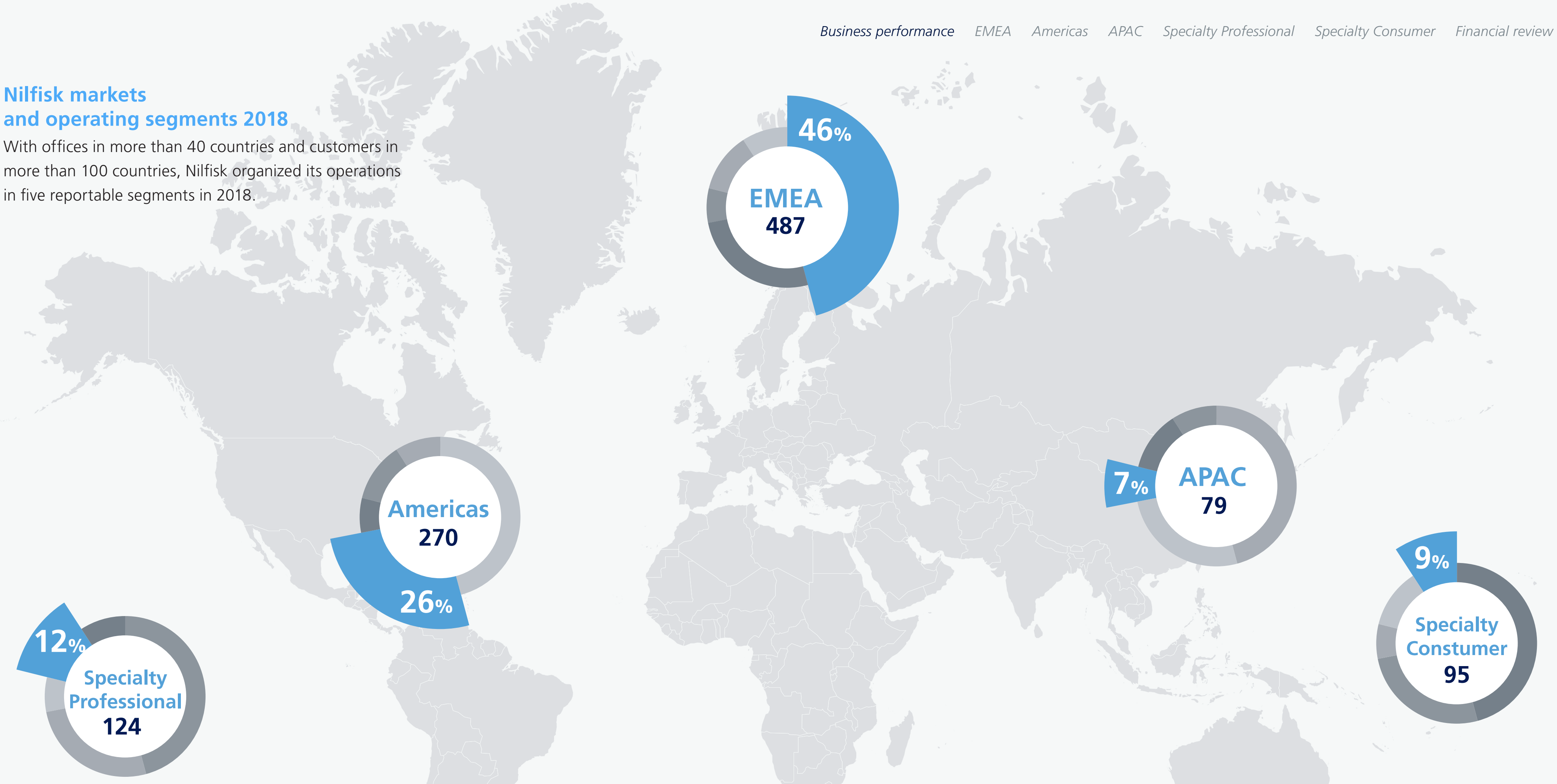
- Total revenue of 1,054.3 mEUR
- With 2.0% organic growth the adjusted guidance was met. The organic growth was lower than initially expected driven by unsatisfactory results in the US business, divestments, and consolidation of manufacturing footprint
- Growth driven by EMEA excluding private label (3.6%) and Specialty Professional (11.4%)
- Special items amounted to 68.5 mEUR, impacted by divestments including impairment of 42.4 mEUR
- Operating performance was 11.5%. The total EBITDA margin before special items was 11.9%
- Excluding the impact from the phantom share program, the EBIT margin before special items was 7.9%. Total EBIT margin before special items was 8.3%
- Working capital amounted to 170.4 mEUR, and working capital measured in percentage of revenue increased by 2.4 percentage points from 2017 to 18.5%
- RoCE improved to 16.7%, up 0.7% percentage point from 2017


### Revenue and growth by Nilfisk branded professional business

| EUR million | Revenue 2018 | Revenue 2017 | Organic growth 2018 | Organic growth 2017 |
|---|---|---|---|---|
| EMEA excl. Private label | 424.7 | 423.1 | 3.6% | 3.6% |
| Americas | 269.9 | 284.3 | -0.3% | 5.7% |
| APAC | 78.9 | 80.4 | 1.7% | 1.3% |
| IVS and FOOD | 86.3 | 80.1 | 10.0% | 7.3% |
| **Nilfisk branded professional business** | **859.9** | **867.9** | **2.8%** | **4.4%** |

## Nilfisk markets and operating segments 2018

With offices in more than 40 countries and customers in more than 100 countries, Nilfisk organized its operations in five reportable segments in 2018.




Share of total revenue

Revenue (mEUR)

| EUR million | Revenue 2018 | Revenue 2017 | Organic growth | Impact of acquisitions net | FX-rates impact | Total growth |
|---|---|---|---|---|---|---|
| EMEA | 486.5 | 493.5 | 1.2% | -1.2% | -1.5% | -1.5% |
| Americas | 269.9 | 284.3 | -0.3% | 0.0% | -4.8% | -5.1% |
| APAC | 78.9 | 80.4 | 1.7% | 0.0% | -3.5% | -1.8% |
| **Total Professional** | **835.3** | **858.2** | **0.8%** | **-0.7%** | **-2.8%** | **-2.7%** |
| | | | | | | |
| Specialty Professional | 124.1 | 127.8 | 11.4% | -11.1% | -3.2% | -2.9% |
| Specialty Consumer | 94.9 | 95.9 | 1.4% | 0.0% | -2.4% | -1.0% |
| **Total Specialty** | **219.0** | **223.7** | **6.8%** | **-6.3%** | **-2.6%** | **-2.1%** |
| | | | | | | |
| **Total** | **1,054.3** | **1,081.9** | **2.0%** | **-1.9%** | **-2.6%** | **-2.5%** |

# EMEA

In EMEA, 2018 has been a year characterized by a solid and stable performance. In particular, the mature markets of Germany and France have delivered consistent strong results.

Effective September 1, 2018, Steen Lindbo entered the position as Executive Vice President of EMEA to drive the transformation of Nilfisk's sales and service business and secure continued growth and profitability in the region. Steen Lindbo has more than 25 years of global experience within sales, key account management, and business management.

In total, EMEA realized revenue of 486.5 mEUR in 2018, down 7.0 mEUR from 2017, impacted by negative impact from currency exchange rates of -1.5% as well as the divestment of the Nordic Chemical & Utensils business in Q2. Lower sales within private label, which declined by 12.9% due to discontinuation of a large customer contract as communicated in connection with the Q4 2017 results, brought total organic growth for EMEA to 1.2%. Organic growth in the Nilfisk branded professional business was 3.6%, driven by growth in both the commercial and industrial segments.

Germany delivered a strong performance driven by favorable market conditions and high demand for machines. We also saw a positive development in France, in Iberia and across the East and Southeast European markets. In the United Kingdom, a lack of large volume deals in the retail segment and the delaying of orders due to Brexit uncertainty led to slightly negative organic growth.

Gross profit amounted to 203.2 mEUR, which was down 5.3 mEUR compared with 2017. The gross margin was 41.8%, down 0.4 percentage point compared with 2017. The gross margin was impacted by increasing raw material prices, an unfavorable product mix, and a slight decline in service efficiency.

EBITDA before special items was 111.7 mEUR, resulting in an EBITDA margin before special items of 23.0%, down 0.7 percentage point from 2017. The development was mainly driven by the lower gross profit. Overhead costs were at the same level as prior year, as increased costs to commercial initiatives were counterbalanced by cost saving initiatives and continued cost awareness.

Map showing countries with Nilfisk sales entities in the region

**487** mEUR
Revenue

**1.2**%
Organic growth
*Excluding private label, organic growth was 3.6%*

**46**%
Share of total revenue

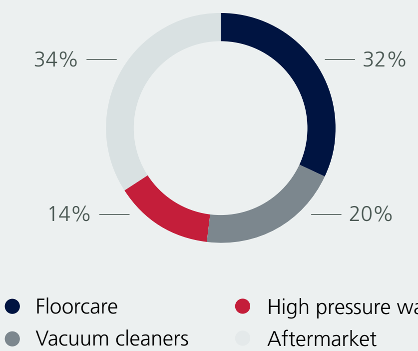
**41.8**%
Gross margin

**112** mEUR
EBITDA before special items

**23.0**%
EBITDA margin before special items

**Key markets:**
Germany, France, UK, Denmark, Sweden

**SALES BY PRODUCT - EMEA**



# Americas

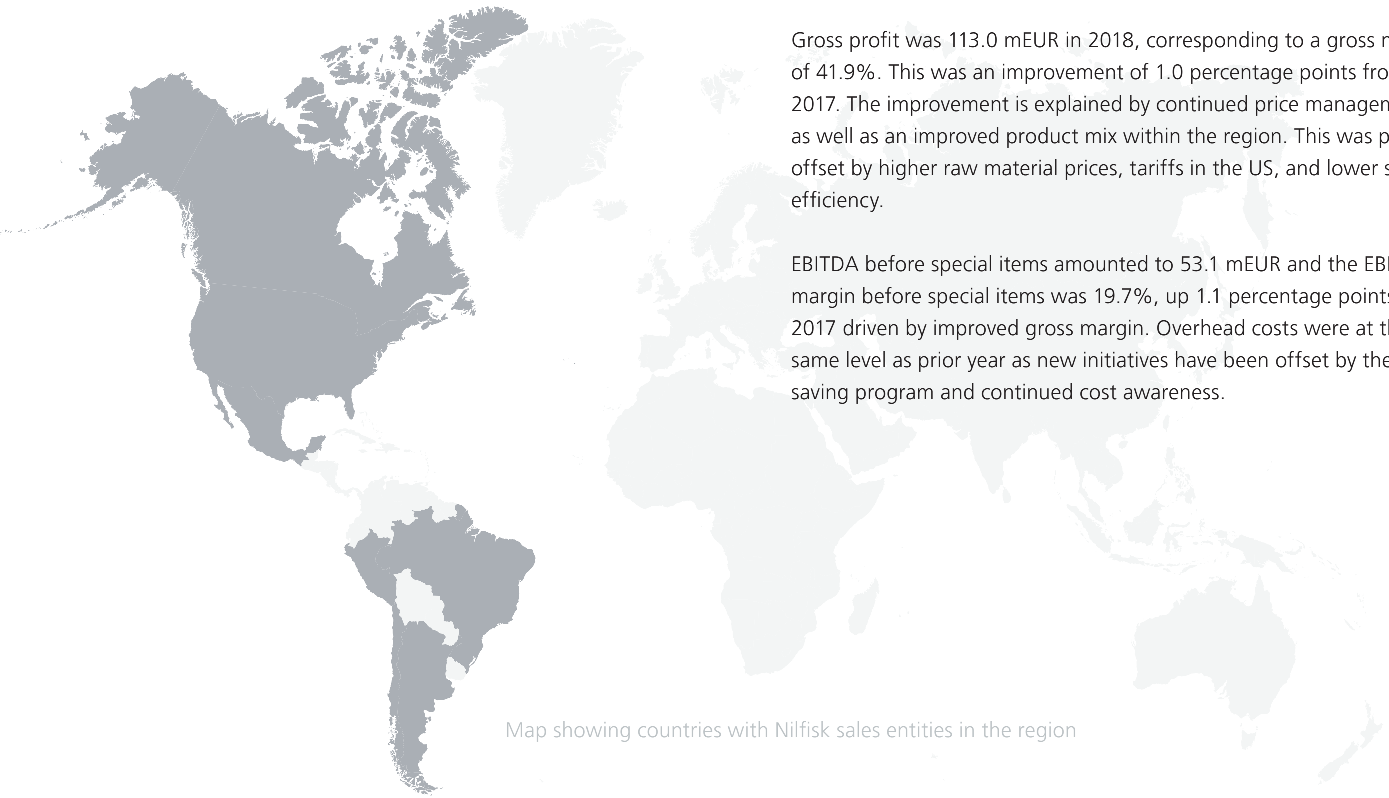
2018 has been a challenging year for our US business. This negatively impacted the overall results for Americas, despite a strong performance from markets such as Brazil, Argentina and Canada. In November we announced that Andrew Ray resigned as Executive Vice President for the Americas region. In February 2019, Steen Lindbo took over the responsibility for sales in the Americas, as he was appointed Head of EMEA Americas Sales. Since September 2018, Steen Lindbo had been heading EMEA Sales.

Total revenue in Americas in 2018 amounted to 269.9 mEUR, down 14.4 mEUR from 2017. Despite a solid finish to the year with organic growth of 5.0% in Q4, Americas delivered below expectations in 2018 with slightly negative growth for the full year. This was because of the disappointing performance of the US business, which was negatively impacted by a strategy change from a large dealer that shifted part of its purchases from Nilfisk branded to private label. In addition, delivery challenges out of the production plant in the US in H1 2018 affected the delivery of certain products, creating an order backlog for industrial machines. As a result of the delivery situation, some orders were cancelled. The production output increased significantly in H2 2018 and ended the year at its highest level.

Latin America delivered solid organic growth for the year with significant advances in Brazil, Chile and Argentina in particular. Canada also showed strong growth, and the US-based high pressure washer business performed well.

Gross profit was 113.0 mEUR in 2018, corresponding to a gross margin of 41.9%. This was an improvement of 1.0 percentage points from 2017. The improvement is explained by continued price management as well as an improved product mix within the region. This was partly offset by higher raw material prices, tariffs in the US, and lower service efficiency.

EBITDA before special items amounted to 53.1 mEUR and the EBITDA margin before special items was 19.7%, up 1.1 percentage points from 2017 driven by improved gross margin. Overhead costs were at the same level as prior year as new initiatives have been offset by the cost saving program and continued cost awareness.



Map showing countries with Nilfisk sales entities in the region

**270** mEUR
Revenue

**-0.3**%
Organic growth

**26**%
Share of total revenue

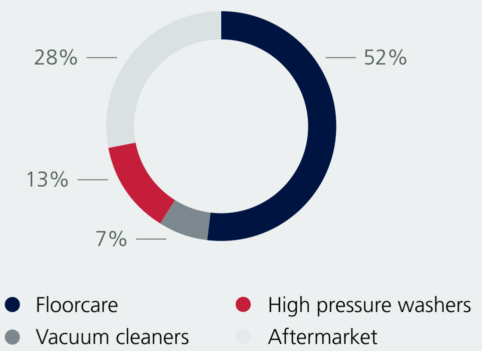
**41.9**%
Gross margin

**53** mEUR
EBITDA before special items

**19.7**%
EBITDA margin before special items

**Key markets:**
USA, Canada, Mexico

**SALES BY PRODUCT - AMERICAS**



# APAC

As part of the ongoing transformation and strengthening of the APAC region, we made changes in our management teams in Australia, Singapore, India, Japan, and Korea during 2018 as part of our determination to execute our strategy and drive growth in the region.

These changes impacted performance and across all markets, APAC delivered organic growth of 1.7%. Total revenue amounted to 78.9 mEUR, down 1.5 mEUR compared to the prior year driven by negative currency adjustments primarily from the Chinese yuan.

China delivered a strong performance, posting double-digit growth in 2018. The advances were driven by increased sales, mainly within the contract cleaners and institutions customer segments, as well as the mid-market. The positive trend in China was offset by a lower performance in other markets particularly the Pacific.

Gross profit was 33.1 mEUR, up 0.5 mEUR compared to 2017. The gross margin was 42.0%, up 1.5 percentage points from 2017, driven by improved inventory management, a favorable product mix, and increased margins within mid-market products.

EBITDA before special items amounted to 12.8 mEUR, up 2.3 mEUR from 2017. The EBITDA margin before special items was 16.2%, an improvement of 3.2 percentage points from 2017. The increase was due to the development in gross profit and lower overhead costs driven by cost savings initiatives and cost awareness.

Map showing countries with Nilfisk sales entities in the region

**79** mEUR
Revenue

**1.7**%
Organic growth

**7**%
Share of total revenue

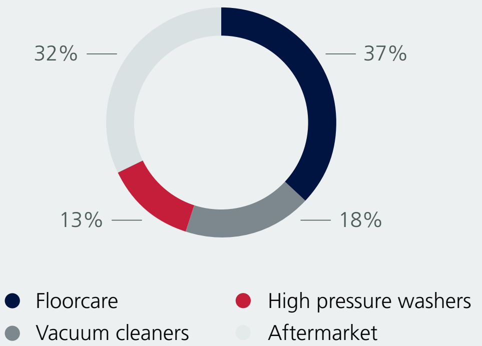
**42.0**%
Gross margin

**13** mEUR
EBITDA before special items

**16.2**%
EBITDA margin before special items

**Key markets:**
Australia, China, Singapore, Thailand

**SALES BY PRODUCT - APAC**



# Specialty Professional

2018 has been a year marked by divestments in the Specialty Professional business. The continuing businesses – Industrial Vacuum Solutions (IVS) and Nilfisk FOOD – delivered a continuous strong performance over the year.

Total revenue within Specialty Professional amounted to 124.1 mEUR with organic growth of 11.4%. The growth was driven by the strong performance of the IVS business and double-digit growth for both Nilfisk FOOD and Outdoor. Excluding the divestments of the Outdoor and the restoration business, organic growth was 10.0% for the year.

Gross profit in Specialty Professional was 60.6 mEUR in 2018, down 2.9 mEUR compared to 2017. The gross margin was down 0.9 percentage point to 48.8% in 2018. The development was mainly due to a change in product mix – Outdoor and the restoration businesses have significantly lower profit margins than the other business areas within the segment – as well as a shift of products within the Industrial Vacuum Solutions range.

EBITDA before special items was 19.4 mEUR, the same level as for 2017. The EBITDA margin before special items was 15.6% against 15.1% in 2017, a result of strict cost awareness.

Nilfisk divested the Outdoor business with an approximate annual revenue of 35 mEUR. The sale of the Danish-based part of the business was completed in December 2018. Italian-based production was terminated, and the rights to the remaining product platforms 3500 and 3570 were sold in the beginning of 2019. In Q4 2018 Nilfisk also divested the US carpet restoration business HydraMaster with an approximate annual revenue of 15 mEUR.

As the Industrial Vacuum Solutions (IVS) was integrated into the professional Nilfisk sales organization by end of 2018, Specialty Professional will cease to exist as an operating segment as of December 31, 2018. Both IVS and Nilfisk FOOD will be reported under the Nilfisk branded professional business. See more details on changed segment split for 2019 on page 35.

### Business areas in Specialty Professional

- Industrial Vacuum Solutions (IVS)
- Specialized equipment for the food industry (Nilfisk FOOD)
- Outdoor equipment – divested December 2018
- Restoration equipment (HydraMaster) – divested October 2018

**124** mEUR
Revenue

**11.4**%
Organic growth

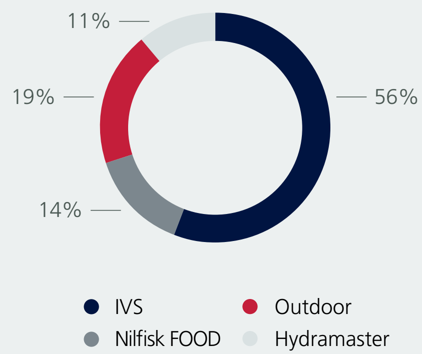
**12**%
Share of total revenue

**48.8**%
Gross margin

**19** mEUR
EBITDA before special items

**15.6**%
EBITDA margin before special items

**SALES BY BUSINESS AREA**



# Specialty Consumer

After a difficult 2017 with negative organic growth, Specialty Consumer succeeded in stabilizing sales and improving overall profitability during 2018. A strategic review of Specialty Consumer business was initiated in Q3 to determine the best future strategic direction for the business. This is expected to be completed during 2019.

Organic growth for the year was 1.4%, driven by the DIY segment during the European spring season. Total revenue for the year was 94.9 mEUR, down 1.0 mEUR from 2017, mainly due to the negative impact of foreign exchange rates primarily related to CNY and AUD.

The facility close-down in Suzhou, executed earlier than planned due to a labor situation, negatively impacted our ability to deliver machines at the anticipated level, which impacted overall growth for the year.

Gross profit amounted to 32.4 mEUR, down 3.3 mEUR compared to 2017. The gross margin was 34.1%, down by 3.1 percentage point compared to 2017, mainly driven by unfavorable impact of higher raw material prices as well as product mix.

EBITDA for 2018 improved compared to the previous year due to our clear focus on optimization of the cost structure. EBITDA before special items was 1.5 mEUR for 2018, which was a little higher than 2017, and the EBITDA margin reached 1.6%, up 1.0 percentage point from last year. The improvement was caused by lower overhead costs resulting from cost saving initiatives.

**95** mEUR
Revenue

**1.4**%
Organic growth

**9**%
Share of total revenue

**34.1**%
Gross margin

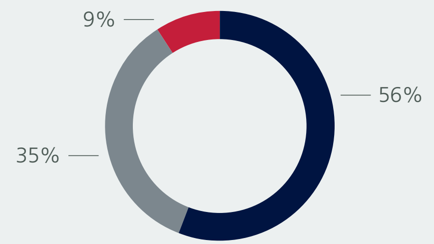
**2** mEUR
EBITDA before special items

**1.6**%
EBITDA margin before special items

### Specialty Consumer business

- Domestic vacuum cleaners
- High pressure washers
- Related aftermarket services to the consumer market worldwide

**SALES BY BUSINESS AREA**




- High pressure washers
- Vacuum cleaners
- Other

# **Financial** review

Nilfisk realized total revenue of 1,054.3 mEUR in 2018, corresponding to organic growth of 2.0% and an operating performance of 11.5%.

### Revenue

Organic growth for 2018 was 2.0%. The organic growth was offset by the negative impact of foreign exchange rates of 2.6% primarily related to USD, GBP and CNY. There was also a negative impact from divestments of 1.9% mainly related to Outdoor and HydraMaster, corresponding to a total revenue decrease of 2.5% to 1,054.3 mEUR.

| Revenue growth | FY 2018 |
|---|---|
| Organic | 2.0% |
| Acquisitions/divestments | -1.9% |
| Foreign exchange | -2.6% |
| **Total growth** | **-2.5%** |

The organic growth was driven by solid development in the EMEA segment, excluding private label, and double-digit growth in the Specialty Professional segment. Mature European markets such as France and Germany delivered significant organic growth, along with other larger markets like East and South East Europe, Canada and China. Overall organic growth was negatively impacted by our business in the Americas, which had a disappointing year due to poor results in the US business.

As expected, sales in private label declined 12.9% due to discontinuation of a large customer contract as communicated in connection with the Q4 2017 results.

Overall, the total Nilfisk branded professional business – EMEA, Americas and APAC, including Industrial Vacuum Solutions and Nilfisk FOOD and excluding private label – showed organic growth of 2.8%, compared to 4.4% in 2017. This was lower than expected, impacted by the disappointing performance in Americas. Excluding Americas, all segments delivered higher growth rates in 2018 compared to 2017.

The organic growth of the total professional business excluding private label in EMEA, Americas and APAC was 2.0%.

### Gross profit

Gross profit for 2018 was 442.3 mEUR, down 14.4 mEUR compared to 2017.

The gross margin was 42.0%, 0.2 percentage point lower than 2017, positively impacted by increased market prices, the effects of the cost saving program amounting to 9 mEUR, and a lower level of private label sales compared to 2017. However, this was offset by increasing raw material prices and tariffs impacting products sold or produced in the US, changes in product mix, as well as the negative impact of delivery challenges, which led to a less favorable utilization at our production facilities in the first half of 2018.

### Overhead cost and ratio

Overhead costs decreased 20.3m EUR compared to 2017 and amounted to 348.7 mEUR in 2018, equivalent to an overhead cost ratio of 33.1% compared to 34.1% in 2017. The decrease in overhead costs was due to lower administration costs positively impacted from phantom shares and the impact of cost awareness. The benefits from the cost saving program contributed a further cost reduction of 3 mEUR in 2018. Excluding the effect from phantom shares amounting to 4.3 mEUR the overhead cost ratio was 33.5% in 2018 compared to 33.8% in 2017. Net impact from exchange rates was favorable of 8.3 mEUR.

In line with our strategy we continued to invest in the future growth of Nilfisk. A total of 18.4 mEUR was directed towards initiatives within IT, front-end activities, digitalization, and autonomous, of which 7.0 mEUR was expensed and 11.4 mEUR was capitalized.

## Revenue and breakdown based on product line and service offering

| EUR million | Revenue 2018 | Revenue 2017 | Organic growth 2018 | Organic growth 2017 |
|---|---|---|---|---|
| Floorcare | 347.6 | 358.4 | 3.7% | 5.7% |
| Vacuum cleaners | 207.6 | 199.6 | 6.2% | 5.7% |
| HPW | 167.6 | 190.9 | -10.1% | 2.7% |
| Aftermarket | 331.5 | 333.0 | 4.7% | -1.1% |
| **Total** | **1,054.3** | **1,081.9** | **2.0%** | **3.7%** |

All product lines except for High Pressure Washers (HPW) showed organic growth in 2018.

In Floorcare, organic growth was 3.7%, which was lower than expected due to negative growth in Americas. The positive development within Vacuum Cleaners was primarily driven by APAC and EMEA, both of which showed double-digit growth. The decline in the High Pressure Washer product line was mainly driven by the reduced level of activity in private label sales as well as lower sales in APAC. Aftermarket revenue showed an organic growth of 4.7%, driven by growth in EMEA and Americas, particularly within Service.

Nilfisk's total research and development spend increased from 33.8 mEUR (3.1% of revenue) in 2017 to 42.7 mEUR (4.1% of revenue) in 2018, of which 18.4 mEUR has been recognized as an expense in the income statement while 24.3 mEUR has been capitalized in the balance sheet under intangible assets. In 2017 18.8 mEUR was expensed and 15.0 mEUR was capitalized. Research and development costs include depreciation/amortization of 12.8 mEUR in 2018 compared to 13.5 mEUR in 2017. The total amount recognized under research and development in the income statement in 2018 was thus 31.2 mEUR compared to 32.3 mEUR in 2017. Nilfisk has continued to invest in digitalization and future intelligent solutions and part of this has been capitalized as per above.

Sales and distribution costs amounted to 245.2 mEUR (23.3%), compared to 252.7 mEUR (23.4%) in 2017 and was primarily driven by actively controlling spending.

Administration costs amounted to 75.0 mEUR (7.1%), compared to 86.3 mEUR (8.0%) in 2017 and the decline was primarily driven by cost saving initiatives and outsourcing. The phantom share program adjustment for the year was a net income of 4.3 mEUR compared to a net expense of 3.0 mEUR in 2017.

**Operating result before amortization/impairment of acquisition-related intangibles and special items**

In 2018, the operating result before amortization/impairment of acquisition-related intangibles and special items, EBIT before special items, increased by 5.9 mEUR and totaled 93.6 mEUR.

**Amortization/impairment of acquisition-related intangibles**

Amortization/impairment of acquisition-related intangibles amounted to 6.2 mEUR in 2018 unchanged compared to 2017. There were no impairments for the year.

**EBITDA before special items and EBITDA**

EBITDA before special items amounted to 125.5 mEUR, up 5.4 mEUR from 2017. The EBITDA margin before special items was 11.9%, up 0.8 percentage point. In 2018, EBITDA was positively impacted by a phantom share adjustment of 4.3 mEUR. Excluding the phantom share adjustment, the operating performance was 11.5% and in line with our guidance. Compared to prior year and excluding the phantom share impact the operating performance improved by 0.1%.

EBITDA amounted to 69.8 mEUR compared to 99.5 mEUR in 2017 with EBITDA margins of 6.6% and 9.2% respectively. The decrease was primarily related to the effect of the divestments made during the year. Excluding the impact from the phantom share program, EBITDA amounted to 65.5 mEUR in 2018 compared to 102.5 mEUR in 2017 with operating margins of 6.2% and 9.5% respectively.

**Profit before financial items and income taxes (EBIT) and EBIT before special items**

In 2018, EBIT decreased by 42.0 mEUR and totaled 18.9 mEUR. The EBIT margin was 1.8% down 3.8 percentage points from 2017 primarily driven by the increased special items. EBIT before special items increased to 87.4 mEUR from 81.5 mEUR in 2017. The margin increased 0.8% percentage point to 8.3% driven by strategic initiatives, cost awareness, and the cost-saving program, but offset by lower gross profit and investments in digital services and autonomous. Excluding the impact from phantom shares, which was an income of 4.3 mEUR versus an expense of 3.0 mEUR in 2017, the margin was 7.9% and up 0.1 percentage point from 2017.

**Special items**

Total special items amounted to 68.5 mEUR, up by 47.9 mEUR compared to 2017. The increase was primarily related to the divestments during the year, which amounted to 42.4 mEUR. Restructuring costs related to the cost saving program amounted to 17.8 mEUR compared to 9.6 mEUR in 2017, primarily related to simplification of our production footprint including closure and transfer of production facilities. The closure of the facility in Suzhou caused higher than expected costs because the closure was executed earlier than anticipated. Business restructuring activities, which are initiatives and actions that support the multi-year strategy, amounted to 7.8 mEUR.

Details on special items are described in Note 2.4.

**Net financials and tax**

Net financial expenses amounted to 11.3 mEUR compared to 8.9 mEUR in 2017. The net interest cost amounted to 8.3 mEUR and was up 0.7 mEUR compared to 2017. The net impact from exchange rate adjustments was negative 2.7 mEUR compared to a negative 5.0 mEUR in 2017. The negative impact related mainly to USD, GBP and CNY.

Nilfisk Group´s tax rate is impacted by the composition of taxable income in countries in which the Group has activities.

Tax on result of the year was an income of 2.4 mEUR, equivalent to an effective tax rate of -31.4%, compared to an expense of 11.7 mEUR and 22.6% respectively in 2017.

The combination of adjustments for previous years as well as one-off positions without taxable impact, result in negative effective tax rate on Group level. Going forward, Nilfisk Group expects a normalized effective tax rate in the level of 25-27%.

**Result for the year**

Result for the year amounted to 10.0 mEUR compared to 40.3 mEUR in 2017, driven by the increase in EBIT before special items but offset by the increase in special items.

**Assets**

At December 31, 2018, total assets amounted to 794.4 mEUR against 827.2 mEUR at the end of 2017. The decrease was mainly driven by inventories and cash.

Total non-current assets amounted to 378.2 mEUR at the end of 2018 compared to 377.2 mEUR in 2017. Intangible assets increased by 2.4 mEUR, while property, plant and equipment decreased by 3.1 mEUR.

The intangibles decreased by the amortization for the year offset by the capitalization of development projects supporting the digitalization and autonomous strategy.

Total current assets amounted to 416.2 mEUR at the end of 2018, down by 33.8 mEUR compared to 2017. This was mainly driven by a decrease in inventories of 9.9 mEUR and cash of 24.3 mEUR.

## Cost saving program

During 2018, the execution of the cost saving program continued to progress in line with expectations, and we saw satisfactory progress in the activities identified. The cost saving program has a target of realizing 50 mEUR by the end of 2020.

By the end of 2018, initiatives implemented and launched relating to the program amounted to a total of 33 mEUR, split between approximately 21 mEUR related to overhead reductions, approximately 9 mEUR related to Global Operations initiatives (production footprint, sourcing initiatives and process optimizations) and 3 mEUR related to other initiatives such as complexity reductions and price management. The full potential amounts to 50 mEUR.

The initiatives have positively impacted costs with savings of 12 mEUR in 2018 compared to 2017, with improvements in gross profit of 9 mEUR and overhead cost of 3 mEUR.

Restructuring cost for the year encompass primarily production reduction footprint redundancies. The early closure of Suzhou, China, had significantly higher costs than expected and therefore we now expect total restructuring cost related to the program to be approximately 60 mEUR.

| EUR million | 2017 Accumulated | 2018 | 2019 Expected | 2020 Expected | Full potential end 2020 |
|---|---|---|---|---|---|
| Annualized accumulated impact on EBITDA before special items related to levers executed prior to the end of each period | 21 | 33 | 39-43 | 50 | 50 |
| Accumulated impact on reported EBITDA before special items | 17 | 29 | 34-36 | 45-50 | 50 |
| Restructuring costs for the period (reported under special items) | 20 | 18 | 13-15 | 5-7 | 60 |
| Capex investments for the period | 4 | 4 | 1-2 | 1-2 | 10 |

**Working capital**

At the end of 2018, working capital was 170.4 mEUR up 6.9 mEUR from the end of 2017.

Overall, the inventories amounted to 172.9 mEUR as at December 31, a decrease of 9.9 mEUR compared to the year before.

The simplification initiatives to reduce the manufacturing footprint executed in 2018 led to the inventory levels being higher than normal during the year. This was due to the fact that the closures and transfers required inventories to be gradually build up at the receiving factories. Accordingly, we saw increases in the average inventory levels during the year.

Trade accounts receivable amounted to 190.7 mEUR as at December 31, and dropped 3.2 mEUR since December 31, 2017. During Q3 and Q4 the trade accounts receivable balances were higher than expected, but returned to a more normal level towards the end of the year and at December 31, the Days Sales Outstanding (DSO) were only slightly above the level at the end of 2017.

With inventories and trade account receivables both having a positive impact on net working capital, the net increase was primarily related to a decrease in other payables due to a settlement of phantom shares and a legislative change in payment terms of export VAT in Denmark, both considered permanent shifts in the level of payables.

The working capital ratio measured in percentage of revenue on a 12-month average was 18.5% at the end of 2018. This was an increase of 2.3 percentage points compared to 2017 which was impacted by a high level of payables due to an extraordinary high level of production in China.

A working capital ratio of 18.5% is slightly above our expected normalized level, negatively impacted by both inventory levels and trade accounts receivable being above normalized levels during the year.

### Capital employed and RoCE
As of December 31, 2018, capital employed amounted to 516.8 mEUR, which was an increase of 19.6 mEUR compared to 497.2 mEUR at the end of 2017. The development in capital employed was largely driven by the net decrease in liabilities due to settlement of phantom shares offset by the lower inventories.

In spite of the increase in capital employed, Nilfisk's return on capital employed (RoCE) improved by 0.7 percentage point to 16.7% in 2018 from 16.0% in 2017. The improvement was driven by the increase in EBIT before special items.

### Equity
Equity was 147.5 mEUR at the end of 2018 against 137.5 mEUR at the end of 2017. The increase was mainly due to the profit for the year and foreign exchange offset by settlement of the share option program.

### Net interest-bearing debt
At the end of 2018, the total net interest-bearing debt was 369.3 mEUR, up by 9.6 mEUR against year-end 2017. The increase was primarily driven by the lower cash and cash equivalents.

The financial gearing at the end of the year was 2.9 versus 3.0 at the end of 2017.

### Cash flows
Cash flow from operating activities before financial items and income taxes for 2018 represented a net cash flow of 55.9 mEUR compared to 63.1 mEUR in 2017. The cash flow was 7.2 mEUR lower than prior year driven by an improved EBIT before special items offset by cash related special items, a minor change in working capital, and payments relating to the share option program and phantom shares.

Cash flow from investing activities for the year 2018 was a net cash outflow of 38.6 mEUR compared to 35.4 mEUR in 2017. The outflow relates primarily to intangible assets within research and development offset by divestments.

Free cash flow excluding acquisitions and divestments amounted to an outflow of 8.6 mEUR compared with an inflow of 6.0 mEUR in 2017. The development was driven by the above mentioned lower operating cash flow and the settlement of the share option program of 10.4 mEUR.

### IFRS 16 Leases impact
As of January 1, 2019, the new IFRS 16 standard will increase the depreciation and amortization by approximately 25 mEUR on a yearly basis and total assets will increase approximately 65 mEUR. The impact analysis concluded that IFRS 16 will have an insignificant impact on result for the year. The standard will impact the key figures and ratios as per the table below:

| EUR million | FY 2018 | Impact | Adjusted 2018 |
|---|---|---|---|
| Total assets | 794.4 | ~65 | ~850 |
| Non-current assets | 378.2 | ~65 | ~470 |
| Capital employed | 516.8 | ~65 | ~580 |
| Operating performance | 11.5% | ~+2.4pps | 13.9% |
| RoCE | 16.7% | ~-1.9pps | 14.8% |

## Performance in Q4 2018

In Q4 2018, Nilfisk's financial performance was in line with the latest expectations.

Compared to Q4 2017, revenue decreased as expected by 7.7% from 280.2 mEUR in Q4 2017 to 258.7 mEUR in Q4 2018. The development reflects negative organic growth of 1.9%, impacted by expected significantly lower private label sales. EMEA realized a negative organic growth of 7.4%, driven by negative growth within private label of 51.7%. Excluding private label, EMEA showed organic growth of 3.4%, boosted by Germany with double-digit growth. Americas showed high activity, and restored growth as expected, after a challenging first nine months of the year realizing 5.0% organic growth in the quarter. In APAC, organic growth for the quarter was flat. We continued to see a strong performance in China with double digit-growth, but this was offset by other APAC markets.

The total professional including the EMEA, Americas and APAC segments but excluding private label realized an organic growth of 3.6%. The Nilfisk branded professional business across EMEA, Americas and APAC and Specialty Professional, showed 3.8% organic growth.

Total revenue for Specialty Professional amounted to 23.6 mEUR in Q4 2018. Organic growth reached 5.4% after a slow Q4 within the IVS business, due to lower demand from the industrial segment. Quarter over quarter revenue dropped by 12.8 mEUR due to divestments of Outdoor and the US carpet restoration business.

In Specialty Consumer growth ended at 3.5%, impacted by the facility close-down in Suzhou, which was executed earlier than planned due to a labor situation. This negatively impacted our ability to deliver machines at the anticipated level. This was compensated by a one-off sale. The total revenue for Q4 2018 amounted to 19.1 mEUR.

Gross profit decreased by 5.5 mEUR to 107.7 mEUR in Q4 2018, but the gross margin improved by 1.2 percentage points compared to Q4 2017 totaling 41.6% driven by cost saving initiatives, product mix, and a positive impact from divestments of approximately 0.5 percentage point. In Q4 2017 the gross margin was impacted by significant private label sales in EMEA, which was unfavorable to the gross margin. For the quarter EMEA and Americas improved the gross margin slightly while APAC decreased slightly. Specialty consumer had lower margins due to a one-off sale.

EBITDA before special items increased by 7.2 mEUR, resulting in an EBITDA margin before special items of 13.1%, up from 9.5% in Q4 2017. When measured on operating performance, defined as EBITDA margin before special items and excluding the effect from the phantom share program, the margin was 12.5% compared to 10.6% in Q4 2017. The improvement was driven by gross margin and lower overhead ratio following tight cost control.

| EUR million | Q4 2018 | Q4 2017 |
|---|---|---|
| Revenue | 258.7 | 280.2 |
| Gross Profit | 107.7 | 113.1 |
| Overhead costs | 81.0 | 94.6 |
| EBITDA before special items | 34.0 | 26.7 |
| EBIT before special items | 25.2 | 17.0 |
| EBITDA | 2.0 | 16.3 |
| EBIT | -7.1 | 6.6 |
| *Financial ratios:* | | |
| Organic growth | -1.9% | 5.4% |
| Gross margin | 41.6% | 40.4% |
| EBITDA margin before special items | 13.1% | 9.5% |
| EBIT margin before special items | 9.7% | 6.1% |
| Overhead costs ratio | 31.3% | 33.7% |

### Changed segment split for 2019

Following the divestments made during 2018 and the integration of the Industrial Vacuum Solution business (IVS) into the Nilfisk Professional sales organizations, Nilfisk will change the reportable segments in 2019.

To increase the transparency in the performance of our core business, the Specialty Professional segment will be eliminated, and Industrial Vacuum Solutions and the Nilfisk FOOD business will be integrated into the Nilfisk branded professional business across regions. IVS and Nilfisk FOOD was previously part of the Specialty Professional segment.

The private label business area as well as the consumer business will be reported separately.

In 2018, the Nilfisk branded professional business delivered 2.8% organic growth. In 2017, this number was 4.4%.

| EUR million | Revenue 2018 | Revenue 2017 | Organic growth 2018 | Organic growth 2017 |
|---|---|---|---|---|
| EMEA excl. private label | 424.7 | 423.1 | 3.6% | 3.6% |
| Americas | 269.9 | 284.3 | -0.3% | 5.7% |
| APAC | 78.9 | 80.4 | 1.7% | 1.3% |
| IVS and FOOD | 86.3 | 80.1 | 10.0% | 7.3% |
| **Nilfisk branded professional business** | **859.9** | **867.9** | **2.8%** | **4.4%** |
| Consumer | 94.9 | 95.9 | 1.4% | -7.7% |
| Private label and other[1] | 99.5 | 118.1 | -4.0% | 9.5% |
| **Total** | **1,054.3** | **1,081.9** | **2.0%** | **3.7%** |

[1] Private label amounted to 61.3 mEUR in 2018 and 70.4 mEUR in 2017. The remaining amounts relate primarily to divested business areas.

# Our governance

The duties and responsibilities of Nilfisk's various governing bodies are determined by Danish law and Nilfisk's corporate governance principles, which aim to ensure active and accountable business management across the Group.

## Corporate governance

Nilfisk's governance structure consists of its Shareholders, the Board of Directors and the Nilfisk Leadership Team.

**Shareholders**

The shareholders of Nilfisk Holding A/S exercise their rights to make decisions at general meetings. At the Annual General Meeting, shareholders elect board members and the independent auditor, plus approve the Annual Report and any amendments to Nilfisk Holding A/S' Articles of Association. The general meeting adopts decisions in accordance with the general rules set out in the Danish Companies Act.

**The Board of Directors**

The Board of Directors holds overall responsibility for the management of Nilfisk and the company's strategic direction. The Board of Directors consists of nine members. Six members are elected by the shareholders and are up for election every year at the Annual General Meeting, and three members are employee-elected members serving four-year terms.

All six shareholder-elected members were elected at the Annual General Meeting held on March 23, 2018, and they will be up for election at the Annual General Meeting on March 26, 2019. All three employee-elected members were elected at the employee election held in March 2018, and their term will expire in 2022.

One woman and five men currently make up the shareholder-elected members. The employee-elected members are comprised of one woman and two men. Of the six shareholder-elected members, four live in Denmark, one lives in Sweden and one lives in Luxembourg. All are considered independent.

**9**
Members of the Board of Directors

**6**
Members are elected by the shareholders

**3**
Members are elected by the employees

The Board of Directors represent strong, international business experience in the areas of industry, energy, high technology, finance and business development and are deemed to possess the required expertise and seniority. See page 40 for particulars of Nilfisk's Board of Directors.

The Board of Directors has adopted an annual plan ensuring that all relevant matters are addressed throughout the year. A minimum of six ordinary Board meetings are held annually. Part of the Board's responsibility is to ensure that the company has a capital and share structure that matches the strategic direction and the long-term value creation of the company for the benefit of its shareholders. Considerations on capital and share structure were most recently made by the Board of Directors at a board meeting in November 2018, and Nilfisk's capital and share structure are considered appropriate for and supportive of Nilfisk's current strategic direction and initiatives.

Under the company's Articles of Association, the Board of Directors holds authorizations granted by the shareholders to issue new shares, warrants and convertible loans. The maximum aggregate nominal share capital increase allowed under these authorizations is 200 mDKK, however, in no event can the issuance of new shares without preemptive rights for existing shareholders exceed an aggregate nominal share capital amount of 100 mDKK.

The Board of Directors also holds an authorization from the shareholders to acquire treasury shares up to an aggregate nominal amount of 54,252,720 DKK, corresponding to almost 10% of the company's current share capital. The company's holding of treasury shares at any time may not exceed 10% of the company's issued share capital. The purchase price for the relevant shares may not deviate by more than 10% from the price quoted on Nasdaq Copenhagen at the time of purchase.

**Board Committees**

The Board of Directors has appointed a chairmanship and three committees: An Audit, a Nomination and a Remuneration committee. All three committees report to the Board of Directors. Senior representatives from Nilfisk act as secretariat for the committees. Each committee has two members, which is considered appropriate to ensure efficient and focused committee work, reporting, and decision-making within the Board of Directors.

**Chairmanship**

The Chairman and the Deputy Chairman of the Board of Directors are elected by the Board of Directors following the Annual General Meeting. The Chairmanship is responsible for tasks such as planning board meetings to ensure a balance between overall strategy-setting and supervision of the company. The Chairmanship meets regularly with the Group CEO and CFO.

### Nilfisk Board Committees

**Chairmanship**
- Jens Due Olsen (Chairman)
- Lars Sandahl Sørensen

**Audit**
- Jutta af Rosenborg (Chair)
- Jens Maaløe

**Nomination**
- Lars Sandahl Sørensen (Chair)
- Jens Due Olsen

**Remuneration**
- Jutta af Rosenborg (Chair)
- Jens Maaløe

**Audit Committee**

In 2018, the Audit Committee consisted of two members. The Audit Committee is appointed for one year at a time. All members possess the relevant financial expertise and qualify as being independent. Six meetings were held in 2018.

The principal duties are:

- To monitor the financial reporting process and compliance with existing legislation, standards and other regulations for listed companies relating to presentation and publication of financial reporting
- To monitor whether the company's internal control and risk management systems function efficiently
- To monitor the statutory audit of the annual financial statements

- To monitor the independence of auditors, in particular including the supply of non-audit services to the Nilfisk Group
- To make recommendations to the Board of Directors concerning the election of auditors

The work of the Audit Committee is described in its charter available at the Nilfisk Investor Relations site and is formalized in an annual plan approved by the Board of Directors.

*Internal control and risk management related to the financial reporting process*

Nilfisk has several policies and procedures in specific areas of the financial reporting, including the Finance Manual, the Risk Management Policy, the IT Security Policy and the Business Code of Conduct. These policies and procedures apply for all subsidiaries.

The internal control and risk management systems for financial reporting are designed to ensure that the financial reporting presents a true and fair view of Nilfisk's result and financial position and is in compliance with applicable financial legislation and accounting standards. The control and risk management systems are designed to mitigate the risks identified in the financial reporting process. Internal controls related to the financial reporting process are established to detect, mitigate and correct material misstatements in the financial statements.

*Risk assessment*

The risks related to each accounting process and line item in the financial statement are assessed based on quantitative and qualitative factors. The associated risks are identified based on the evaluation of the likelihood of occurring and the potential impact. The financial reporting control framework covers all material subsidiaries. Please refer to the Risk Management section on page 49.

*Control activities*

Nilfisk has implemented a formalized financial reporting process for the strategy process, budget and forecast process as well as for the monthly reporting on actual performance. Financial information reported is reviewed both by controllers with regional or functional knowledge of the individual companies/functions and by technical accounting specialists.

The financial reporting is dependent on IT systems. Any weaknesses in the system controls or IT environment are compensated for by manual controls to mitigate any significant risk related to the financial reporting to an acceptable level.

A central controlling function conducts financial compliance reviews throughout the organization based on a defined review strategy and risk assessment. The key controls implemented based on the financial reporting framework are systematically monitored and tested in conjunction with controller visits performed by Nilfisk Group Controlling or by external auditors. During 2018, the Nilfisk Group Legal Compliance function performed joint audits with the Nilfisk Group Controlling team to capture cross-functional audit synergies. Key controls – including general IT controls for subsidiaries considered relevant from a risk or/and risk perspective – are tested at least once every three years.

**Remuneration Committee**

The overall responsibility of the Remuneration Committee is to oversee the remuneration of the Board of Directors, the Executive Management Board, and other members of the Nilfisk Leadership Team to ensure that the company's remuneration practice is appropriate, balanced, and effective to achieve growth, profitability, and shareholder value. Part of this responsibility is to establish the Remuneration Policy for the Board of Directors and the Executive Management Board, for making proposals on changes to the Remuneration Policy, and for obtaining the approval of the Board of Directors prior to seeking shareholders' approval at the Annual General Meeting. The Remuneration Committee also oversees the company's short-term and long-term incentive programs, including awards, target-setting and a review of target achievements every year. The Remuneration Committee reports to the Board of Directors at all regular board meetings to ensure efficient decision-making.

*Main activities in 2018*

In 2018, the main activities of the Remuneration Committee have been:

- Preparing, drafting and approving a new Remuneration Policy, which was adopted by the shareholders at the Annual General Meeting on March 23, 2018
- Drafting and implementing a new long-term incentive program for key employees
- Revising the existing targets and KPIs under the company's annual bonus plan
- Reviewing the achievement against targets under the company's annual bonus plan

Details on our Remuneration Policy and compensation of the Board of Directors and the Nilfisk Leadership Team can be found in our Remuneration Report on pages 44-48.

## Meeting attendance – 2018

| | Number of meetings | Jens Due Olsen | Lars Sandahl Sørensen | Jens Maaløe | Jutta af Rosenborg | Anders Runevad | René Svendsen Thune | Gerner Ray Andersen[1] | Søren Gissing Kristensen[1] | Yvonne Markussen[2] |
|---|---|---|---|---|---|---|---|---|---|---|
| Board of Directors meetings | 8 | 8 | 6 | 8 | 8 | 7 | 7 | 4 | 4 | 3 |
| Chairmanship meetings | 6 | 6 | 6 | | | | | | | |
| Audit Committee meetings | 6 | | | 2 | 6 | | | | | |
| Remuneration Committee meetings | 5 | | | 3 | 5 | | | | | |
| Nomination Committee meetings | 5 | 5 | 5 | | | | | | | |

[1] Member of the Board since March 23, 2018
[2] Member of the Board until March 23, 2018 rejoined February 2019)

**Nomination Committee**
The purpose of the Nomination Committee is to define and assess the qualifications required by the Board of Directors, the Group CEO, and Group CFO and to initiate an annual self-assessment within the Board of Directors, and exercise grandfather rights with respect to members of the Nilfisk Leadership Team.

*Self-assessments*
The purpose of the annual self-assessment is to evaluate performance and expertise required within the Board of Directors, considering the contribution of the individual members, and to identify future areas of focus.

The Board of Directors also performs an annual assessment of the Group CEO and Group CFO covering two main areas; the interaction between these executives and the Board of Directors, and the expertise of these executives. The assessment takes the form of a general discussion by the Board of Directors, after which the assessment findings are communicated by the Chairman to the Group CEO and Group CFO and shared in summary at the Annual General Meeting.

Key conclusions from the 2018 self-assessment include:

- Nilfisk has a professionally well-qualified and well-composed Board that allows for healthy discussion
- The Board represents international business experience in industry, energy, high technology and general business development and is considered to have the seniority and competencies necessary to match the demands we place on the business operations
- The Board has strong internal cooperation and has managed to maintain a good balance between supporting the actual operational business, and taking and implementing" important strategic decisions

**The Nilfisk Leadership Team**
The day-to-day responsibility for Nilfisk's business is managed by the Nilfisk Leadership Team, consisting of 11 members counting the Group CEO and 10 direct reports. The Nilfisk Leadership Team is responsible for the conduct of business and all operational matters, organization, allocation of resources, establishing and implementing strategies and policies, direction-setting, and ensuring timely reporting and provision of information to the Board of Directors. See page 42 for particulars of the Nilfisk Leadership Team.

**Target figure for the under-represented gender**
Nilfisk seeks to provide equal opportunities for all genders, and gender is in focus when assessing qualifications and experience of Board candidates. The target figure for the under-represented gender, in accordance with section 99b of the Danish Financial Statements Act, among shareholder-elected Board members is minimum 17%, which corresponds to one person. This target was met in 2017. While Nilfisk believes the current Board of Directors has an optimal composition based on qualifications and experience, the target figure will be monitored to ensure this is both realistic and ambitious, with the aim of increasing the representation of the under-represented gender.

Nilfisk's focus on diversity and equal opportunities for all genders is described in Nilfisk's annual Corporate Social Responsibility Report, which includes the UN Global Compact Communication on Progress report and can be found at nilfisk.com under Corporate Social Responsibility.

**Corporate governance recommendations**
As a company listed on Nasdaq Copenhagen, Nilfisk is subject to Nasdaq Copenhagen's rules governing share issuers, and by that also to the corporate governance recommendations issued by the Danish Committee on Corporate Governance which can be found at www.corporategovernance.dk. In November 2017, the Danish Committee on Corporate Governance issued updated recommendations which are applicable to Nilfisk from this annual report and onwards.

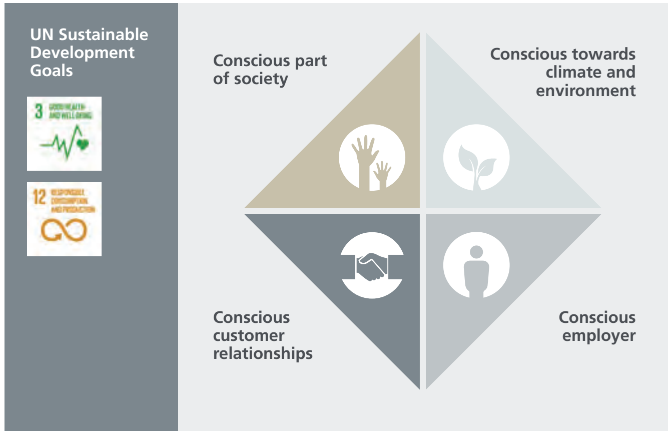
Nilfisk fulfils its obligations in respect of the corporate governance recommendations either by compliance or by explaining the reason for non-compliance. Nilfisk complies with all the 47 updated recommendations. The most significant change made since the Annual Report 2017 is that with the new Remuneration Policy adopted in March 2018, Nilfisk now also complies with the recommendation to include a specific contractual right to claim repayment of variable components in its long-term incentive program in certain exceptional cases.

More details can be found in Nilfisk's annual reporting on the corporate governance recommendations available at the Nilfisk Investor Relations site.

**Corporate Social Responsibility**
At Nilfisk, we have incorporated Corporate Social Responsibility (CSR) into our daily operations where we focus on our impact on social and environmental issues such as climate change, human rights, child labor, the environment, and labor standards at suppliers.

Within the scope of 2 of the 17 United Nation's Sustainable Development Goals (SDGs), set by the United Nations General Assembly in 2015 – the "Good Health and Well-Being" and "Responsible Consumption and Production" – we have defined four areas in which various activities support Nilfisk's current CSR approach. These four areas are Society, Climate and Environment, Customer Relationships and Employer.

More details are available in Nilfisk's annual statutory report on Corporate Social Responsibility, including articles 99a and 99b of the Danish Financial Statements Act related to corporate social responsibility and diversity. The report is available at nilfisk.com.



# Board of **Directors**






| | **Jens Due Olsen**<br>Chairman, born 1963<br>Independent | **Lars Sandahl Sørensen**<br>Deputy Chairman, born 1963<br>Independent | **Jens Maaløe**<br>Member, born 1955<br>Independent | **Jutta af Rosenborg**<br>Member, born 1958<br>Independent | **Anders Runevad**<br>Member, born 1960<br>Independent | **Rene Svendsen-Tune**<br>Member, born 1955<br>Independent |
|---|---|---|---|---|---|---|
| **First elected in** | October 2017 | October 2017 | October 2017 | October 2017 | October 2017 | October 2017 |
| **Expiry of current term** | March 2019 | March 2019 | March 2019 | March 2019 | March 2019 | March 2019 |
| **Core competencies** | • Industrial management<br>• Management of listed companies<br>• Economics and finance | • International management<br>• Corporate trading<br>• Business development<br>• Operational excellence | • Industrial management<br>• Management of listed companies<br>• Technology development | • International management<br>• Management of listed companies<br>• Finance and business optimization | • International management<br>• Management of listed companies<br>• Large infrastructure projects | • International management<br>• Service businesses<br>• Large account sales |
| **Committees** | • Nomination | • Nomination | • Audit<br>• Remuneration | • Audit<br>• Remuneration | • N/A | • N/A |
| **Selected positions and directorships** | • Chairman of the board of directors of NKT A/S, Børnebasketfonden, HusCompagniet A/S<br>• Vice Chairman of KMD A/S<br>• Member of the board of directors of Danske Bank<br>• Member of the Committee on Corporate Governance | • Group Director, Chief Operating Officer at SAS AB<br>• Member of the board of directors of NKT A/S, A/S af 3. juni 1986, Wexøe Holding A/S, Industriens Fond, SAS Management Denmark A/S, SAS Danmark A/S. | • CEO of Terma A/S<br>• Chairman of the board of directors of Innovationsfonden<br>• Member of the board of directors of NKT A/S and Grundfos Holding A/S<br>• Member of the Central Board of the Confederation of Danish Industries | • Member of the board of directors of NKT A/S, Standard Life Aberdeen PLC, JPMorgan European Investment Trust plc, PGA European Tour, BBGI SICAV S.A. | • CEO of Vestas Wind Systems A/S<br>• Chairman of the board of directors of MHI Vestas Offshore Wind A/S<br>• Member of the board of directors of Schneider Electric | • CEO of GN Store Nord A/S and GN Audio A/S<br>• Deputy chairman of the board of directors of NKT A/S<br>• Member of the board of directors of Stokke A/S |
| **Education** | • MSc in Economics | • MSc in International Business and Management | • MSc in Electrical Engineering<br>• Ph.D in radar technology | • MSc in Business Economics and Auditing | • MSc in Electrical Engineering | • BSc Eng. (hon.) |
| **Nilfisk shares end of 2018**<br>(end of 2017 shown in brackets) | 2,500 (2,500) | 685 (685) | 515 (515) | 0 (0) | 1,000 (1,000) | 4,000 (4,000) |

# Board of **Directors**

| |  |  |  |
|---|---|---|---|
| | **Gerner Raj Andersen**<br>Employee Representative,<br>born 1966 | **Søren Giessing Kristensen**<br>Employee Representative,<br>born 1986 | **Yvonne Markussen**<br>Employee Representative,<br>born 1959 |
| **First elected in** | March 2018 | March 2018 | February 2019 |
| **Expiry of current term** | March 2022 | March 2022 | March 2022 |
| **Position at Nilfisk** | • Sales assistant<br>• Joined Nilfisk in 1990 | • Development engineer<br>• Joined Nilfisk in 2015 | • Assistant Payroll department<br>• Joined Nilfisk in 2006 |
| **Committees** | • N/A | • N/A | • N/A |
| **Selected positions and directorships** | • Owner of Mågaard I/S<br>• Member of the board of Sem Vandværk | • N/A | • N/A |
| **Education** | • Secondary program | • M.Sc. Electro Mechanical Engineering | • Vocational training as clerk with emphasis on accounting |
| **Nilfisk shares end of 2018** (end of 2017 shown in brackets) | 210 (0) | 0 (0) | 6 (6) |

# Nilfisk Leadership Team

| |  |  |  |  |  |  |
|---|---|---|---|---|---|---|
| | **Hans Henrik Lund**<br>CEO<br>Member of the Executive Management Board | **Karina Deacon**<br>CFO<br>Member of the Executive Management Board | **Camilla Ramby**<br>Executive Vice President<br>Global Marketing | **Steen Lindbo**<br>Executive Vice President<br>EMEA Sales | **Serdar Ülger**<br>Senior Vice President<br>APAC Sales | **Lars Gjødsbøl**<br>Executive Vice President<br>Global Products & Services |
| **Joined Nilfisk in** | 2017 | 2016 | 2018 | 2018 | 2005 | 2003 |
| **Core competencies** | • International business management<br>• Business transformation<br>• Technology<br>• Product development | • Financial management and controlling<br>• International business management<br>• Optimization of business processes | • All areas of MarCom<br>• Data and advanced analytics<br>• Market and customer insights<br>• Digital marketing | • International B2B sales<br>• Commercial development<br>• Channel strategy<br>• Product/pricing strategies | • Execution of product/pricing strategies<br>• Sales and service<br>• Business management | • All areas of operations<br>• R&D<br>• Product management<br>• Quality |
| **Positions and Directorships:** | • N/A | • Dovista A/S (board member) | • N/A | • N/A | • N/A | • Genan Holding A/S (board member) |
| **Previous Positions:** | • Helvar Oy Ab<br>• Microsoft<br>• Nokia<br>• GN Netcom A/S | • ISS A/S<br>• Saxo Bank A/S<br>• Landic Property A/S | • Danske Bank A/S<br>• TDC A/S<br>• Codan A/S | • Stanley Black & Decker, Inc. | • Pirelli Tires | • Novo Nordisk A/S<br>• McKinsey & Company |
| **Education** | • MSc in Mechanical Engineering<br>• Ph.D in Material Science<br>• MBA in Organization and Business Management | • MSc in Business Economics and Auditing | • MSc in International marketing & Management | • Diploma Business Finance | • MSc in Computer Engineering | • MSc in Business Administration and Commercial Law |
| **Nilfisk shares end of 2018**<br>(end of 2017 shown in brackets) | 11,900 (0) | 2,384 (449) | 0 (0) | 0 (0) | 0 (0) | 0 (0) |

# Nilfisk Leadership Team

| |  |  |  |  |  |
|---|---|---|---|---|---|
| | **Jesper Terndrup Madsen**<br>Executive Vice President<br>Global Operations | **Casper Brorsen**<br>Senior Vice President<br>Strategy & Transformation Office<br>Global Service | **Jacob Blom**<br>Executive Vice President<br>HR | **Morten Mathiesen**<br>Senior Vice President<br>Specialty Professional | **Thomas Dragø Nielsen**<br>Senior Vice President<br>Specialty Consumer |
| **Joined Nilfisk in** | 2015 | 2018 | 2016 | 1996 | 1995 |
| **Core competencies** | • End-to-end supply chain management<br>• Operations<br>• Distribution and sales support | • Strategy development and execution<br>• Service and innovation<br>• Commercial development | • HR management<br>• Implementation of group processes and HR systems<br>• Global HR transformation | • Business management<br>• Global execution<br>• Sales<br>• Service | • Business management<br>• Sales management<br>• Marketing<br>• Global execution |
| **Positions and Directorships:** | • N/A | • N/A | • N/A | • N/A | • N/A |
| **Previous Positions:** | • Royal Copenhagen A/S<br>• GN Netcom A/S<br>• Accenture | • Falck A/S<br>• ABN AMRO Group<br>• Vækstfonden | • NCC A/S<br>• TDC A/S<br>• Merk, Sharp & Dohme | • Deloitte | • N/A |
| **Education** | • MSc in Economics & Business Administration | • MSC in Applied Economics and Finance<br>• MBA from IMD Business School | • Graduate Diploma in Organization & Leadership | • Graduate Diploma in Business Administration | • MSc in International Business Economics |
| **Nilfisk shares end of 2018**<br>(end of 2017 shown in brackets) | 0 (0) | 0 (0) | 200 (200) | 0 (0) | 50 (50) |

# **Remuneration** Report

There is a clear alignment between shareholder value creation and the remuneration policies for the Board of Directors, the Executive Management Board, and the Nilfisk Leadership Team.

Based on the updated Recommendation on Corporate Governance issued in November 2017 by the Danish Committee on Corporate Governance, recommendation 4.2.3, this Remuneration Report includes information on the total remuneration received by each member of the Board of Directors and the executive board from the company and other companies in the group and associated companies for the past three years. This includes information on the most important content of retention and resignation arrangements, and the correlation between the remuneration and company strategy and relevant related goals.

**Key components in the remuneration of the governing bodies of Nilfisk**

| Remuneration | Board of Directors | Executive Management Board | Nilfisk Leadership Team | Comments |
|---|---|---|---|---|
| Fixed fee/base salary | • | • | • | Salary levels take into account market remuneration as well as the executives' skills and experience |
| Fee for committee work | • | | | Members of Audit Committee, Nomination Committee and Remuneration Committee. The Chairman of the Board is not remunerated for committee participation |
| Short-term cash based incentive | | • | • | Up to 70% of base salary for the Executive Management Board and up to 30% of base salary for the Nilfisk Leadership Team |
| Long-term share-based incentive | | • | • | Up to 35% of base salary |
| Benefits | | • | • | Company cars, phones, etc. comprising up to 10% of base salary |
| Pension | | • | • | Up to 12% of base salary |

**Remuneration Policy**

A new Remuneration Policy was adopted by the shareholders at Nilfisk's Annual General Meeting on March 23, 2018. The Remuneration Policy takes into account the Recommendations on Corporate Governance as updated by the Danish Committee on Corporate Governance in November 2017 and in anticipation of the upcoming implementation into Danish law of the recent updates to the Shareholder Rights Directive (EU Directive 2017/828). The full Remuneration Policy can be found at investor.nilfisk.com.

Nilfisk's Remuneration Policy, approved by the Annual General Meeting, contains guidelines for setting the remuneration for the Board of Directors and the salaries for the Executive Management Board. All members of these governing bodies receive competitive pay, which is commensurate with the duties assigned.

The Board of Directors receive a fixed salary, while members of the Executive Management Board receive a fixed salary, a short-term cash-based incentive and a long-term share-based incentive. This structure ensures commonality of interest between the management and shareholders of Nilfisk and maintains management's motivation to drive both short-term results and long-term strategic goals.

Members of the Board of Directors are not entitled to any kind of compensation upon resignation as a member of the Board of Directors. Members of the Executive Management Board are not entitled to severance pay, in addition to remuneration in their notice period.

Under the previous Remuneration Policy, Nilfisk had two share incentive programs that applied respectively to certain members of the Nilfisk Leadership Team in the form of share options and to certain key employees in the form of phantom shares. No new incentives are issued under any of these programs but previously granted incentives are still vesting, and incentive holders are entitled to exercise upon full vesting.

Read more about the Remuneration Committee, their overall responsibilities, and main activities in 2018, on page 38.

**Remuneration of the Board of Directors**

Members of the Board of Directors receive a base fee as well as fees for committee duties. Fees are evaluated relative to Danish and other European companies of comparable size and complexity to Nilfisk. No member of the Board of Directors participates in any of the company's incentive plans.

Each member of the Board of Directors receives a fixed annual fee while the Chairman receives 3x the base fee and the Deputy Chairman receives 2x the base fee. In addition, a member of a board committee receives a supplemental annual fee per committee.

Members of the Board of Directors are not entitled to any kind of compensation upon resignation as a member of the Board of Directors.

*Remuneration fees of the Board of Directors – 2018*

| | Total remuneration (Cash-based) in thousands EUR |
|---|---|
| ***Board fee*** | |
| Chairman | 120.8 |
| Vice-Chairman | 80.5 |
| Member | 40.3 |
| ***Audit committee fee*** | |
| Chairman | 26.8 |
| Member | 13.4 |
| ***Nomination Committee fee*** | |
| Chairman | 13.4 |
| Member | 6.7 |
| ***Remuneration Committee fee*** | |
| Chairman | 13.4 |
| Member | 6.7 |

*Total remuneration of the Board of Directors – 2018*

| EUR thousand | Board of Directors | Audit Committee | Remuneration Committee | Nomination Committee | Total |
|---|---|---|---|---|---|
| Jens Due Olsen (Chairman)[1] | 120.8 | - | - | - | 120.8 |
| Lars Sandahl Sørensen (Deputy Chairman) | 80.5 | - | - | 13.4 | 93.9 |
| Jutta af Rosenborg | 40.3 | 26.8 | 13.4 | - | 80.5 |
| Jens Maaløe | 40.3 | 13.4 | 6.7 | - | 60.4 |
| René Svendsen-Thune | 40.3 | - | - | - | 40.3 |
| Anders Runevad | 40.3 | - | - | - | 40.3 |
| Gerner Raj Andersen[1] | 31.3 | - | - | - | 31.3 |
| Michael Gamtofte | 40.3 | - | - | - | 40.3 |
| Søren Giessing Kristensen[2] | 31.3 | - | - | - | 31.3 |
| Yvonne Markussen[3] | 8.9 | - | - | - | 8.9 |
| Jean-Marc Rios Dionne[3] | 8.9 | - | - | - | 8.9 |
| Total | 483.2 | 40.2 | 20.1 | 13.4 | 556.9 |

[1] Does not receive separate fee for participation in Nomination Committee
[2] Appointed March 23, 2018
[3] Appointed October 10, 2017, and resigned March 23, 2018

*Total remuneration of the Board of Directors – 2017*[4]

| EUR thousand | Board of Directors | Audit Committee | Remuneration Committee | Nomination Committee | Total |
|---|---|---|---|---|---|
| Jens Due Olsen (Chairman) | 27.9 | - | - | 1.6 | 29.5 |
| Lars Sandahl Sørensen (Deputy Chairman) | 18.6 | - | - | 3.1 | 21.7 |
| Jutta af Rosenborg | 9.3 | 6.2 | 3.1 | - | 18.6 |
| Jens Maaløe | 9.3 | 3.1 | 1.6 | - | 14.0 |
| René Svendsen-Thune | 9.3 | - | - | - | 9.3 |
| Anders Runevad | 9.3 | - | - | - | 9.3 |
| Yvonne Markussen | 9.3 | - | - | - | 9.3 |
| Jean-Marc Rios Dionne | 9.3 | - | - | - | 9.3 |
| Michael Gamtofte | 9.3 | - | - | - | 9.3 |
| Total | 111.6 | 9.3 | 4.7 | 4.7 | 130.3 |

[4] Pro-rated fees, since Board of Directors was formed on October 10, 2017
Comparative numbers for 2016 are not available since the Board of Directors was formed in 2017

**Remuneration of the Executive Management Board and the Nilfisk Leadership Team**

The members of the Executive Management Board and the Nilfisk Leadership Team receive a fixed salary, benefits of up to maximum 10% of the base salary, a pension plan where appropriate, a short-term cash-based incentive and a long-term share-based incentive.

This structure ensures commonality of interest between the management and shareholders of Nilfisk and maintains management's motivation to achieve both short-term and long-term strategic goals. Benchmarking on total remuneration level is used to ensure alignment with similar and comparable companies.

No member of the Executive Management Board is entitled to severance pay but will receive ordinary remuneration during their notice period.

The total remuneration to the Nilfisk Leadership Team has decreased from 10.5 mEUR in 2017 to 6.7 mEUR in 2018. The remuneration in 2017 was affected by the listing of Nilfisk Holding A/S where a one-off bonus and a severance payment was made to the former CEO. Any severance pay is included in salary and pension. The decrease is further impacted by a lower valuation of the phantom share program compared to 2017.

The tables show the expensed value of the total remuneration for the Executive Management Board and the Nilfisk Leadership Team. The two gray columns to the right show actual payout of the short-term bonus and long-term incentives, and by that the actual cash impact to the company.

*Total remuneration for the Executive Management Board and the Nilfisk Leadership Team – 2018*

| EUR thousand | Salary and pension | Annual bonus | Other bonus | Long-term incentive | Other benefits | Total | Bonus, paid | Long-term incentive, paid |
|---|---|---|---|---|---|---|---|---|
| Hans Henrik Lund (CEO) | 1,199.6 | 151.1 | 455.2[1] | 138.9 | 23.2 | 1,968.1 | 805.1 | - |
| Karina Deacon (CFO) | 498.4 | 64.1 | - | 52.5 | 17.4 | 632.4 | 114.5 | - |
| Former members of the Executive Management Board | - | - | - | - | - | - | 32.5 | 5,156.0 |
| Nilfisk Leadership Team | 4,138.8 | 389.5 | - | -786.7[2] | 358.5 | 4,100.1 | 641.2 | 5,409.5 |
| **Total** | **5,836.8** | **604.7** | **455.2** | **-595.3** | **399.1** | **6,700.5** | **1,593.3** | **10,565.5** |

[1] Bonus regarding listing of Nilfisk Holding A/S

[2] The phantom share program was an income for the year, due to a decrease in the share price

*Total remuneration for the Executive Management Board and the Nilfisk Leadership Team – 2017*

| EUR thousand | Salary and pension | Annual bonus | Other bonus | Long-term incentive | Other benefits | Total | Bonus, paid | Long-term incentive, paid |
|---|---|---|---|---|---|---|---|---|
| Hans Henrik Lund (CEO) | 500.8 | 350.5 | 300.5 | - | 87.9 | 1,239.7 | | |
| Karina Deacon (CFO) | 434.3 | 116.3 | 387.7[3] | 16.0 | 22.9 | 977.2 | 526.2 | - |
| Former members of the Executive Management Board | 923.7 | 58.2 | - | 162.0 | 8.6 | 1,152.5 | 382.3 | - |
| Nilfisk Leadership Team | 3,029.0 | 629.8 | 802.5[3] | 2,388.0 | 322.2 | 7,171.5 | 1,649.4 | 33.5 |
| **Total** | **4,887.8** | **1.154,8** | **1.490,7** | **2,566.0** | **441.6** | **10,540.9** | **2,855.9** | **33.5** |

[3] Includes bonus regarding listing of Nilfisk Holding A/S in total 946.3 tEUR

**Annual bonus plan – short-term cash-based incentive plan for 2018**

The Executive Management Board and the rest of Nilfisk Leadership Team participates in the short-term cash-based incentive plan (STIP) with an annual cash bonus scheme. In 2018, the Executive Management Board and the rest of the Nilfisk Leadership Team were measured as shown below.

*Executive Management Board short-term incentive plan, target overview – 2018*

| Target type | Weight in model | KPI |
|---|---|---|
| Group targets | 60% | Organic revenue growth |
| | | EBITDA margin (before special items) |
| | | Working Capital in % of revenue |
| Personal targets | 40% | Individually defined |
| Total | 100% | |

*Nilfisk Leadership Team short-term incentive plan, target overview – 2018*

| Target type | Weight in model | KPI |
|---|---|---|
| Group targets | 30-60% | Organic revenue growth |
| | | EBITDA margin (before special items) |
| | | Working Capital in % of revenue |
| Business unit targets | 0-50% | Organic revenue growth |
| | | EBITDA margin |
| Personal targets | 40-70% | Individually defined |
| Total | 100% | |

For 2018, the STIP based on group targets, which make up 60% of the weight in the bonus model for the Executive Management Board, was met with 10.8% of the total bonus opportunity of 100%. For 2018, the STIP based on group targets, which make up 30-60% of the weight in the bonus model for the Nilfisk Leadership Team, was met with 5.4-10.8% of the total bonus opportunity of 100%.

For 2019 the KPIs for the STIP for the Executive Management Board and the Nilfisk Leadership Team will be as follows:

*Executive Management Board and Nilfisk Leadership Team short-term incentive plan, target overview – 2019*

| Target type | Weight in model | KPI |
|---|---|---|
| Group targets | 100% | Organic revenue growth |
| | | EBITDA margin (before special items) |
| | | Working Capital in % of revenue |
| | | Employee engagement |
| Total | 100% | |

The removal of individual targets serves to ensure that the Executive Management Board and the Nilfisk Leadership Team are aligned as one team.

The addition of employee engagement serves to balance the financial goals with this key non-financial goal.

**Long-term incentive programs overview for 2018**

Under the new Remuneration Policy, Nilfisk implemented in 2018 a new long-term incentive program to certain key employees, selected by the Remuneration Committee, called Nilfisk Performance Share Program (PSP). This Long-Term Incentive Program (LTIP) replaced the previous long-term incentive plans.

When constructing the PSP it is the underlying instrumental consideration of the Board of Directors to ensure full alignment between shareholder value and value of the PSP. At our Capital Markets Day in September 2017, we communicated mid-term targets for organic growth, EBITDA margin before special items and RoCE. We use a financial forecasting model to predict the probability of realizing these targets, and we convert this into a total shareholder return target that contributes to determining the valuation of the PSP and by that the amount of contingent performance shares available for grant to participants any given year.

In 2018, the participants in the PSP have been granted a number of contingent performance shares that will vest from 2020 depending on the company's achievement of targets specifically relating to EBITDA margin before special items, RoCE and total shareholder return centered around these mid-term targets. Each of these elements and vesting conditions are further described below.

Under the Remuneration Policy and in the PSP, the Board of Directors has a discretionary right to adjust the incentive program in case of certain extraordinary circumstances to cater for shareholder interests in case of any unforeseen impact on the value of the program.

*EBITDA margin before special items*

33% of the PSP award is based on Nilfisk's EBITDA before special items reported at the end of the three-year performance period, which for the 2018 award is the EBITDA before special items reported for the financial year ending December 31, 2020, measured against the following targets, before adjusting for the new financial reporting standard IFRS 16:

- If the EBITDA margin before special items is below 13.1%, the EBITDA element of 33% will not vest
- If the EBITDA margin before special items equals or is above 14.6%, the full amount of the EBITDA element of 33% will vest
- If the EBITDA margin before special items is between 13.1% and 14.6% the EBITDA element of 33% will vest partially

The EBITDA margin before special items is a key performance indicator for the Group directly linked to the Group's strategy and business plan.

It measures the profitability of the Group relative to revenue and is one of the key figures included in our mid-term financial guidance to the market.

*Return on Capital Employed*
33% of the LTIP award is based on Nilfisk's three-year average Return on Capital Employed (RoCE) performance, which for the 2018 award will be the average ROCE performance from 2018 through 2020 measured against the following targets, before adjusting for the new financial reporting standard IFRS 16:

- If RoCE is below 18.2%, the RoCE element of 33% will not vest
- If RoCE equals or is above 22.6%, the full amount of the RoCE element of 33% will vest
- If RoCE is between 18.2% and 22.6% the RoCE element of 33% will vest partially

RoCE is a key performance indicator for the Group directly linked to the Group's strategy. It measures the profitability and capital efficiency of our business.

*Total Shareholder Return*
The remaining 33% of the LTIP award is based on Nilfisk's Total Shareholder Return (TSR) performance, which for the 2018 award will be the average TSR performance from 2018 through 2020 measured against the following targets:

- If TSR is below 4.4% per annum, the TSR element of 33% will not vest
- If TSR equals or is above 13.2% per annum, the full amount of the TSR element of 33% will vest
- If TSR is between 4.4% and 13.2% per annum the TSR element of 33% will vest partially

*First year status for 2018 LTIP award allotment*
Based on the valuation of the 2018 PSP, the company made a total grant of 53,245 contingent performance shares to members of the Executive Management Board, the Nilfisk Leadership Team, and other selected key employees.

The number of performance shares awarded to each participant is based on a probability adjusted percentage of his/her base salary, also referred to as the "face value". The actual number of share units granted is calculated by dividing the face value with a fixed share award price, equal to the Volume Weighted Average share Price (VWAP) over the 10 trading days following the release of the Annual Report. For 2018, the VWAP used in the PSP was 305.33 DKK.

*Movements in the Nilfisk Performance Share Program – 2018*

| Number of awarded performance shares | June 2018 | Exercised in 2018 | December 31, 2018 |
|---|---|---|---|
| Hans Henrik Lund | 20,496 | - | 20,496 |
| Karina Deacon | 5,431 | - | 5,431 |
| Nilfisk Leadership Team | 19,505 | - | 19,505 |
| Other key employees | 7,813 | - | 7,813 |
| **Total** | **53,245** | **-** | **53,245** |

**Share option program (2013-2016)**
In the period 2013 to 2016, the Executive Management Board was granted the right to purchase shares (share options) in Nilfisk Holding A/S at a strike price. Share options were not granted for 2017. Instead a cash compensation representing the value of options at grant was paid to four members of the Nilfisk Leadership Team.

For further information about the share option program, please refer to Note 3.4.

*Movements in the share option program – 2018*

| Number of options | December 31, 2017 | Exercised in 2018 | December 31, 2018 | Market value of exercised options in EUR thousand |
|---|---|---|---|---|
| Karina Deacon[1] | 50,130 | - | 50,130 | - |
| Lars Gjødsbøl[2] | 131,436 | 97,486 | 33,950 | 2,274 |
| **Total** | **181,566** | **97,486** | **84,080** | **2,274** |

[1] Current member of the Executive Management Board
[2] Current member of the Nilfisk Leadership Team

**Phantom share program (2012-2016)**
In the period 2012 to 2016 a phantom share program granted a number of employees the right to a potential cash payment but no rights to acquire shares. The program is an alternative to a part of the participants' bonus under the short-term bonus program.

For further information about the phantom share program, please refer to Note 3.4.

*Movements in the phantom share program – 2018*

| Number of options | December 31, 2017 | Exercised in 2018 | December 31, 2018 | Market value of exercised options in EUR thousand |
|---|---|---|---|---|
| **Nilfisk Leadership Team (four members)** | **92,230** | **28,483** | **63,747** | **774** |

# **Risk** management

Risks are a natural part of doing business, and at Nilfisk we have a structured, consistent and continuous approach to ensure that our risk exposure is assessed and managed.

The overall objective of risk management is to support the achievement of Nilfisk's strategy and support the operating and financial objectives, ensuring that risks are properly identified and mitigated. We leverage an integrated risk management framework to identify, assess, prioritize, address, manage, monitor and communicate risks across the company.

The Board of Directors has oversight responsibility for risk management. One of the Board's responsibilities is overseeing and interacting with the Nilfisk Leadership Team with respect to key aspects of Nilfisk's business, including risk assessment and mitigation of key risks. Evaluation of key risks is on the agenda at least twice a year, and risks are monitored on an ongoing basis.

The Nilfisk Leadership Team is responsible for the identification, assessment, prioritization and mitigation of strategic, financial, operating, compliance, safety, reputational and other risks.

Risks are assessed according to a two-dimensional heat map rating system that estimates the likelihood and business impact.

**Governance**
Nilfisk has two functional committees; the Compliance Committee and the IT Steering Security Committee, which both report to the Audit Committee.

- The Compliance Committee reviews and oversees Nilfisk's compliance program, including the Business Code of Conduct and related compliance programs. The Compliance Committee acts in collaboration and alignment with the Audit Committee
- The IT Steering Security Committee reviews and approves IT security policies and guidelines, monitors IT security risks, and evaluates IT security breaches and incidents as well as IT security threats and mitigating plans and initiatives. The IT Steering Security Committee collaborates and aligns with the Audit Committee

**Risk areas**
The following five risk areas are identified as high-impact risk that could materially adversely affect our business, financial condition or operating results.

1. Transformation initiatives
2. Commoditization
3. Political and economic instability including trade conflicts
4. Operational interruptions
5. Interruptions to information technology service or systems

Please refer to overview on page 50.

**Nilfisk's high-impact risk areas**

Description of the five risk areas identified as high impact risks and related risk mitigation.

| | Risk | Risk mitigation |
|---|---|---|
| **Transformation initiatives** | Nilfisk's continued focus on simplification, growth and digitalization requires implementing significant transformative initiatives including organizational changes, optimization of cost structures, reallocation of resources, implementation of market strategies, and standardized processes. If the expected benefits and savings of transformation initiatives and processes are not realized and continued, that might negatively impact our ability to meet our strategic objectives and serve our customers. | We closely monitor and track initiatives across the Group to ensure the execution and realization of benefits. A newly established Transformation Office, responsible for the coordination of transformation projects across Nilfisk, seeks to enhance speed and quality of execution, and ensure organizational implementation and value realization. A monthly follow-up is carried out by the Nilfisk Leadership Team, enabling immediate reaction if needed. |
| **Commoditization** | Customer demand is changing towards low-price "good-enough" products. At the same time, competition is intense, and low-cost competition could come to a level where customers will no longer pay a premium to get our products. Simultaneously, to continue to be competitive, Nilfisk must invest in developing innovative products. The Nilfisk Group's competitors include various large global and regional enterprises as well as smaller regional or local companies. Our operational results and financial position may be negatively impacted if Nilfisk products do not satisfy customer demand. | We focus on indicators in customer behavior, in terms of both segment trends and purchase loyalty. Nilfisk responds to changes in customer behavior with a strategy focused on uniquely positioned customer offerings in which we add value beyond the machine to deliver cleaning solutions that blend into operations and integrate digital services, collectively increasing the value of clean. We leverage our strengths within brands, product portfolio range, product quality, and customer access, and we scale benefits due to our size and geographical coverage. |
| **Political and economic instability including trade conflicts** | Adverse economic conditions including a risk of economic conflicts may negatively impact our financial position and decrease demand for Nilfisk products. Long-term financial decline in global economies could affect sales in a downward direction and negatively influence investor perception relative to public stated growth targets. At the same time, major social or political changes may disrupt sales and operations. | We closely monitor developments in our markets and the global economic situation to be able to respond in a timely manner to any adverse developments. We also mitigate possible negative macroeconomic changes by hedging and maintaining variability in our cost base as well as establishing a flexible "plant-in-plant" production footprint. |
| **Operational interruptions** | Failures or delays may occur through the entire supply chain including sourcing of components, manufacturing, and distribution of products. In daily operations we are dependent on information technology systems, production companies and distribution centers. If functionality is interrupted in any of these, for a substantial period, our business continuity planning might be insufficient to continue daily operations. In addition, our global operations are subject to various local legislation, creating a legal risk of not being compliant with such laws and regulations. | We focus on optimal production and distribution footprint including several production facilities and distribution centers, dual sourcing initiatives, optimization of supply chain processes and modularization strategy with the aim of increasing scale advantages and reduction of production complexity. We continuously monitor functionality of utilities and compliance with applicable regulations. |
| **Interruptions to information technology service or systems** | Nilfisk's information technology systems are subject to damage or interruption from power outages, computer and telecommunications failures, malware, catastrophic events and user errors. Errors made due to lack of user awareness or deliberate misuse, such as individual attempts to gain access to systems, are among the risks Nilfisk faces. Inadequate management of changes to systems or service together with ineffective measures to deter, prevent, detect and react to such attempts might expose Nilfisk to risks. | We have implemented procedures and management processes to ensure necessary availability for critical IT systems and services. Furthermore, we have developed and actioned an IT security policy to prevent intentional damage to our systems and limit access to critical data and systems. |

For further information of risks related to currency, interest rate, credit and liquidity, please refer to Note 6.9.

# **Shareholder** information

Nilfisk is listed on Nasdaq Copenhagen. The company has approximately 15,000 shareholders.

At year-end 2018, the closing price of Nilfisk shares on Nasdaq Copenhagen was 230.5 DKK, down 36.5% since year-end 2017.

The Nilfisk share is part of the Nasdaq Copenhagen Large Cap Index. During 2018, the Large Cap Index fell 10.1%, and the leading index OMX C25 was down by 13.2%.

The average daily trading volume of Nilfisk Holding A/S shares on Nasdaq Copenhagen was 56,343 shares in 2018, with increased volume in December 2018.

At year-end 2018, Nilfisk Holding A/S had a market capitalization of 840 mEUR, compared to 1.3 bnEUR at year-end 2017.

**Dividend policy and dividend for 2018**

The Board of Directors have adopted a dividend policy with a target pay-out ratio of approximately one third of the financial year's reported consolidated profit for the year.

The payment of dividends, if any, will in general be determined with a view to balance the pay-out ratio mentioned above and the target for the Group's leverage ratio and will further depend on a number of factors, including future revenue, profits, financial conditions, general economic and business conditions, future prospects, strategic initiatives such as acquisition activities or large scale investments decided upon by the Board of Directors, or other factors the Board of Directors may deem relevant, as well as applicable legal and regulatory requirements.

At the Annual General Meeting to be held on March 26, 2019, the Board of Directors will propose not to distribute dividends for the financial year of 2018 as the leverage target in the capital distribution policy is not met.

**Shareholders**

As of December 31, 2018, there were 15,414 shareholders of record.

Over the course of 2018, our largest shareholders, KIRKBI Invest A/S and PrimeStone Capital LLP increased their shareholdings to more than 15% of the share capital and voting rights.

**Online resource for investors**

Our online resource investor.nilfisk.com provides information about the Group and its shares, share price, and financial data, in addition to company announcements, annual and quarterly reports, investor presentations, and transcripts.

**December 2017**

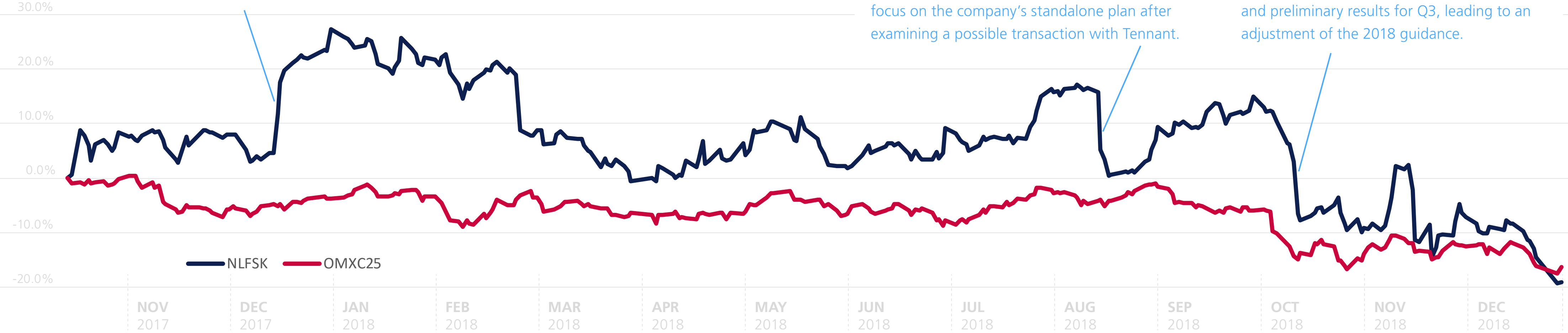
Nilfisk confirms that it is aware of a public filing made by one of its major shareholders, PrimeStone Capital LLP, notifying its acquisition of a major shareholding in Tennant and recommending a merger between Tennant and Nilfisk.

**August 2018**

Nilfisk releases results for Q2 and confirms full focus on the company's standalone plan after examining a possible transaction with Tennant.

**October 2018**

Nilfisk announces several major divestments and preliminary results for Q3, leading to an adjustment of the 2018 guidance.



## Share data

ISIN / Identification number: DK0060907293

Stock Exchange: Nasdaq Copenhagen A/S

Trading symbol: NLFSK

Index: OMX Large Cap

Sector: Industrial Engineering

Nominal value (DKK): 20

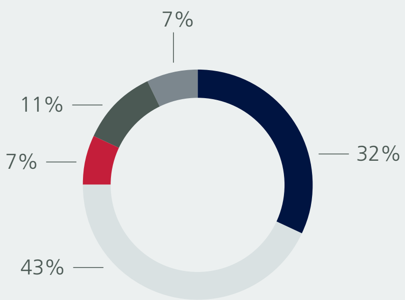
**27,126,369**
Number of shares

**56,343 shares**
Average daily trading volume 2018

**100%**
Free float (excl. treasury shares)

## Shareholder structure

Split between shareholders of the Nilfisk Holding A/S share based on category and geography per December 31, 2018




- Institutional investors, Denmark
- Institutional investors, Europe
- Institutional investors, North America
- Private investors
- Non-registered

## Major shareholders

Major shareholders holding above 5% of our shares per December 31, 2018.

**16.5%**
KIRKBI Invest A/S
Billund, Denmark

**7.6%**
Ferd AS
Lysaker, Norway

**15.1%**
PrimeStone Capital LLP
London, United Kingdom

**5.1%**
ATP
Hillerød, Denmark

**Investor relations**

At Nilfisk, our aim is to ensure that relevant, accurate and timely information is made available to the stock market hereby supporting an efficient and fair pricing of the Nilfisk share.

Nilfisk will ensure that the company is regarded as honest, open and reliable among both institutional and private investors. We place great emphasis on continuously providing consistent and high-quality information to the financial markets as well as to new investors, analysts, and other stakeholders, through road shows, conferences, company announcements and via our investor relations website. For further details on our investor relations policy, please visit our investor relations website.

Nilfisk Holding A/S is covered by three equity analysts at year-end 2018, who regularly publish their recommendations on the stock. For a full list of analysts, please visit our investor relations website.

**Financial calendar 2019**

| | |
|---|---|
| March 1 | Annual Report 2018 |
| March 26 | Annual General Meeting |
| May 15 | Q1 Interim Report |
| August 21 | Q2 Interim Report |
| November 14 | Q3 Interim Report |

# Financial statements

# Consolidated **financial statements** 2018



### ! Significant judgments and estimates

Significant judgments and accounting estimates made by the Executive Management Board are included in the notes to which they relate with the purpose to increase legibility.

### ± Sensitivity

Sensitivity analysis often accompany significant judgments and accounting estimates, and are included in the notes to which they relate with the purpose to increase legibility.

### § Accounting policy

Accounting policies are included in the notes to which they relate in order to facilitate understanding of the contents and the accounting treatment applied. Accounting policies not relating directly to individual notes are stated in Note 1.1.

## Notes

# Income statement

## for the years ended December 31

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| Revenue | 2.1, 2.2 | 1,054.3 | 1,081.9 |
| Cost of sales | 3, 4 | -612.0 | -625.2 |
| **Gross profit** | | **442.3** | **456.7** |
| Research and development costs | 2.3, 3 | -31.2 | -32.3 |
| Sales and distribution costs | 3, 4 | -245.2 | -252.7 |
| Administrative costs | 3, 4 | -75.0 | -86.3 |
| Other operating income | | 4.8 | 4.0 |
| Other operating expenses | | -2.1 | -1.7 |
| **Operating result before amortization/impairment of acquisition-related intangibles and special items** | | **93.6** | **87.7** |
| Amortization/impairment of acquisition-related intangibles | 4.4 | -6.2 | -6.2 |
| Special items, net | 2.4, 2.5 | -68.5 | -20.6 |
| **Result before financial items and income taxes (EBIT)** | | **18.9** | **60.9** |
| Financial income | 6.7 | 15.6 | 13.1 |
| Financial expenses | 6.7 | -26.9 | -22.0 |
| **Result before income taxes** | | **7.6** | **52.0** |
| Tax on result of year | 2.6 | 2.4 | -11.7 |
| **Result for the year** | | **10.0** | **40.3** |
| | | | |
| ***To be distributed as follows:*** | | | |
| Result attributable to equity holders of Nilfisk Holding A/S | | 10.0 | 40.3 |
| **Total** | | **10.0** | **40.3** |
| | | | |
| **Earnings per share (based on 27,126,369 shares issued)** | | | |
| Basic earnings per share (EUR) | 6.10 | 0.37 | 1.49 |
| Diluted earnings per share (EUR) | | 0.37 | 1.49 |

# Statement of comprehensive income

## for the years ended December 31

| EUR million | 2018 | 2017 |
|---|---|---|
| Result for the year | 10.0 | 40.3 |
| | | |
| **Other comprehensive income** | | |
| ***Items that may be reclassified to the income statement:*** | | |
| Exchange rate adjustments of subsidiaries | 9.3 | -11.3 |
| Value adjustment of hedging instruments: | | |
| Value adjustment for the year | 0.5 | -2.7 |
| Transferred to cost of sales | -1.1 | 1.2 |
| Transferred to staff costs | 0.8 | - |
| Transferred to financial income and expenses | 1.0 | 0.5 |
| Fair value adjustment of available for sales securities | -2.4 | 1.0 |
| Tax on comprehensive income, income/-expenses | -0.3 | - |
| | | |
| ***Items that may not be reclassified to income statement:*** | | |
| Transferred to inventory | -0.1 | 0.1 |
| Actuarial gains/losses on defined benefit pension plans | 0.4 | 0.9 |
| Tax on actuarial gains/losses | -0.1 | -0.2 |
| **Other comprehensive income for the year, net of tax** | **18.4** | **30.0** |
| **Total comprehensive income for the year** | **18.0** | **29.8** |
| | | |
| **Breakdown of tax on other comprehensive income/-loss** | | |
| Value adjustment of hedging instruments for the year | -0.3 | 0.2 |
| Fair value adjustment of available for sales securities | - | -0.2 |
| Actuarial gains/losses on defined benefit plans | -0.1 | -0.2 |
| **Tax on other comprehensive income/-loss** | **-0.4** | **-0.2** |
| | | |
| ***To be distributed as follows*** | | |
| Comprehensive income attributable to equity holders of Nilfisk Holding A/S | 18.0 | 29.8 |
| **Total** | **18.0** | **29.8** |

# Balance sheet

## at December 31

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| ***Intangible assets*** | 4.1, 4.2 | | |
| Goodwill | | 167.8 | 164.4 |
| Trademarks | | 10.6 | 11.9 |
| Customer related assets | | 10.1 | 13.1 |
| Development projects completed | | 27.3 | 37.1 |
| Software, Know-how, Patents and Competition Clauses | | 24.6 | 23.8 |
| Development projects and software in progress | | 40.6 | 28.3 |
| Total intangible assets | | 281.0 | 278.6 |
| ***Property, plant and equipment*** | 4.1, 4.3 | | |
| Land and buildings | | 10.1 | 11.1 |
| Plant and machinery | | 5.1 | 4.9 |
| Tools and equipment | | 36.7 | 38.4 |
| Assets under construction incl. prepayments | | 2.8 | 3.4 |
| Total property, plant and equipment | | 54.7 | 57.8 |
| ***Other non-current assets*** | | | |
| Investments in associates | 6.8 | 19.1 | 19.3 |
| Other investments and receivables | | 2.9 | 7.3 |
| Deferred tax | 2.6 | 20.5 | 14.2 |
| Total other non-current assets | | 42.5 | 40.8 |
| **Total non-current assets** | | **378.2** | **377.2** |
| Inventories | 5.1 | 172.9 | 182.8 |
| Receivables | 5.2 | 218.9 | 218.2 |
| Interest-bearing receivables | 6.3 | 4.4 | 4.9 |
| Income tax receivable | | 3.6 | 3.4 |
| Cash at bank and in hand | | 16.4 | 40.7 |
| **Total current assets** | | **416.2** | **450.0** |
| **Total assets** | | **794.4** | **827.2** |

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| ***Equity*** | | | |
| Share capital | 6.10 | 72.9 | 72.9 |
| Reserves | | -0.4 | -8.1 |
| Retained comprehensive income | | 75.0 | 72.7 |
| Proposed dividends | | - | - |
| **Total equity** | | **147.5** | **137.5** |
| ***Non-current liabilities*** | | | |
| Deferred tax | 2.6 | 9.4 | 19.8 |
| Pension liabilities | 4.5 | 4.5 | 5.7 |
| Provisions | 4.6 | 2.5 | 6.5 |
| Interest-bearing loans and borrowings | 6.2, 6.4, 6.8 | 382.3 | 397.3 |
| Other liabilites | 5.3, 6.8 | 1.1 | 1.2 |
| Total non-current liabilities | | 399.8 | 430.5 |
| ***Current liabilities*** | | | |
| Interest-bearing loans and borrowings | 6.2, 6.4, 6.8 | 7.8 | 8.0 |
| Trade payables and other liabilities | 5.3, 6.4, 6.8 | 223.0 | 236.7 |
| Income tax payable | | 1.1 | 3.0 |
| Provisions | 4.6 | 15.2 | 11.5 |
| Total current liabilities | | 247.1 | 259.2 |
| **Total liabilities** | | **646.9** | **689.7** |
| **Total equity and liabilities** | | **794.4** | **827.2** |

# Cash flow statement

## for the years ended December 31

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| Result before financial items and income taxes (EBIT) | | 18.9 | 60.9 |
| Non-cash adjustments | 8.6 | 10.9 | -4.6 |
| Depreciation, amortization and impairment | 4.4 | 50.9 | 38.6 |
| Share option program | 3.1 | -10.4 | - |
| Changes in working capital | | -14.4 | -31.8 |
| Cash flow from operations before financial items and income taxes | | 55.9 | 63.1 |
| Financial income received | | 9.6 | 11.2 |
| Financial expenses paid | | -21.5 | -16.9 |
| Income tax paid | | -10.9 | -16.0 |
| **Cash flow from operating activities** | | **33.1** | **41.4** |
| | | | |
| Divestment of businesses | 7.1 | 3.1 | - |
| Acquisitions of property, plant and equipment | 4.3 | -18.6 | -15.3 |
| Sale/disposal of property, plant and equipment | | 4.8 | 1.8 |
| Acquisitions of intangible assets | 4.2 | -33.8 | -23.2 |
| Disposal of financial assets | | 4.6 | |
| Dividend received | | 1.3 | 1.3 |
| **Cash flow from investing activities** | | **-38.6** | **-35.4** |
| | | | |
| Changes in current interest-bearing receivables | | -2.1 | 164.9 |
| Changes in current interest-bearing loans and borrowings | | -4.9 | -224.2 |
| Changes in non-current interest-bearing loans and borrowings | | -12.6 | 67.0 |
| **Cash flow from financing activities** | | **-19.6** | **7.7** |
| | | | |
| **Net cash flow for the year** | | **-25.1** | **13.7** |
| | | | |
| Cash at bank and in hand, January 1 | | 40.7 | 28.5 |
| Currency adjustments | | 0.8 | -1.5 |
| Net cash flow for the year | | -25.1 | 13.7 |
| **Cash at bank and in hand, December 31** | | **16.4** | **40.7** |

# Statement of changes in equity

## at December 31

| EUR million | Share capital | Foreign exchange reserve | Hedging reserve | Fair value reserve | Retained comprehensive income | Proposed dividends | Total equity |
|---|---|---|---|---|---|---|---|
| **January 1, 2018** | **72.9** | **-10.4** | **-0.1** | **2.4** | **72.7** | **-** | **137.5** |
| ***Other comprehensive income:*** | | | | | | | |
| Foreign exchange translation adjustments | - | 9.3 | - | - | - | - | 9.3 |
| ***Value adjustment of hedging instruments:*** | | | | | | | |
| Value adjustment for the year | - | - | 0.5 | - | - | - | 0.5 |
| Transferred to cost of sales | - | - | -1.1 | - | - | - | -1.1 |
| Transferred to staff costs | - | - | 0.8 | - | - | - | 0.8 |
| Transferred to financial income and expenses | - | - | 1.0 | - | - | - | 1.0 |
| Transferred to inventory | - | - | -0.1 | - | - | - | -0.1 |
| Fair value adjustment of available for sales securities | - | - | - | -2.4 | - | - | -2.4 |
| Actuarial gains/losses on defined benefit pension plans | - | - | - | - | 0.4 | - | 0.4 |
| Tax on actuarial gains/losses | - | - | - | - | -0.1 | - | -0.1 |
| Tax on other comprehensive income | - | - | -0.3 | - | - | - | -0.3 |
| Total other comprehensive income | - | 9.3 | 0.8 | -2.4 | 0.3 | - | 8.0 |
| Result for the year | - | - | - | - | 10.0 | - | 10.0 |
| **Comprehensive income for the year** | **-** | **9.3** | **0.8** | **-2.4** | **10.3** | **-** | **18.0** |
| Share option program | - | - | - | - | -10.4 | - | -10.4 |
| Tax on share option program | - | - | - | - | 2.4 | - | 2.4 |
| **Total changes in equity in 2018** | **-** | **9.3** | **-** | **-2.4** | **2.3** | **-** | **10.0** |
| **December 31, 2018** | **72.9** | **-1.1** | **0.7** | **-** | **75.0** | **-** | **147.5** |

# Statement of changes in equity

## at December 31 – continued

| EUR million | Share capital | Foreign exchange reserve | Hedging reserve | Fair value reserve | Retained comprehensive income | Proposed dividends | Total equity |
|---|---|---|---|---|---|---|---|
| **January 1, 2017** | **72.9** | **0.9** | **0.6** | **1.6** | **148.8** | **-** | **224.8** |
| ***Other comprehensive income:*** | | | | | | | |
| Foreign exchange translation adjustments | - | -11.3 | - | - | - | - | -11.3 |
| ***Value adjustment of hedging instruments:*** | | | | | | | |
| Value adjustment for the year | - | - | -2.7 | - | - | - | -2.7 |
| Transferred to cost of sales | - | - | 1.2 | - | - | - | 1.2 |
| Transferred to financial income and expenses | - | - | 0.5 | - | - | - | 0.5 |
| Transferred to inventory | - | - | 0.1 | - | - | - | 0.1 |
| Fair value adjustment of available for sales securities | - | - | - | 1.0 | - | - | 1.0 |
| Actuarial gains/losses on defined benefit pension plans | - | - | - | - | 0.9 | - | 0.9 |
| Tax on actuarial gains/losses | - | - | - | - | -0.2 | - | -0.2 |
| Tax on other comprehensive income | - | - | 0.2 | -0.2 | - | - | - |
| Total other comprehensive income | - | -11.3 | -0.7 | 0.8 | 0.7 | - | -10.5 |
| Result for the year | - | - | - | - | 40.3 | - | 40.3 |
| **Comprehensive income for the year** | **-** | **-11.3** | **-0.7** | **0.8** | **41.0** | **-** | **29.8** |
| Effect of demerger | - | - | - | - | -117.0 | - | -117.0 |
| Share option program | - | - | - | - | -0.1 | - | -0.1 |
| **Total changes in equity in 2017** | **-** | **-11.3** | **-0.7** | **0.8** | **-76.1** | **-** | **-87.3** |
| **December 31, 2017** | **72.9** | **-10.4** | **-0.1** | **2.4** | **72.7** | **-** | **137.5** |

# Note 1

## 1. Basis for preparation

This section describes the applied reporting framework, including a definition of materiality for disclosures as well as any changes in the accounting policies for the consolidated financial statements.

### 1.1 General Accounting Policies

Nilfisk Holding A/S is a public limited company domiciled in Denmark.

The consolidated financial statements included in this Annual Report for the year 2018 are prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and additional requirements under the Danish Financial Statements Act. The parent financial statements are prepared in accordance with the Danish Financial Statements Act.

**Demerger**

On October 10, 2017, Nilfisk Holding A/S was incorporated upon completion of the demerger of NKT A/S Holding, whereby the shares in Nilfisk A/S and certain debt of NKT A/S related to the Nilfisk business, were both contributed to Nilfisk Holding A/S. Nilfisk Holding A/S essentially became the parent company of the Nilfisk Group.

The demerger in 2017 was accounted for as a capital restructuring, whereby the consolidated financial statements of the Nilfisk Group were presented in the name of Nilfisk Holding A/S, but was a continuation of the consolidated financial statements of Nilfisk A/S. Thus, assets and liabilities of Nilfisk A/S and its subsidiaries were accounted for at their historical cost basis, and are not revalued at market value upon completion of the Demerger. The debt assumed by the legal parent (Nilfisk Holding A/S) was recorded directly in equity as a negative contribution. Accordingly, the consolidated financial results reflect the activities for Nilfisk A/S including its subsidiaries and the period from January 1, 2017, to October 9, 2017, whereas the remaining period of 2017 and onwards reflects the combined activity of Nilfisk Holding A/S and Nilfisk A/S including its subsidiaries.

**Basis for preparation**

The consolidated financial statements included in this Annual Report are presented in EUR million rounded with one decimal.

The consolidated financial statements included in this Annual Report are prepared according to the historical cost principle, except that the following assets and liabilities are measured at fair value: derivatives and financial instruments in a trading portfolio.

Except for that stated under 'Changes to accounting policies', the accounting policies described in the individual notes are applied consistently during the financial year and for the comparative figures.

**Definition of materiality**

The provisions in IFRS contain extensive disclosure requirements. The specific disclosures required according to IFRS are stated in the consolidated financial statements included in this Annual Report unless the disclosures concerned are considered irrelevant or immaterial for financial decisions made by the financial statement users.

The Group has operations in Argentina, and is therefore subject to Hyperinflation accounting (IAS 29). Based on an assessment of materiality, IAS 29 has not been applied to our Argentinian business as it is immaterial to the Nilfisk Group.

**Changes to accounting policies**

The Nilfisk Group has implemented the standards and interpretations effective for 2018.

The impact from implementation of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) on the Group's consolidated financial statements is described below. The above standards and interpretations implemented since January 1, 2018, have resulted in additional disclosures.

Apart from IFRS 9 and IFRS 15, no other new or amended standards or interpretations effective from January 1, 2018, have had an effect.

# Note 1

## 1. Basis for preparation – continued

**IFRS 9 – Financial Instruments**
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from January 1, 2018, resulted in changes in accounting policies but did not have any material effect on amounts recognized in the financial statements. The new accounting policies are set out below.

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The implementation of IFRS 9 has, based on Nilfisk Group's business model and type of financial assets and liabilities, not resulted in any changes in the classification of financial assets and liabilities.

The new hedge accounting rules have in general aligned the accounting for hedging instruments more closely with the Group's risk management practices. As the hedge accounting in Nilfisk already follows the Risk Management policy, there are no changes in hedge accounting.

The new impairment model requires the recognition of impairment provisions based on the "expected credit loss model" rather than the "incurred-loss model" on financial assets which are measured at amortized cost. For trade receivables the simplified expected credit loss model is applied where the expected loss over the lifetime of the receivable is initially recognized.

The transition from the previously used impairment model, the "incurred loss-model", to the new IFRS 9 "expected loss-model" has resulted in a timely recognition of the expected loss, both regarding the initial recognition and subsequently.

The Nilfisk Group has implemented the new impairment model retrospectively which implies that the credit risk of the assets has been assessed at the time of the initial recognition. As the majority of the Group's receivables are receivables from sales with short credit period, and due to the relatively low credit risk in the Group, the implementation of the new model has not had a material impact on the valuation of the trade receivables.

**IFRS 15 – Revenue from Contracts with Customers**
The Nilfisk Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018, using the modified retrospective method (retrospectively with the cumulative effect at the date of initial application). This standard did not have a material impact on the 2018 consolidated income statement or December 31, 2018, consolidated balance sheet other than additional disclosure requirements.

The timing of revenue recognition, billings and cash collections results in billed trade accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the consolidated balance sheet. Revenue is recognized when it transfers control over products or service to customers.

**Operating segments redefined**
With effect from January 1, 2018, the Group has redefined its internal reporting on operating segments. Prior to January 1, 2018, the gross profit in the internal reporting was based on internally determined prices for products acquired from the production units, while the gross profit related to the production of such products was reported under non-allocated. Specialty Professional and Specialty Consumer gross profit has been fully allocated at all times. From January 1, 2018 gross profit has been allocated in full to all operating segments, thereby showing the full group profit of the operating segments EMEA, Americas, APAC, Specialty Professional and Specialty Consumer.

Further the Group has changed the internal performance reporting on segments from Operating profit before amortization/impairment of acquisition-related intangibles and special items to EBITDA before special items.

The Non-allocated professional contains costs allocated to professional segment which cannot be directly attributed to the geographical segments. The costs cover shared distribution centers, shared marketing as well as shared functions for digitalization.

# Note 1

## 1. Basis for preparation – continued

### Significant judgments and estimates

When preparing the consolidated financial statements included in this Annual Report, the Executive Management Board makes a number of accounting estimates, judgments and assumptions which form the basis for recognition and measurement of assets and liabilities.

The judgments, estimates and assumptions made are based on historical experience and other factors which the Executive Management Board assesses to be reliable, but which, by their nature, are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

Particular risks referred to in the 'Risk management' section of Management review and in Note 6.8 'Financial risks' to the consolidated financial statements may have substantial influence on the financial statements.

**Going concern**
The Executive Management Board is required to decide whether the consolidated financial statements can be presented on a 'going concern' basis. Based on estimated future prospects, expectations of future cash flows, existence of credit facilities, etc., the Executive Management Board is of the opinion that there are no factors giving reason to doubt whether Nilfisk Holding A/S can continue operating for at least 12 months from the balance sheet date.

**Principles of consolidation**
The consolidated financial statements incorporate the financial statements of Nilfisk Holding A/S and entities controlled by Nilfisk Holding A/S. Control exists when Nilfisk Group has effective power over the entity and has the right to variable returns from the entity.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with Nilfisk Group policies. All intra-group transactions, balances, income and expenses are eliminated in full when consolidated.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Comparative figures are not restated for acquired or disposed companies.

**Translation of foreign currencies**
*Functional and presentation currency*
Items included in the financial statements of each of Nilfisk Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Euro (EUR). The functional currency of Nilfisk Holding A/S is DKK. The presentation currency is EUR as the Nilfisk Group's main business activities are EUR denominated and the internal reporting is presented in EUR.

**Translation of transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

*Translation of Nilfisk Group companies*
Financial statements of foreign subsidiaries are translated into EUR at the exchange rates prevailing at the end of the reporting period for balance sheet items, and at average exchange rates for income statement items.

All effects of exchange rate translations are recognized in the income statement, with the exception of exchange rate adjustments of investments in subsidiaries arising from:

- the translation of foreign subsidiaries' net assets at the beginning of the year to the exchange rates at the end of the reporting period
- the translation of foreign subsidiaries' statements of comprehensive income from average exchange rates to the exchange rates at the end of the reporting period
- the translation of non-current intra-group receivables that are considered to be an addition to net investments in subsidiaries

These specific exchange rate adjustments are recognized in Other comprehensive income.

# Note 2

## 2. Result for the year

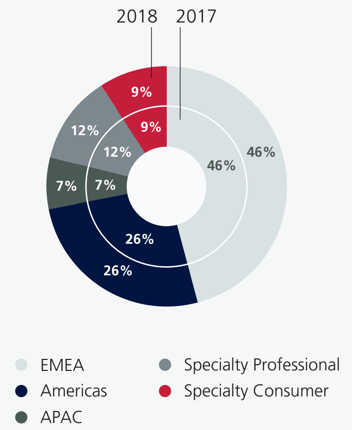
This note relates to result for the year, including revenue, segment information, research and development costs, special items and income tax.

**Key developments 2018**

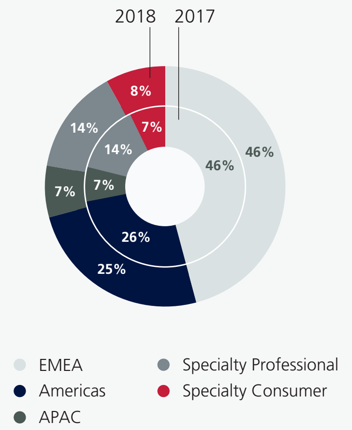
Revenue by operating segments is split on the five segments; EMEA, Americas, APAC, Specialty Professional and Specialty Consumer. The revenue has decreased by 2.5% compared to last year and is mainly driven by an unfavorable effect from foreign exchange rates and divestments both diluting the positive organic growth of 2.0%. The positive organic growth was mainly driven by positive organic growth in Specialty Professional and EMEA.

Gross profit was 442.3 mEUR and the gross margin was 42.0%, down by 14.4 mEUR and 0.2 percentage point compared to last year. The absolute decrease is impacted by divestments.

**Revenue by operating segment**




**Gross profit by operating segment**



# Note 2

## 2. Result for the year – continued

### § Accounting policy

**Segment information**
The segment information is based on internal management reporting and is presented in accordance with the Nilfisk Group's accounting policies.

Segment income and expenses comprise those items that are directly attributable to the individual segment and those items that can be reliably allocated to it.

**Operating segments**
The reportable segments are generally referred to as operating segments. The operating segments consist of EMEA, Americas, APAC, Specialty Professional and Specialty Consumer.

EMEA, Americas, and APAC cover sales of professional products to markets globally, excluding sales in the carved-out segments Specialty Professional and Specialty Consumer. Specialty Professional covers industrial vacuum cleaners, outdoor equipment, restoration equipment and specialized equipment for the food industry. Specialty Consumer covers domestic vacuum cleaners and high pressure washers for the consumer markets.

A further description of the operating segments is included in the Management review.

During 2018 Nilfisk has divested the professional products related to outdoor equipment and restoration equipment, part of the speciality professional segment.

The Executive Management Board assesses the revenue, gross profit and EBITDA of the operating segments separately to enable decision to be made concerning allocation of resources and measurement of performance.

**Revenue in the operating segments**
No single customer accounts for more than 10% of the revenue. The reportable segments are identified without aggregation of operating segments.

**Cost of sales in the operating segments**
Cost of sales consists of costs incurred in generating the revenue for the year. Costs of raw materials, consumables, inbound freight, production staff and a proportion of production overheads, including maintenance, amortization, depreciation and impairment of intangible and tangible assets used in production as well as operation, administration and management of the production facilities are recognized as cost of sales.

Cost of sales also include shrinkage, waste production and any write-downs on inventory for obsolescence.

**Sales and distribution costs**
Sales and distribution costs includes costs incurred for distribution of goods and services sold and costs for sales and distribution personnel, advertising costs, and amortization, depreciation and impairment of intangible and tangible assets used in the sales and distribution process.

**Administrative costs**
Administrative costs include costs of staff functions, administrative personnel, office costs, rent, operating lease payments, amortization, depreciation and impairment of intangible and tangible assets not relating specifically to cost of sales, research and development, and sales and distribution activities.

**Other operating income and expenses**
Other operating income comprises items of a secondary nature relative to the operations of the enterprise, including grant schemes, reimbursements, share of profit or loss of associated companies and gains or losses on sale of non-current assets.

Gains or losses on disposal of tangible or intangible assets are determined as the selling price less the carrying amount at the time of sale. Bad debt provision is also included.

**Assets in the operating segments**
As the production units deliver products to several operational segments and as the operating segments in some cases use the same assets, it is not possible to attribute assets reliably to the individual segments.

**Geographical information**
The revenue is allocated to geographical regions according to the country to which the products and services are sold.

The non-current assets are allocated to the country in which the individual entity is based, and comprises the long-term assets used in the operations of the geographical segment, including intangible assets, property, plant and equipment, investments in associates and other investments and receivables.

# Note 2

## 2.1 Segment information

The presentation of the Group segments has been changed in 2018 to the full allocation of the gross profit to the operating segments. Accordingly, gross profit for each segment includes the gross profit from the entire value chain including production and distribution. Furthermore, the table shows EBITDA before special items reported by operating segments. The non-allocated professional is costs allocated to the professional segment but cannot be directly attributed to the geographical segments. The costs cover shared distribution centers, shared marketing as well as shared functions for digitalization. The comparable figures for 2017 have been aligned.

Please see segment reviews in the Management review for further information on revenue development.

| EUR million | EMEA | Americas | APAC | Non-allocated | Total professional | Specialty Professional | Specialty Consumer | Total specialty | Non-allocated | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | | | |
| Revenue | 486.5 | 269.9 | 78.9 | - | 835.3 | 124.1 | 94.9 | 219.0 | - | 1.054.3 |
| Gross profit | 203.2 | 113.0 | 33.1 | - | 349.3 | 60.6 | 32.4 | 93.0 | - | 442.3 |
| EBITDA before special items | 111.7 | 53.1 | 12.8 | -59.4 | 118.2 | 19.4 | 1.5 | 20.9 | -13.6 | 125.5 |
| ***Reconciliation to profit before income taxes:*** | | | | | | | | | | |
| Special items | | | | | | | | | | -68.5 |
| Amortization, depreciation and impairment | | | | | | | | | | -38.1 |
| Financial income | | | | | | | | | | 15.6 |
| Financial expenses | | | | | | | | | | -26.9 |
| **Profit before income taxes** | | | | | | | | | | **7.6** |
| Gross margin | 41.8% | 41.9% | 42.0% | - | 41.8% | 48.8% | 34.1% | 42.5% | - | 42.0% |
| EBITDA % | 23.0% | 19.7% | 16.2% | - | 14.1% | 15.6% | 1.6% | 9.5% | - | 11.9% |
| **2017** | | | | | | | | | | |
| Revenue | 493.5 | 284.3 | 80.4 | - | 858.2 | 127.8 | 95.9 | 223.7 | - | 1.081.9 |
| Gross profit | 208.5 | 116.4 | 32.6 | - | 357.5 | 63.5 | 35.7 | 99.2 | - | 456.7 |
| EBITDA before special items | 116.9 | 52.9 | 10.5 | -64.3 | 116.0 | 19.3 | 0.6 | 19.9 | -15.8 | 120.1 |
| ***Reconciliation to profit before income taxes:*** | | | | | | | | | | |
| Special items | | | | | | | | | | -20.6 |
| Amortization, depreciation and impairment | | | | | | | | | | -38.6 |
| Financial income | | | | | | | | | | 13.1 |
| Financial expenses | | | | | | | | | | -22.0 |
| **Profit before income taxes** | | | | | | | | | | **52.0** |
| Gross margin | 42.2% | 40.9% | 40.5% | - | 41.7% | 49.7% | 37.2% | 44.3% | - | 42.2% |
| EBITDA % | 23.7% | 18.6% | 13.0% | - | 13.5% | 15.1% | 0.6% | 8.9% | - | 11.1% |

# Note 2

## 2.2 Revenue

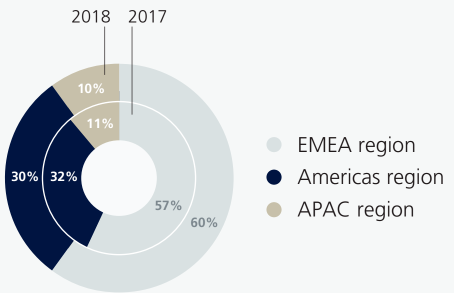
### Geographical information

Nilfisk Group is present in more than 40 countries with own sales companies reaching more than 100 countries through direct sales and dealers. The revenue is allocated to geographical regions according to the country to which the products and services are sold and non-current assets are allocated to the country in which the individual entity is based. The corporate headquarter located in Denmark is included in the EMEA region.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **EUR million** | **Revenue** | **Non-current assets[1]** | **Revenue** | **Non-current assets[1]** |
| EMEA region | 631.0 | 267.9 | 623.0 | 224.6 |
| Americas region | 313.8 | 56.8 | 343.1 | 86.8 |
| APAC region | 109.5 | 33.0 | 115.8 | 51.6 |
| Total | **1,054.3** | **357.7** | **1,081.9** | **363.0** |

[1] Non-current assets less deferred tax asset

### Revenue by geography

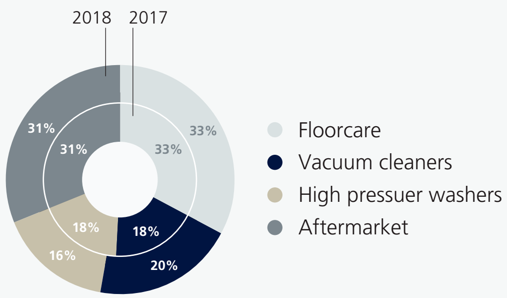



### Revenue breakdown based on product line and service offering

The composition of revenue showed an increase in revenue from Vacuum cleaners and a decrease in High pressure washers. In local currencies Floorcare, Vacuum cleaners and Aftermarket realized growth from 2017 to 2018.

| **EUR million** | **2018** | **2017** | **Organic growth** |
|---|---|---|---|
| Floorcare | 347.6 | 358.4 | 3.7% |
| Vacuum cleaners | 207.6 | 199.6 | 6.2% |
| High pressure washers | 167.6 | 190.9 | -10.1% |
| Aftermarket | 331.5 | 333.0 | 4.7% |
| Total | **1,054.3** | **1,081.9** | **2.0%** |

### Revenue by product line and service offering




### Revenue by country

| **EUR million** | **2018** | | **2017** | |
|---|---|---|---|---|
| USA | 264.3 | 25% | 275.9 | 26% |
| Germany | 127.3 | 12% | 118.4 | 11% |
| France | 109.9 | 10% | 104.6 | 10% |
| United Kingdom | 48.2 | 5% | 49.8 | 5% |
| Denmark | 46.4 | 4% | 48.3 | 4% |
| Sweden | 37.6 | 4% | 41.5 | 4% |
| Australia | 30.4 | 3% | 36.9 | 3% |
| China | 26.8 | 3% | 26.7 | 2% |
| The Netherlands | 26.4 | 3% | 24.6 | 2% |
| Norway | 25.9 | 2% | 23.7 | 2% |
| Other | 311.1 | 29% | 331.5 | 31% |
| Total | **1,054.3** | **100%** | **1,081.9** | **100%** |

# Note 2

## 2.2 Revenue – continued

**Contract assets and liabilities**
Generally, trade receivables incur at the same point in time to revenue recognition and invoicing. Payment terms varies within the different customer segments and local and specific agreements. In some cases the Group receives upfront payments where the upfront payment is deducted in the actual invoicing or recognized over time, resulting in contract liabilities. Nilfisk does not have contract assets as such.

The Group splits upfront payments into either deferred revenue or prepayments from customers depending on the nature of the payment and activity.

| EUR million | 2018 | 2017 |
|---|---|---|
| Prepayments from customers | 1.5 | 1.9 |
| Deferred revenue | 4.7 | 4.8 |

The prepayments from customers are driven by upfront payment where the machines or service has not yet been delivered.

Deferred revenue is unsatisfied performance obligations that have not yet been recognized as revenue, primarily service, but could also relate to goods which has not yet been delivered or orders not yet fulfilled.

The Group has applied the practical expedient in paragraph C5(d) of IFRS 15, and the amount of the transaction price allocated to the remaining performance obligation and the timing is not disclosed.

### § Accounting policy

Revenue from sale of goods for resale and finished goods and service is recognized in the income statement when transfer of control of products or services to a customer has taken place. Sales are recognized when control of the goods has transferred, being when the goods are delivered to the customer, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Revenue from Aftermarket sales which includes service packages relating to products and contracts as well as sale of parts, consumables and accessories is recognized concurrently with the supply of those services. Depending on the type of contract service revenue is recognized over time or at a point in time.

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple and does not include an integration service and could be performed by another party. It is therefore not accounted for as a separate performance obligation.

Where the contracts include multiple performance obligations, the transaction price was allocated to each performance obligation based on the stand-alone selling prices. Where these were not directly observable, they were estimated based on expected cost plus margin.

Revenue is measured at the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognized in the revenue.

# Note 2

## 2.3 Research and development costs

### Research and development costs specification

| EUR million | 2018 | 2017 |
|---|---|---|
| Staff costs | 23.7 | 20.6 |
| Other costs | 19.0 | 13.2 |
| Total research and development spend | 42.7 | 33.8 |
| | | |
| ***Recognized as follows:*** | | |
| Expensed in the income statement | 18.3 | 18.8 |
| Capitalized in the balance sheet | 24.4 | 15.0 |
| Total | 42.7 | 33.8 |
| | | |
| R&D ratio (% of revenue) | 4.1% | 3.1% |
| | | |
| ***Presented in the income statement:*** | | |
| Expensed in the income statement, cf. above | 18.3 | 18.8 |
| Amortization and impairment | 12.9 | 13.5 |
| Special items | 14.3 | 0.8 |
| Total | 45.5 | 33.1 |

Total R&D spend increased by 8.9 mEUR and total R&D spend as a percentage of revenue increased by 1.0 percentage points compared to last year.

Development projects included within divestments, both completed and in progress, have been impaired and accounted for as special items. Please refer to Note 2.4.

For further information see R&D comments in the Management review.

### § Accounting policy

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential future market or internal utilization can be demonstrated, and where it is intended to manufacture, market or utilize the project, are recognized as intangible assets. This provides that the costs can be reliably determined, and that there is also adequate certainty that the future earnings or net selling prices can cover carrying amount as well as the development costs necessary for finalizing the project. Other development costs are expensed in the income statement as incurred.

Capitalized development projects are measured at costs less accumulated amortization and impairment losses. The costs include wages, amortization and other costs relating to the Nilfisk Group's development activities.

On completion of the development work, development projects are amortized on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortization period is 3-10 years. The amortization base is reduced by any impairment losses.

# Note 2

## 2.4 Special items

This note describes income and expenses that have a non-recurring and special nature against normal operating income and costs.

### Special items

| EUR million | 2018 | 2017 |
|---|---|---|
| Cost saving program | 17.8 | 9.6 |
| Business restructuring | 7.8 | - |
| Divestments | 42.4 | - |
| *Gain/loss on divestments of businesses* | *29.6* | - |
| *Impairment, divestments* | *12.8* | - |
| Costs related to the split from NKT A/S | 0.5 | 11.0 |
| **Total** | **68.5** | **20.6** |

### ! Significant judgments and estimates

Identification and classification of income and expenses as special items is based on management's judgment of the individual income and expenses as being non-recurring by nature.

### § Accounting policy

Special items consist of non-recurring income and expenses that the Nilfisk Group does not consider to be a part of its ordinary operations such as restructuring projects, demerger and gains and losses on divestments, including impairment writedowns which are not presented as discontinued operations.

During 2018, Nilfisk continued the execution of Nilfisk Next which includes a number of initiatives to simply and grow the company. This included a sustained focus on the cost saving program with identification of further savings including focus on reduction of the production foot-print. Another important activity was the divestment of a number of non-core activities in order to focus on our core business around professional cleaning.

Today Nilfisk is an organization with a large degree of local independence. We want to leverage the benefits of being a global, digital company with an ability to scale initiatives quickly and efficiently across markets. To facilitate this next phase in our multi-year strategy, a blueprint restructuring project focusing on a one off fundamental change within the organizational setup was defined with the objective to:

- harmonize the organization in local market units and organize the sales force around commercial opportunities
- globalize the organization and transfer roles from local to global by implementing a functional focus
- strengthen functional areas by improving core commercial disciplines
- simplify and grow through technology and process alignment

Special items relating to the cost saving program represent restructuring costs relating to the 50 mEUR cost saving program running from 2016 to 2020. The program includes consultancy fees and supporting tools as well as alignment of facilities, transitioning costs relating to offshoring of functions, pruning of products and redundancy costs to staff where one-off related costs are paid out.

Business restructuring contains cost associated with the blueprint restructuring project including consultancy costs as well as costs incurred at functional level as well as in the sales companies in connection with the journey to become a global company. Furthermore, it includes consultancy fees related to strategic reviews of business areas.

Divestments relates to the divestment of the Nilfisk Outdoor business, our Nordic Chemical & Utensils, the US carpet restoration business HydraMaster, Rottest and the Nilfisk South Africa sales company.

The gain/loss of 29.6 mEUR represent write down of current assets and redundancies primarily related to the divestment and termination of the Nilfisk Outdoor business. The impairment of 12.8 mEUR was recognized in connection the impairment of non-current assets primarily development projects in connection with the Outdoor business.

Impairment primarily relates to capitalized development projects with the divestment of Outdoor. Please refer to Note 7.1 for further details.

Costs related to the split from NKT A/S include consultancy fees, costs of supporting tools, incentive payments as well as organizational changes as a result of Nilfisk's demerger from NKT A/S in October 2017, and provisions related to the Nilfisk Group phantom share program for managers. For further information we refer to Note 3.4 Long-term incentive programs.

# Note 2

## 2.5 Income statement classified by function after amortization/impairment of acquisition-related intangibles and special items

The Nilfisk Group presents the income statement based on classification of costs by function to show the 'Operating profit before amortization/impairment of acquisition-related intangibles and special items'. Below the amortization/impairment of acquisition-related intangibles and special items are presented as if they are allocated to each function.

### Income statement

| EUR million | 2018 | 2017 |
|---|---|---|
| Revenue | 1,054.3 | 1,081.9 |
| Cost of sales | -647.9 | -627.1 |
| **Gross profit** | **406.4** | **454.8** |
| Research and development costs | -45.5 | -33.1 |
| Sales and distribution costs | -253.0 | -260.0 |
| Administrative costs | -85.4 | -103.1 |
| Other operating income | 5.2 | 4.0 |
| Other operating expenses | -8.8 | -1.7 |
| **Result before financial items and income taxes (EBIT)** | **18.9** | **60.9** |
| | | |
| ***Amortization/impairment of acquisition-related intangibles are divided into:*** | | |
| Cost of sales | -1.5 | -1.5 |
| Sales and distribution costs | -4.7 | -4.7 |
| Total | -6.2 | -6.2 |
| | | |
| ***Special items are divided into:*** | | |
| Cost of sales | -34.4 | -0.4 |
| Research and development costs | -14.3 | -0.8 |
| Sales and distribution costs | -3.1 | -2.6 |
| Administrative costs | -10.4 | -16.8 |
| Other operating income | 0.4 | - |
| Other operating expense | -6.7 | - |
| **Total** | **-68.5** | **-20.6** |

# Note 2

## 2.6 Tax

The corporate income tax for Nilfisk Group for 2018 was 2.4 mEUR of which 13.0 mEUR was a current tax expense and 15.4 mEUR was a deferred tax income. This resulted in an effective tax rate 2018 for the Group of -31.4% compared to 22.6% in 2017.

The negative effective tax rate is unusual compared to expectations for a global group such as the Nilfisk Group. With result before income taxes of 7.6 mEUR minor adjustments to previous years and one-off positions without taxable impact, therefore have a significantly high impact. Without previous years adjustments and one-off positions the effective tax rate would be in the area of 26%.

### Tax recognized in the income statement

| EUR million | 2018 | 2017 |
|---|---|---|
| Current tax | 13.0 | 13.8 |
| Deferred tax | -15.4 | -2.1 |
| **Total** | **-2.4** | **11.7** |
| Reported tax rate | -31.4% | 22.6% |
| *Reconciliation of tax:* | | |
| Calculated tax of 22.0% on profit before income taxes | 1.7 | 11.4 |
| *Tax effect of:* | | |
| Foreign tax rates relative to Danish tax rate | -0.2 | 0.4 |
| Non-taxable income/non-deductible expenses | -5.0 | 0.5 |
| Adjustment for previous years | -0.2 | -0.9 |
| Non-recoverable withholding taxes | 1.7 | 1.7 |
| Value adjustment of tax assets, etc. | -0.4 | - |
| Effect of change in tax rate, US Tax reform | - | -1.4 |
| **Total** | **-2.4** | **11.7** |

### Deferred tax assets and liabilities

| EUR million | 2018 | 2017 |
|---|---|---|
| Deferred tax assets, January 1 | 14.2 | 16.2 |
| Deferred tax liabilities, January 1 | -19.8 | -23.5 |
| Addition from divestments | -0.5 | - |
| Foreign exchange adjustment | -0.2 | -0.4 |
| Tax recognized in other comprehensive income | -0.4 | - |
| Tax from share option program recognized in equity | 2.4 | - |
| Deferred tax recognized in the income statement | 15.4 | 2.1 |
| Deferred tax, December 31 | 11.1 | -5.6 |
| *Presentation of deferred tax:* | | |
| Deferred tax assets | 20.5 | 14.2 |
| Deferred tax liabilities | -9.4 | -19.8 |
| Deferred tax, December 31 | 11.1 | -5.6 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **EUR million** | **Deferred tax assets** | **Deferred tax liabilities** | **Deferred tax assets** | **Deferred tax liabilities** |
| *Specification of deferred tax assets and liabilities:* | | | | |
| Intangible assets | 2.6 | 20.8 | 5.4 | 30.5 |
| Tangible assets | 5.1 | 1.4 | 6.4 | 0.8 |
| Other non-current assets | - | - | - | - |
| Current assets | 5.3 | 0.3 | 1.9 | 1.5 |
| Current liabilities | 13.4 | 0.5 | 7.0 | 0.1 |
| Long-term liabilities | 3.5 | 1.0 | 3.3 | - |
| Tax losses | 6.1 | - | 4.3 | - |
| Valuation allowance, unrecognized tax assets | -1.2 | -0.4 | -1.0 | - |
| | 34.8 | 23.6 | 27.3 | 32.9 |
| Set-off in legal tax units and jurisdictions | -14.3 | -14.2 | -13.1 | -13.1 |
| **Total** | **20.5** | **9.4** | **14.2** | **19.8** |

# Note 2

## 2.6 Tax – continued

### ! Significant judgments and estimates

The measurement of deferred tax assets and liabilities is based on the corporate tax rate applicable in the years when the assets and liabilities are expected to be utilized.

The measurement of the tax assets is based on budgets and estimates for the coming years which are naturally subject to some uncertainty.

The deferred tax assets of 20.5 mEUR are expected to be utilized within a foreseeable period.

### § Accounting policy

Tax expense for the year, consisting of the year's current tax, change in deferred tax, prior year adjustments, movements resulting from a change of the corporate tax rate and changes in provision for uncertain tax positions, is recognized in the income statement, except to the extent that it relates to items recognized in Equity or Other comprehensive income.

Current tax payable and receivable are recognized in the balance sheet as tax estimated on taxable income for the year, adjusted for tax on taxable income for previous years and for prepaid taxes.

Deferred tax is measured according to the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is, however, not recognized in respect of temporary differences on initial recognition of goodwill and other items, apart from business combinations, where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

In cases where the computation of the tax base may be made according to different tax rules, deferred tax is measured on the basis of management's intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry-forward, are recognized under Other non-current assets at their expected utilization value, either as set-off against tax on future income, or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the company has a legal right to offset current tax assets and tax liabilities and intends to settle current tax assets and tax liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Deferred tax is adjusted for elimination of unrealized intra-group profits and losses.

# Note 3

## 3. Remuneration

This note relates to remuneration for the Board of Directors, Nilfisk Leadership Team and employees, including long-term incentive programs.

### 3.1 Staff costs

**Staff costs specification**

| EUR million | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 264.7 | 247.3 |
| Share option and phantom share program | -3.9 | 9.7 |
| Social security costs | 29.2 | 30.2 |
| Defined contribution plans | 12.7 | 11.7 |
| Defined benefit plans | 0.4 | 0.5 |
| **Total** | **303.1** | **299.4** |
| | | |
| Number of full-time employees, average | 5,819 | 5,708 |
| | | |
| Staff costs per full-time employee (EUR thousand) | 52.1 | 52.5 |

Staff costs increased by 1% while the average number of employees increased by 2%. The staff costs in 2018 was materially influenced by a lower valuation of the phantom share program for key employees due to a decrease in the share price. In 2018 the total net income of 3.9 mEUR related to the share option program net of the effect from hedging contract of the phantom share program of 0.4 mEUR, please see Remuneration risk, Note 6.9 Financial risk and Financial instruments for further information.

§ **Accounting policy**

Staff costs comprise wages and salaries, remuneration, expenses under long-term incentive programs, pensions, etc.

# Note 3

## 3.2 Remuneration to the Board of Directors

Members of the Board of Directors are not granted warrants or options and do not receive variable remuneration components.

The remuneration for the Board of Directors is approved prospectively for one year at a time at the Annual General Meeting.

In 2018 the Board of Directors received remuneration of 0.6 mEUR.

### 2018

| EUR thousand | Board of directors | Audit Comittee | Remuneration committee | Nomination Committee | Total |
|---|---|---|---|---|---|
| Jens Due Olsen (Chairman)[3] | 120.8 | - | - | - | 120.8 |
| Lars Sandahl Sørensen (Deputy Chairman) | 80.5 | - | - | 13.4 | 93.9 |
| Jutta af Rosenborg | 40.3 | 26.8 | 13.4 | - | 80.5 |
| Jens Maaløe | 40.3 | 13.4 | 6.7 | - | 60.4 |
| René Svendsen-Thune | 40.3 | - | - | - | 40.3 |
| Anders Runevad | 40.3 | - | - | - | 40.3 |
| Gerner Raj Andersen[1] | 31.3 | - | - | - | 31.3 |
| Michael Gamtofte | 40.3 | - | - | - | 40.3 |
| Søren Giessing Kristensen[1] | 31.3 | - | - | - | 31.3 |
| Yvonne Markussen[2] | 8.9 | - | - | - | 8.9 |
| Jean Marc Rios Dionne[2] | 8.9 | - | - | - | 8.9 |
| **Total** | **483.2** | **40.2** | **20.1** | **13.4** | **556.9** |

[1] Appointed in March 23 March 2018
[2] Appointed on October 10, 2017 and resigned in March 23, 2018
[3] Does not receive separate fee for participation in Nomination Committee

### 2017[4]

| EUR thousand | Board of directors | Audit Comittee | Remuneration committee | Nomination Committee | Total |
|---|---|---|---|---|---|
| Jens Due Olsen (Chairman) | 27.9 | - | - | 1.6 | 29.5 |
| Lars Sandahl Sørensen (Deputy Chairman) | 18.6 | - | - | 3.1 | 21.7 |
| Jutta af Rosenborg | 9.3 | 6.2 | 3.1 | - | 18.6 |
| Jens Maaløe | 9.3 | 3.1 | 1.6 | - | 14.0 |
| René Svendsen-Thune | 9.3 | - | - | - | 9.3 |
| Anders Runevad | 9.3 | - | - | - | 9.3 |
| Yvonne Markussen | 9.3 | - | - | - | 9.3 |
| Jean-Marc Rios Dionne | 9.3 | - | - | - | 9.3 |
| Michael Gamtofte | 9.3 | - | - | - | 9.3 |
| **Total** | **111.6** | **9.3** | **4.7** | **4.7** | **130.3** |

[4] October 10, 2017 - December 31, 2017

# Note 3

## 3.3 Remuneration to the Nilfisk Leadership Team

### Remuneration policy

Nilfisk's remuneration policy contains guidelines for setting and approving the remuneration for the Board of Directors and the salaries for the Nilfisk Leadership Team. The Board of Directors receive a fixed salary, while members of the Nilfisk Leadership Team receive a fixed salary, a short-term cash-based incentive and a long-term share-based incentive. This structure ensures commonality of interest between the management and shareholders of Nilfisk and maintains management's motivation to achieve both short- and long-term strategic goals.

The remuneration to the Nilfisk Leadership Team has decreased from 10.5 mEUR in 2017 to 6.7 mEUR in 2018. The remuneration in 2017 was affected by the listing of Nilfisk Holding A/S, and a severance payment to the former CEO. Any severance pay is included in salary and pension. The decrease is further impacted by a lower valuation of the remaining part of the phantom share program compared to 2017.

### Remuneration to Nilfisk Leadership Team (NLT) 2018

| EUR thousand | Salary and pension | Annual bonus | Other bonus | Long-term incentive | Other benefits | Total |
|---|---|---|---|---|---|---|
| Hans Henrik Lund (CEO) | 1,199.6 | 151.1 | 455.2[1] | 138.9 | 23.2 | 1,968.0 |
| Karina Deacon (CFO) | 498.4 | 64.1 | - | 52.5 | 17.4 | 632.4 |
| Nilfisk Leadership Team | 4,138.8 | 389.5 | - | -786.7 | 358.5 | 4,100.1 |
| Total | 5,836.8 | 604.7 | 455.2 | -595.3 | 399.1 | 6,700.5 |

[1] Bonus regarding listing of Nilfisk Holding A/S

### Remuneration to Nilfisk Leadership Team (NLT) 2017

| EUR thousand | Salary and pension | Annual bonus | Other bonus | Long-term incentive | Other benefits | Total |
|---|---|---|---|---|---|---|
| Hans Henrik Lund (CEO)[3] | 500.8 | 350.5 | 300.5 | - | 87.9 | 1,239.7 |
| Karina Deacon (CFO) | 434.3 | 116.3 | 387.7[2] | 16.0 | 22.9 | 977.2 |
| Former members of the Executive Management Board[4] | 923.7 | 58.2 | - | 162.0 | 8.6 | 1,152.5 |
| Nilfisk Leadership Team[5] | 3,029.0 | 629.8 | 802.5[2] | 2,388.0 | 322.2 | 7,171.5 |
| Total | 4,887.8 | 1,154.8 | 1,490.7 | 2,566.0 | 441.6 | 10,540.9 |

[2] Includes bonus regarding listing of Nilfisk Holding A/S in total 946.3 tEUR
[3] August-December 2017
[4] Includes Jonas Persson former CEO until February 2017
[5] Includes the current Nilfisk Leadership Team excluding the Executive Management Board, and also includes Tina Mayn (former Executive Vice President until August 2017) and Marcus Haefeli (Senior Vice President until September 2017)

### Composition of remuneration

The Executive Management Board's remuneration consists of a fixed salary base salary, including pension and other customary non-monetary benefits such as a company car. The remuneration further includes a short-term cash-based bonus program and a long-term incentive program (see Note 3.4).

### Short-term incentive Bonus

The annual cash bonus payment is contingent upon the fulfilment of the prerequisites, goals and conditions defined in a bonus agreement. The criteria for granting of bonus is dependent on realization of specified financial targets and execution of individual assignments.

### Other short-term Compensation

Other short-term compensation includes incentives in connection with the demerger.

### Term of notice

The term of notice for the Executive Management Board is 18 months for the CEO, and 12 months for the CFO. Beyond this there is no separation benefit plan for the Executive Management Board.

# Note 3

## 3.4 Long-term incentive programs

**Share option program**
In the period 2013 to 2016, the Executive Management Board of Nilfisk A/S has been granted the right to purchase shares (share options) in Nilfisk Holding A/S at a fixed strike price. Share options was not granted for 2017, instead a cash compensation was paid to four members of the Nilfisk Leadership Team.

Share options granted from 2013-2015 have been exercised during 2018. Each share option granted for 2016 is subject to a vesting period of approximately 42 months running from 1 January 2016 and can be exercised, in whole or in part, to purchase shares during a period of four weeks after publication of the second quarter interim financial statement of Nilfisk Holding A/S in each of the years 2019-2021.

Upon exercise of the share options, Nilfisk Holding A/S is entitled to settle in cash. As Nilfisk Holding A/S does not currently have an intention to settle the options in cash upon exercise the program is accounted for as an equity-settled program.

If all outstanding share options were exercised it would correspond to 0.5% of the total number of shares.

The development in outstanding share option program in 2018 and 2017 is reflected in the table.

The Black & Scholes model was applied for calculation of the fair value of the share options at grant date. The calculation was based on the assumptions at grant date stated in the table. No adjusting events has incurred in the period.

**Share options**

| | Number of options | | Avg. exercise price per option (EUR) | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Outstanding, January 1 | 555,870 | 124,185 | 16 | 68 |
| Effect on number of shares from capital restructuring | - | 673,740 | - | 16 |
| Adjustments to prior year | - | -25,074 | - | - |
| Forfeited during the period | - | -92,796 | - | - |
| Exercised during the period | -416,422 | - | 16 | - |
| Outstanding, December 31 | 139,448 | 555,870 | 16 | 16 |
| Weighted average remaining contractual life (months) | | | 6 | 5 |
| Number of options fully vested at the balance sheet date | | | 119,667 | 416,422 |
| Weighted average share price (EUR) at the exercise date during the period | | | 40 | - |

The expected volatility was based on the historical share price volatility for the shares of the previous parent company, NKT A/S, over the past 3 years adjusted to Nilfisk Holding A/S level. It is expected that the options on average will be exercised between the vesting date and the expiry date.

In the table number of options, calculated share price, exercise price, dividend per share and fair value per option have been restated to reflect the number of shares after the demerger and separate listing of Nilfisk Holding A/S.

# Note 3

## 3.4 Long-term incentive programs – continued

**Performance share program**
In line with the remuneration policy approved by the Annual General Meeting in March 2018, the Nilfisk Leadership Team and selected key employees have been awarded performance share units with a three year cliff vesting depending on performance measures on EBITDA, RoCE and Total Shareholder Return (TSR). 35 employees have in total received 53,245 performance share units equal to 0.2% of the total number of shares in Nilfisk Holding A/S. For each performance share unit (PSU) the employee will receive one share. The key employees outside the Nilfisk Leadership Team are offered participating in return for a reduction in their annual bonus. In 2018, Nilfisk has expensed 0.4 mEUR relating to the performance share program (PSP).

Upon exercise of the shares, Nilfisk Holding A/S is entitled to settle in cash. As Nilfisk Holding A/S does not currently have an intention to settle the shares in cash upon exercise the program is accounted for as an equity-settled program.

To determine the total value of the performance share program the performance measures has been divided into two separate categories:

1. EBITDA and ROCE are defined as non-market conditions and are based on management's judgements for the future financial results. Changes in assumptions will carry a change in the valuation of the EBITDA and ROCE measures.
2. TSR is defined as a market condition which is based on a Monte Carlo simulation in order to determine the expected increase in share price over the period. Since the TSR is defined as a market condition the valuation is fixed at grant date.

| | Number of PSU shares | | Avg. exercise price per PSU share (EUR) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Outstanding, January 1 | - | - | - | - |
| Granted during the period | 53,245 | - | 41 | - |
| Outstanding, December 31 | 53,245 | - | 41 | - |
| Weighted average remaining contractual life (months) | | | 24 | - |
| Number of PSU shares fully vested at the balance sheet date | | | - | - |
| Weighted average share price (EUR) at the exercise date during the period | | | - | - |

| | Number of options | Share price at December 31, 2018 (EUR) | Risk free interest (%) | Estimated volatility (%) | Expected dividend per option (EUR) | Applied option life (months) | Fair value per option at grant date (EUR) |
|---|---|---|---|---|---|---|---|
| Granted 2018 | 53,245 | 31 | 1.5% | 26% | 2 | 36 | 41 |

**Phantom share program**
In the period 2012 to 2016 a phantom share program granted a number of employees the right to a potential cash payment but no rights to acquire shares. The program is an alternative to a part of the participants' bonus under the short-term bonus program.

For the purpose of calculating the bonus under the phantom share program, the participants are treated as if they during the period beginning as at April 1 in the year the phantom shares are granted and the subsequent four years (the vesting period) earn phantom shares on a monthly basis in Nilfisk Holding A/S up to the relevant maximum number of phantom shares. The participants are only entitled to the maximum number of phantom shares if they remain employed during the vesting period. Upon termination of the employment prior to the expiry of the vesting period, the number of phantom shares earned shall be calculated pro rata corresponding to the relevant part of the vesting period in which the participant was employed.

The phantom shares can be exercised by the participants in May following the four year vesting period or the subsequent two years in May, meaning for example that the phantom shares granted in 2016 can be exercised in May 2020, 2021 or 2022.

The value of the phantom shares is based on the market value of the Nilfisk Holding A/S shares traded on Nasdaq OMX. When participants exercise phantom shares the value of the phantom shares is based on the average share price for the month prior to the exercise.

In 2018 165,665 phantom shares were exercised, which leave the total number of outstanding phantom shares at 31 December 2018 at 227,300.

# Note 3

## 3.4 Long-term incentive programs – continued

In December 2018 Nilfisk entered into hedge contracts to match the exposure on the long-term incentive programs. Accordingly, the ongoing value adjustments related to the outstanding phantom share program will be off-set by a similar hedge (see Note 6.9).

The development in outstanding phantom shares in 2018 and 2017 is reflected below.

The Black & Scholes model has been applied for calculation of the fair value of the phantom shares. The calculation is based on the development in the share price.

The expected volatility is based on the historical share price volatility for the shares of the previous parent company, NKT A/S, over the past 3 years adjusted to Nilfisk Holding A/S level. It is expected that the phantom shares on average will be exercised between the vesting date and the expiry date.

### Recognition of share-based payments

| EUR million | 2018 | 2017 |
|---|---|---|
| The share option program | - | -0.1 |
| PSP program | 0.4 | - |
| The phantom share program | -4.3 | 9.8 |
| Total | 3.9 | 9.7 |

The phantom share program was recognized with an income of 4.3 mEUR in the income statement, due to a decrease in the share price.

The expense for all programs is calculated under the provision for share-based payments in accordance with IFRS 2. The share options program and the PSP are recognized under equity whereas the phantom share program is recognized under other liabilities with the amount of 3.3 mEUR compared to 12.9 mEUR at the end of 2017.

### Phantom shares

| | Number of phantom shares | | Avg. exercise price per phantom share (EUR) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Outstanding, January 1 | 412,405 | 81,119 | 14 | 70 |
| Effect from change in number of shares | - | 440,093 | - | 13 |
| Forfeited during the period | -19,440 | - | 3 | - |
| Exercised during the period | -165,665 | -27,688 | 15 | 9 |
| Outstanding, December 31 | 227,300 | 412,405 | 14 | 14 |
| Weighted average remaining contractual life (months) | | | 13 | 21 |
| Number of phantom shares fully vested at the balance sheet date | | | 191,663 | 112,574 |
| Weighted average share price (EUR) at the exercise date during the period | | | 39 | 6 |

# Note 3

## 3.4 Long-term incentive programs – continued

### § Accounting policy

The Nilfisk Group's incentive programs include a share option program for the Executive Management Board, a performance share program (PSP) and a phantom share program for Nilfisk Leadership Team and selected key employees.

The share option programs is accounted for as equity-settled share-based payments to employees and is measured at the fair value of the options at the grant date.

The fair value is expensed on a straight-line basis over the vesting period, based on the Nilfisk Group's estimate of equity instruments that will eventually vest, with a corresponding effect in equity. At the end of each reporting period, the Nilfisk Group revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognized in the income statement such that the cumulative expense reflects the revised estimate.

The Performance Share Program (PSP) is accounted for as an equity-settled share-based payment to employees and measured at the fair value of the option. The Total Shareholder Return (TSR) is measured at grant date, whereas EBITDA and RoCE estimated will be updated based on management estimates.

The fair value is expensed on a straight-line basis over a period of three years. At the end of the period the participants will be awarded shares corresponding to the achieved targets.

The phantom share program is accounted for as cash-settled share-based payments. An expense and a liability is recognized for the service acquired on a straight-line basis over the vesting period for the individual portion of the program that vests in the specific month, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured with any changes in fair value recognized in the income statement for the year.

Please see Note 6.9 for hedge accounting policy.

# Note 4

## 4. Non-current assets and liabilities

This note covers Nilfisk Group's investments in non-current assets that form basis for the Group's operations, and non-current liabilities arising as a result thereof.

The non-current liabilities in this section are regarded as non-interest-bearing and comprise employee pension benefits and provisions. Interest-bearing receivables and liabilities are covered in Note 6, Capital structure.

The Nilfisk Group mainly invests in production equipment to ensure satisfactory delivery flow to customers. Furthermore, rental machines have become a more significant part of the non-current assets. Investments in intangible assets are driven by development projects focusing on renewing and optimizing the product portfolio and on software in relation to front-end applications and ERP systems.

Production sites in Nilfisk mainly relates to assembly lines and is therefore not capital-intensive in terms of fixed assets.

**Key developments in 2018**

**Property, plant and equipment and intangible assets by country excluding goodwill**

| EUR million | 2018 | | 2017 | |
|---|---|---|---|---|
| Denmark | 88.2 | 53% | 82.4 | 48% |
| USA | 23.4 | 14% | 27.8 | 16% |
| China | 17.6 | 10% | 18.2 | 11% |
| Hungary | 9.1 | 5% | 10.8 | 6% |
| Germany | 8.4 | 5% | 8.6 | 5% |
| UK | 7.8 | 5% | 9.2 | 5% |
| Italy | 4.3 | 3% | 4.4 | 3% |
| Spain | 2.3 | 1% | 2.4 | 1% |
| Mexico | 1.2 | 1% | 1.6 | 1% |
| Other | 5.6 | 3% | 6.6 | 4% |
| Total | 167.9 | 100% | 172.0 | 100% |
| Investment ratio (% of revenue) | 5.0% | | 3.5% | |

# Note 4

## 4.1 Impairment test

### Significant judgments and estimates

**Allocation of goodwill on cash-generating units**
Goodwill has been allocated to the following cash-generating units: EMEA, Americas, APAC, Specialty Professional, Specialty Consumer and Non-allocated. Goodwill is allocated based on the relative headroom defined as the difference between the carrying amount of allocated net assets and the recoverable amount for each cash generating-unit in percentage of the total headroom as of January 1, 2017 in connection with the redefined segment structure.

The calculation of headroom for each cash-generating unit is based on certain judgment relating to allocation of assets which is allocated to the cash generating units.

The carrying amount of goodwill per cash-generating unit as of December 31, 2018, is as follows:

| EUR million | 2018 | 2017 |
|---|---|---|
| EMEA | 102.0 | 99.9 |
| Americas | 23.4 | 23.0 |
| APAC | 11.0 | 10.8 |
| Speciality professional | 29.7 | 29.1 |
| Speciality consumer | 1.1 | 1.0 |
| Non allocated | 0.6 | 0.6 |
| **Total** | **167.8** | **164.4** |

The change in the goodwill balances from January 1, 2018 to December 31, 2018 relates to exchange rate adjustments during the year.

**Impairment test on goodwill allocated to cash generating units as of December 31, 2018**
Impairment tests are performed for each cash generating unit based on budget for 2019 and forecasts for 2020-2024. The impairment tests performed for the cash-generating units show a significant headroom as of December 31, 2018 and that no indication of impairment exists in any of the cash-generating units.

### Accounting policy

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment. Development and software projects in progress are also tested annually for impairment.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which goodwill is allocated and written down to the recoverable amount over the income statement if the carrying amount is higher. The recoverable amount is generally computed as the present value of the expected future net cash flows (Value in use) from the business or activity (cash-generating unit) to which goodwill is allocated.

**Other non-current assets**
The carrying amount of other non-current assets is reviewed annually for indication of impairment. If such an indication exists, the recoverable amount of the asset is determined. The recoverable amount is the fair value of the asset less anticipated costs of disposal, or its value in use, whichever is the higher.

The value in use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit of which the asset is part.

**Impairment loss**
Impairment is recognized if the carrying amount of an asset or a cash-generating unit exceeds the respective recoverable amount thereof. The impairment of non-acquisition-related intangibles is recognized in the income statement under the functions it relates to. If the impairment relates to acquisition-related intangibles it is recognized in 'Amortization/impairment of acquisition-related intangibles', or if it relates to gain or loss of divestment of businesses it is recognized as special items.

Impairment of goodwill is not reversed. Impairment of other assets is reversed in the event of changes having taken place in the conditions and estimates on which the impairment calculation was based. Impairment is only reversed if the new carrying amount of the asset does not exceed the carrying amount that would have applied after amortization if the asset had not been impaired.

# Note 4

## 4.1 Impairment test – continued

**Assumptions applied in the impairment test**
The future cash flows are based on budgets and Management's estimates of the Nilfisk Group's development in the next five years. The assumptions for the impairment tests are:

**Revenue growth**
Projections in the forecasting period for the individual CGUs' are estimated on the basis of expected market development including strategic initiatives and the macroeconomic environment in general. Past experience is taken into consideration as well as the expected impact from the growth initiatives in Nilfisk Next.

**Gross margin development**
When estimating the CGUs' margin development in the forecasting period, past experience and the impact from expected efficiency improvements are taken into consideration.
The expected impact of initiatives such as cost saving program and other initiatives from Nilfisk Next are taken into consideration for the relevant CGUs'.

**Terminal growth**
The terminal growth rate does not exceed the expected long-term average growth rate including inflation for the segments and countries in which we operate. The applied terminal growth rate for all cash generating units was 2.0% unchanged compaired to 2017.

**Net working capital**
The development is linked to the current level, budgets and revenue growth.

**Capital expenditure**
The development is linked to the budgets and expected future activity level.

**Discount rate**
A pre-tax discount rate of 8.1% and a post-tax discount rate of 6.9%, compaired to 10.5% and 7.5% respectively in 2017 has been applied in the performed impairment tests. The discount rate has been applied to all cash generating units, assuming our targeted ratio between the market value of our debt and equity value.

**Sensitivity analysis**
The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the segments group of (CGUs) to which goodwill is allocated. Management believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed the recoverable amount of the related segments (CGUs).

# Note 4

## 4.2 Intangible assets

| EUR million | Goodwill | Trademarks[1] | Customer related assets | Development projects completed | Software, Know-how, Patents and Competition Clauses | Development projects and software in progress | Total |
|---|---|---|---|---|---|---|---|
| Costs, January 1, 2018 | 164.4 | 26.8 | 33.1 | 134.0 | 74.4 | 28.3 | 461.0 |
| Additions | - | - | - | 1.5 | 3.9 | 28.4 | 33.8 |
| Disposals | - | -3.1 | -2.9 | -17.4 | -5.7 | -5.9 | -35.0 |
| Transferred between classes of assets | - | - | - | 7.4 | 2.8 | -10.2 | 0.0 |
| Exchange rate adjustments | 3.4 | 0.1 | 0.3 | -0.3 | 0.8 | -0.1 | 4.2 |
| Costs, December 31, 2018 | 167.8 | 23.8 | 30.5 | 125.2 | 76.2 | 40.5 | 464.0 |
| Amortization and impairment, January 1, 2018 | - | -14.9 | -20.0 | -96.9 | -50.6 | - | -182.4 |
| Amortization for the year | - | -1.5 | -2.8 | -12.9 | -6.3 | - | -23.5 |
| Impairment | - | - | -0.3 | -5.7 | - | -5.8 | -11.8 |
| Disposals[2] | - | 3.1 | 2.8 | 17.4 | 5.7 | 5.8 | 34.8 |
| Exchange rate adjustments | - | 0.1 | -0.1 | 0.2 | -0.4 | 0.1 | -0.1 |
| Amortization and impairment, December 31, 2018 | - | -13.2 | -20.4 | -97.9 | -51.6 | 0.1 | -183.0 |
| **Carrying amount, December 31, 2018** | **167.8** | **10.6** | **10.1** | **27.3** | **24.6** | **40.6** | **281.0** |
| Investment ratio (Additions relative to amortization excl. business combinations) | - | 0% | 0% | 69% | 110% | 0% | 177% |

[1] Trademarks with a carrying amount of 2.7 mEUR (2017: 2.7 mEUR) are not amortized, as they are regarded as having an indefinite useful life.
[2] Disposals includes the divestment of assets related to Hydramaster and the Outdoor business.

The investment ratio was higher in 2018 compared to 2017 in line with the strategy of future investments in autonomous machines and digital services.

Regarding impairment test, please see Note 4.1.

# Note 4

## 4.2 Intangible assets – continued

| | Goodwill | Trademarks | Customer related assets | Development projects completed | Software, Know-how, Patents and Competition Clauses | Development projects and software in progress | Total |
|---|---|---|---|---|---|---|---|
| Costs, January 1, 2017 | 179.3 | 29.4 | 35.9 | 124.7 | 72.2 | 21.8 | 463.3 |
| Additions | - | - | - | 2.1 | 3.1 | 18.0 | 23.2 |
| Disposals | - | -0.6 | - | -1.6 | -0.1 | - | -2.3 |
| Transferred between classes of assets | - | - | - | 9.5 | 2.2 | -11.7 | 0.0 |
| Exchange rate adjustments | -14.9 | -2.0 | -2.8 | -0.7 | -3.0 | 0.2 | -23.2 |
| Costs, December 31, 2017 | 164.4 | 26.8 | 33.1 | 134.0 | 74.4 | 28.3 | 461.0 |
| Amortization and impairment, January 1, 2017 | - | -14.6 | -18.7 | -85.3 | -47.3 | - | -165.9 |
| Amortization for the year | - | -1.6 | -2.7 | -13.5 | -5.5 | - | -23.3 |
| Disposals | - | 0.6 | - | 1.5 | - | - | 2.1 |
| Exchange rate adjustments | - | 0.7 | 1.4 | 0.4 | 2.2 | - | 4.7 |
| Amortization and impairment, December 31, 2017 | - | -14.9 | -20.0 | -96.9 | -50.6 | - | -182.4 |
| **Carrying amount, December 31, 2017** | **164.4** | **11.9** | **13.1** | **37.1** | **23.8** | **28.3** | **278.6** |
| Investment ratio (Additions relative to amortization excl. business combinations) | - | 0% | 0% | 85% | 41% | 0% | 135% |

# Note 4

## 4.2 Intangible assets – continued

### § Accounting policy

**Goodwill**

Goodwill is initially recognized in the balance sheet at cost. Subsequently, goodwill is measured at costs less accumulated impairment losses. Goodwill is not amortized.

The carrying amount of goodwill is allocated to the Nilfisk Group's cash-generating units at the acquisition date. The identification of cash-generating units is based on the managerial structure and internal financial control. As a result of the integration of acquisitions in the existing Nilfisk Group, and identification of operating segments based on the presence of segment managers, the Executive Management Board finds that the smallest cash-generating units to which the carrying amount of goodwill can be allocated during testing for impairment are the reportable segments. The reportable segments are comprised of the Nilfisk Group's operating segments without aggregation (Note 2.1 Segment information).

**Other intangible assets**

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential market or internal utilization can be demonstrated, and where it is intended to manufacture, market or utilize the project, are recognized in intangible assets, provided the costs can be reliably determined and there is adequate certainty that the future earnings or the net selling price can cover costs of goods, other costs and amortization, and also the development costs. Other development costs are expensed in the income statement as incurred.

Capitalized development projects are measured at costs less accumulated amortization and impairment losses. The costs include wages, amortization and other direct costs relating to the individual development projects.

Intangible assets are amortized on a straight-line basis over the expected useful life which is:

| | |
|---|---|
| Trademarks, etc. | Indefinite or 3-20 years |
| Customer related assets | 3-15 years |
| Development projects | 3-10 years |
| Software, know-how, patents and competition clauses | 2-15 years |

On completion of the development work, development projects are amortized on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortization period is 3-10 years. The basis of amortization is reduced by impairment losses.

Patents and licenses are measured at costs less accumulated amortization and impairment losses. Patents and licenses are amortized on a straight-line basis over the remaining patent or contract period or the useful life, whichever is the shorter.

Intangible assets with an indefinite useful life are not amortized but are tested annually for impairment.

# Note 4

## 4.3 Property, plant and equipment

| EUR million | Land and buildings | Plant and machinery | Tools and equipment | Assets under construction incl. prepayment | Total |
|---|---|---|---|---|---|
| Costs, January 1, 2018 | 21.3 | 17.1 | 142.6 | 3.4 | 184.4 |
| Additions | - | 1.3 | 13.6 | 3.7 | 18.6 |
| Disposals | -0.3 | -2.6 | -13.9 | -0.8 | -17.6 |
| Transferred between classes of assets | - | 0.7 | 2.9 | -3.6 | 0.0 |
| Exchange rate adjustments | -0.3 | 0.2 | - | 0.1 | 0.0 |
| Costs, December 31, 2018 | 20.7 | 16.7 | 145.2 | 2.8 | 185.4 |
| | | | | | |
| Depreciation and impairment, January 1,2018 | -10.2 | -12.2 | -104.2 | - | -126.6 |
| Depreciation for the year | -0.6 | -1.2 | -12.8 | - | -14.6 |
| Impairment | - | -0.3 | -0.2 | -0.5 | -1.0 |
| Disposals | 0.2 | 2.3 | 8.8 | 0.5 | 11.8 |
| Exchange rate adjustments | - | -0.2 | -0.1 | - | -0.3 |
| Depreciation and impairment, December 31, 2018 | -10.6 | -11.6 | -108.5 | - | -130.7 |
| | | | | | |
| **Carrying amount, December 31, 2018** | **10.1** | **5.1** | **36.7** | **2.8** | **54.7** |
| | | | | | |
| Investment ratio (% of depreciation) | 0% | 167% | 129% | 0% | 125% |

Disposals includes the divestment of assets related to Hydramaster and the Outdoor business.

# Note 4

## 4.3 Property, plant and equipment – continued

| EUR million | Land and buildings | Plant and machinery | Tools and equipment | Assets under construction incl. prepayment | Total |
|---|---|---|---|---|---|
| Costs, January 1, 2017 | 22.1 | 17.4 | 136.7 | 5.5 | 181.7 |
| Additions | 0.1 | 0.4 | 11.8 | 3.0 | 15.3 |
| Disposals | - | -0.2 | -5.2 | - | -5.4 |
| Transferred between classes of assets | - | 0.5 | 4.4 | -4.9 | 0.0 |
| Exchange rate adjustments | -0.9 | -1.0 | -5.1 | -0.2 | -7.2 |
| Costs, December 31, 2017 | 21.3 | 17.1 | 142.6 | 3.4 | 184.4 |
| | | | | | |
| Depreciation and impairment, January 1,2017 | -9.7 | -11.8 | -98.5 | - | -120.0 |
| Depreciation for the year | -0.8 | -1.3 | -13.2 | - | -15.3 |
| Disposals | - | 0.2 | 3.4 | - | 3.6 |
| Exchange rate adjustments | 0.3 | 0.7 | 4.1 | - | 5.1 |
| Depreciation and impairment, December 31, 2017 | -10.2 | -12.2 | -104.2 | - | -126.6 |
| | | | | | |
| **Carrying amount, December 31, 2017** | **11.1** | **4.9** | **38.4** | **3.4** | **57.8** |
| | | | | | |
| Investment ratio (% of depreciation) | 9% | 67% | 122% | 0% | 99% |

# Note 4

## 4.3 Property, plant and equipment – continued

### § Accounting policy

Land and buildings, Plant and machinery, Tools and equipment, and other property, plant and equipment, are measured at costs less accumulated depreciation and impairment losses.

The costs comprise the purchase price and any costs directly attributable to the acquisition until the asset is ready for use. The costs of self-constructed assets comprise costs of materials, components, subcontractors and wages. The costs are supplemented by the present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset was utilized.

The costs of assets held under finance leases are stated at the fair value of the assets or the present value of the future minimum lease payments, whichever is the lower. For calculation of the present value, the interest rate implicit in the lease or the Nilfisk Group's alternative rate of interest is applied as the discount rate.

Subsequent costs, e.g. relating to replacement of parts of an item of property, plant and equipment, are recognized in the carrying amount of the asset if it is likely that the costs will result in future economic benefits for the Nilfisk Group. The carrying amount of the replaced parts is derecognized in the Balance Sheet and recognized in the income statement. All other costs relating to ordinary repair and maintenance are recognized in the income statement as incurred.

If individual parts of an item of property, plant and equipment have different useful lives, they are depreciated separately.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful lives of the assets/components, as follows:

| | |
|---|---|
| Buildings | 8-50 years |
| Plant and machinery | 3-20 years |
| Tools and equipment | 3-15 years |
| Land is not depreciated | |

The basis of depreciation is calculated according to the residual value less impairment losses. The residual value is determined at the acquisition date and reviewed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Property, plant and equipment under construction and prepayments are measured at cost. When ready for use, the asset is transferred to the relevant category and depreciated.

# Note 4

## 4.4 Amortization, depreciation and impairment

This note shows the split of amortization, depreciation and impairment for the Nilfisk Group in the income statement.

### Split of amortization, depreciation and impairment in the income statement

| EUR million | 2018 | 2017 |
|---|---|---|
| Cost of sales, depreciation and impairment | 11.6 | 11.8 |
| Research and development costs, depreciation and impairment | 0.3 | 0.3 |
| Research and development costs, amortization and impairment | 12.9 | 13.5 |
| Sales and distribution costs, depreciation and impairment | 1.0 | 1.1 |
| Sales and distribution costs, amortization and impairment | 1.0 | 1.6 |
| Administrative costs, depreciation and impairment | 1.8 | 2.1 |
| Administrative costs, amortization and impairment | 3.3 | 2.0 |
| Amortization/impairment of acquisition-related intangibles | 6.2 | 6.2 |
| Special items, impairment | 12.8 | - |
| Total | 50.9 | 38.6 |
| | | |
| Total depreciation and impairment of tangibles | 15.6 | 15.3 |
| Total amortization and impairment of non acquisition-related intangibles | 29.1 | 17.1 |
| Total amortization and impairment of acquisition-related intangibles | 6.2 | 6.2 |
| Total | 50.9 | 38.6 |

# Note 4

## 4.5 Pension liabilities

Most employees in the Nilfisk Group are covered by pension schemes, primarily in the form of defined contribution-based plans or alternatively by defined benefit plans. The Nilfisk Group companies contribute to these plans either directly or by contributing to pension funds administered independently. The nature of such schemes varies according to legislative and regulatory regimes, rules regarding tax and the economic conditions in the countries in which the employees work, and the contributions are usually based on employee salary and seniority. The liability relates to pensions for already retired staff as well as for employees retiring in the future.

If a plan is not fully hedged, a plan liability is recognized in the consolidated balance sheet. Expenses relating to pension benefits are recognized as employee benefits. The Nilfisk Group's defined benefit plans primarily relate to the UK and Switzerland.

### Net liabilities recognized in the balance sheet

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **EUR million** | **Present value of obligations** | **Fair value of plan assets** | **Net obligation** | **Present value of obligations** | **Fair value of plan assets** | **Net obligation** |
| Obligations and assets, January 1 | 28.8 | 23.1 | 5.7 | 31.1 | 23.6 | 7.5 |
| ***Recognized under staff costs in the income statement:*** | | | | | | |
| Current service cost | 0.3 | - | 0.3 | 0.3 | - | 0.3 |
| Calculated interest cost/income | 0.5 | 0.5 | - | 0.6 | 0.4 | 0.2 |
| Curtailment and settlements, etc. | 0.1 | - | 0.1 | 0.1 | - | 0.1 |
| Total | 0.9 | 0.5 | 0.4 | 1.0 | 0.4 | 0.6 |
| ***Recognized in other comprehensive income:*** | | | | | | |
| Actuarial gain/loss from changes in financial assumptions | -1.2 | -0.8 | -0.4 | 0.3 | 1.2 | -0.9 |
| **Total** | **-1.2** | **-0.8** | **-0.4** | **0.3** | **1.2** | **-0.9** |
| ***Other changes:*** | | | | | | |
| Contributions to plans | 0.1 | 0.9 | -0.8 | 0.1 | 0.8 | -0.7 |
| Benefits paid | -2.5 | -1.9 | -0.6 | -2.0 | -1.8 | -0.2 |
| Foreign exchange adjustments, etc. | 0.1 | - | 0.1 | -1.7 | -1.1 | -0.6 |
| Total | -2.3 | -1.0 | -1.3 | -3.6 | -2.1 | -1.5 |
| Net recognized plan obligations and assets, December 31 | 26.2 | 21.8 | 4.4 | 28.8 | 23.1 | 5.7 |
| Other long-term employee benefits | 0.1 | - | 0.1 | - | - | - |
| **Recognized, December 31** | **26.3** | **21.8** | **4.5** | **28.8** | **23.1** | **5.7** |
| ***Plan assets recognized as follows:*** | | | | | | |
| Securities with quoted market price | | 15.1 | | | 16.9 | |
| Cash | | 2.1 | | | 1.5 | |
| Other | | 4.6 | | | 4.7 | |
| **Total** | | **21.8** | | | **23.1** | |

# Note 4

## 4.5 Pension liabilities – Continued

### ! Significant judgments and estimates

| Principal actuarial assumptions at the balance sheet date (as weighted average) | 2018 | 2017 |
|---|---|---|
| Discount rate | 2.2% | 2.0% |
| Future salary increases | 1.8% | 1.8% |
| Future pension increases | 2.8% | 2.7% |

### ± Sensitivity

| Table below shows the sensitivity of the pension liability to changes in the key assumptions | 2018 | 2017 |
|---|---|---|
| 0.5% point increase in the discount rate | -1.8 | -2.1 |
| 0.5% point decrease in the discount rate | 2.1 | 2.3 |
| 0.5% point increase in the future salary increases | 0.1 | 0.0 |
| 0.5% point decrease in the future salary increases | -0.1 | -0.1 |

The anticipated duration of the plan liability, expressed as a weighted average, was 13 years at December 31, 2018 (2017: 13 years). The Nilfisk Group's expected contribution to defined benefit plans in 2019 amounts to 0.8 mEUR.

### § Accounting policy

The Nilfisk Group has contracted pension plans and similar arrangements with the majority of its employees.

Liabilities in respect of defined contribution-based pension plans, where the Nilfisk Group makes fixed regular payments to independent pension companies, are recognized in the income statement in the period to which they relate. Any contributions outstanding are recognized in the balance sheet under other payables.

In the case of defined benefit plans, an annual actuarial calculation (the Projected Unit Credit Method) is made of the present value of future benefits payable under the plan. The present value is determined based on assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Nilfisk Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under employee benefits.

Pension expenses for the year are recognized in the income statement based on actuarial estimates and financial expectations at the start of the year. Difference between calculated return and realized return on plan assets and liabilities are designated actuarial gains or losses and recognized in other comprehensive income.

If a pension plan constitutes a net asset, the asset is only recognized if it offsets cumulative actuarial losses or future refunds from the plan, or if it will lead to reduced future payments to the plan.

# Note 4

## 4.6 Provisions

### 2018
### Development in provisions

| EUR million | Warranties | Other | Total |
|---|---|---|---|
| Provisions, January 1 | 10.9 | 7.1 | 18.0 |
| Provisions made during the year | 12.3 | 1.8 | 14.1 |
| Used during the year | -11.5 | -2.4 | -13.9 |
| Reversed during the year | -0.5 | - | -0.5 |
| Foreign exchange adjustments | 0.0 | 0.0 | 0.0 |
| **Provisions, December 31** | **11.2** | **6.5** | **17.7** |
| ***Provisions are presented in the balance sheet as:*** | | | |
| Non-current liabilities | - | 2.5 | 2.5 |
| Current liabilities | 11.2 | 4.0 | 15.2 |
| **Total** | **11.2** | **6.5** | **17.7** |

### 2017
### Development in provisions

| EUR million | Warranties | Other | Total |
|---|---|---|---|
| Provisions, January 1 | 11.8 | 7.5 | 19.3 |
| Provisions made during the year | 11.2 | - | 11.2 |
| Used during the year | -11.2 | 0.1 | -11.1 |
| Reversed during the year | -0.2 | - | -0.2 |
| Foreign exchange adjustments | -0.7 | -0.5 | -1.2 |
| **Provisions, December 31** | **10.9** | **7.1** | **18.0** |
| ***Provisions are presented in the balance sheet as:*** | | | |
| Non-current liabilities | - | 6.5 | 6.5 |
| Current liabilities | 10.9 | 0.6 | 11.5 |
| **Total** | **10.9** | **7.1** | **18.0** |

### § Accounting policy

Provisions are recognized when, as a result of events arising before or at the balance sheet date, the Nilfisk Group has a legal or a constructive obligation, and it is likely that there may be an outflow of resources embodying economic benefits to settle the obligation.

The amount recognized as a provision is the Executive Management Board's best estimate of the amount required to settle the obligation.

When measuring provisions, the costs required to settle the obligation are discounted if this significantly affects the measurement of the liability. A pre-tax discount rate is applied that reflects the current market interest rate and the specific risks relating to the obligation. Changes in present values during the year are recognized under financial expenses.

Warranty commitments are recognized in step with sale of goods and services based on the level of warranty expenses incurred in previous years.

Provisions for acquisition-related earnouts are recognized based on the Executive Management Board's best estimate of future financial performance in the acquired businesses.

Provisions for restoring rented facilities when vacated are measured at the present value of the expected clearance and closure obligation at the balance sheet date. The provision is based on existing encumbrances and estimated costs discounted to present value. Specific risks considered to attach to the obligation are included in the estimated costs. A discount rate is applied which reflects the current market interest rate. The obligations are included as they occur and continuously adjusted to reflect changed requirements and price levels, etc. The present value of the costs is included in the costs of the relevant tangible assets and depreciated accordingly. The increase in the present value over time is recognized in the income statement under financial expenses.

The warranty provision represents management's best estimate of the Group's liability under 12-month warranties granted on products, based on past experience. Other provisions comprise acquisition-related earnouts, restoring of rented facilities, etc. The potential earn-out relates to a UK acquisition and the contingent consideration arrangement is based on financial performance measured on Sales and EBIT.

# Note 5

## 5. Working capital

This note covers the Nilfisk Group's working capital.

The working capital represents the assets and liabilities necessary to support the day-to-day operations. Working capital is defined as current assets less current liabilities, excluding interest-bearing items and provisions, but including derivatives which hedge working capital elements with currency exposure.

**Composition and drivers**

The Nilfisk Group manufactures products and operates in different markets. The Nilfisk Group's operating model, with several assembly locations and a number of distribution hubs for finished products, leads to a relatively high amount of inventory.

**Key developments in 2018**

The Nilfisk Group increased working capital by 6.9 mEUR from 163.5 mEUR at December 31, 2017 to 170.4 mEUR at December 31, 2018. In 2018, working capital is furthermore positively impacted by exchange rates, mainly decreased USD, RMB and MXN against EUR.

Overall, the inventories amounted to 172.9 mEUR as at December 31, a decrease of 9.9 mEUR compared to the year before.

The simplification initiatives to reduce the manufacturing footprint executed in 2018 led to the inventory levels being higher than normal during the year. This was due to the fact that the closures and transfers required inventories to be gradually build up at the receiving factories. Accordingly, we saw increases in the average inventory levels during the year.

**Breakdown of working capital**

| EUR million | 2018 | 2017 |
|---|---|---|
| Inventories | 172.9 | 182.8 |
| Trade receivables | 190.7 | 193.9 |
| Other current assets | 31.9 | 27.7 |
| Trade payables | -113.5 | -117.7 |
| Other current liabilities | -111.6 | -123.2 |
| Working capital | 170.4 | 163.5 |
| Working capital ratio (LTM) | 18.5% | 16.2% |

Trade accounts receivable amounted to 190.7 mEUR as at December 31, and dropped 3.2 mEUR since December 31, 2017. During Q3 and Q4 the trade accounts receivable balances were higher than expected, but returned to a more normal level towards the end of the year and at December 31, the DSO were only slightly above the level at the end of 2017.

With inventories and trade account receivables both having a positive impact on net working capital, the net increase was primarily related to a decrease in other payables due to a settlement of phantom shares and a change in payment terms of export VAT in Denmark, both considered permanent shifts in the level of payables.

The working capital ratio measured in percentage of revenue on a 12-month average was 18.5% at the end of 2018. This was an increase of 2.3 percentage points compared to 2017 which was impacted by a high level of payables due to an extraordinary high level of production in China.

A working capital ratio of 18.5% is slightly above our expected normalized level, negatively impacted by both inventory levels and trade accounts receivable being above normalized levels during the year.

# Note 5

## 5.1 Inventories

The Nilfisk Group's entities carry inventory to support their operations. Continuous efforts aim to reduce inventory levels while maintaining customer service through short lead times. See the Management review for more details of the inventory development.

### Specification of inventories

| EUR million | 2018 | 2017 |
|---|---|---|
| Raw materials, consumables and goods for resale | 109.9 | 120.5 |
| Work in progress | 1.4 | 1.8 |
| Finished goods | 61.6 | 60.5 |
| **Total** | **172.9** | **182.8** |
| | | |
| Write-down on inventories, January 1 | 13.0 | 12.4 |
| Write-down on inventories for the year expensed in the income statement | 5.6 | 3.6 |
| Disposals from sales | -4.4 | -2.6 |
| Scrapping | -1.9 | -0.4 |
| Write-down on inventories, December 31 | 12.3 | 13.0 |

### ! Significant judgments and estimates

Production cost allocations are based on relevant assumptions related to capacity utilization, production time and other relevant factors. Changes in assumptions may affect gross profit margins as well as the valuation of the inventories.

The write-down in inventories is based on the expected sales forecast and slow moving items.

### § Accounting policy

Inventories are measured at costs in accordance with the FIFO method or at a weighted average. If the net realizable value is lower than cost, inventories are written down to this lower value.

Raw materials, consumables and goods for resale are measured at costs, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at costs, which comprise costs of raw materials, consumables, direct wages/ salaries and production overheads. Production overheads include indirect materials and wages/salaries, as well as maintenance and depreciation of production machinery, buildings and equipment, along with costs for production administration and management. In the case of qualifying assets, specific and general borrowing costs directly relating to production of the relevant asset are recognized in the costs.

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs incurred in effecting the sale, and is determined taking into account marketability, obsolescence and development in expected sales price.

# Note 5

## 5.2 Receivables

Trade receivables decreased in absolute terms from December 31, 2017 to December 31, 2018. The receivable balances are being monitored closely but were higher than expected during the year, but the days sales outstanding were only slightly above the level at the end of 2017.

| EUR million | 2018 | 2017 | 2016 |
|---|---|---|---|
| Trade receivables, gross incl. VAT | 194.6 | 198.3 | 183.2 |
| Bad debt provision | -3.9 | -4.4 | -5.0 |
| Total | 190.7 | 193.9 | 178.2 |

### Specification of receivables

| EUR million | 2018 | 2017 |
|---|---|---|
| Trade receivables | 187.7 | 190.6 |
| Trade receivables due from associates | 3.0 | 3.3 |
| Other receivables | 15.7 | 11.3 |
| Fair value of derivative financial instruments | 4.7 | 6.5 |
| Prepayments | 7.8 | 6.5 |
| **Total** | **218.9** | **218.2** |
| Of which receivables falling due later than 12 months from the balance sheet date | - | 0.2 |

The following table details the risk profile of trade receivables based on the Group's provision matrix. The Group's historical credit losses do not show different patterns for different customer segments.

Disclosure of credit risks and impairment of trade receivables are included in Note 6.9.

| EUR million | Trade receivables | Lifetime expected credit losses | Expected average credit loss rate |
|---|---|---|---|
| Not past due | 153.9 | 0.4 | 0.5% |
| Overdue up to 1 months | 23.3 | 0.2 | 0.8% |
| Overdue between 1-2 months | 7.4 | 0.2 | 2.9% |
| Overdue between 2-4 months | 4.3 | 0.5 | 11.2% |
| Overdue more than 4 months | 5.7 | 2.6 | 41.2% |
| Total | 194.6 | 3.9 | |

### ! Significant judgments and estimates

The allowance for expected credit losses for trade receivables is based on historical credit loss experience combined with forward-looking information on macro-economic factors affecting the credit risk. The expected loss rates are updated at every reporting date.

### § Accounting policy

**Receivables**
Receivables are recognized initially at their transaction price and subsequently measured at amortized cost, which usually corresponds to the nominal value less lifetime expected credit losses. The expected credit losses on trade receivables are estimated using a provision matrix with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the market in which the debtor operates. The Group recognizes a loss allowance for expected credit losses and writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

The amount of write-downs is recognized in the income statement under other operating costs. Subsequent recoveries of amounts previously written down are credited against other operating costs.

Derivative financial instruments are measured at fair value.

**Prepayments**
Prepaid expenses are measured at cost.

# Note 5

## 5.3 Trade payables and other liabilities

Trade payables and other liabilities comprise trade payables, other payables including VAT, employee-related payables, and derivative financial instruments. Prepayments from customers and deferred income are also included.

### Specification of trade payables and other liabilities

| EUR million | 2018 | 2017 |
|---|---|---|
| Trade payables | 113.5 | 117.7 |
| Employee related payables | 45.1 | 45.1 |
| Other payables (derivative financial instruments, other non-current liabilities, etc.) | 35.9 | 38.6 |
| Various taxes, including VAT | 14.0 | 20.7 |
| Costumer related payables | 9.4 | 9.1 |
| Deferred revenue[1] | 4.7 | 4.8 |
| Prepayments from customers[1] | 1.5 | 1.9 |
| Total | 224.1 | 237.9 |

[1] Please refer to Note 2.2.

### § Accounting policy

Liabilities are measured at amortized cost, except for derivative financial instruments which are measured at fair value.

# Note 6

## 6. Capital structure

This note covers the Nilfisk Group's capital structure, financing costs and financial risks.

### 6.1 Changes in capital structure, financing, etc.

The Nilfisk Group wishes to maintain a strong and efficient balance sheet and to strike an optimal balance between reinvesting capital back into the business and returning surplus funds to the equity holders of Nilfisk Holding A/S.

The Group's objective is to have a capital structure to meet operating needs as well as needs for potential acquisitions. To achieve and keep an efficient capital structure, the Financial Policy states that Group's long-term net interesting bearing debt should be at 2.5 x EBITDA before special items or below. By the end of 2018, Nilfisk's funding structure primarily consisted of long-term committed loans of 450 mEUR, provided by Nordea Bank Denmark, Danske Bank A/S and HSBC plc. The long-term committed lo ans includes a financial covenant with reference to the ratio between net interest bearing debt and EBITDA before special items. The facilities are available for general funding purposes.

### 6.2 Net interest-bearing debt

**Specification of net interest-bearing debt**

| EUR million | 2018 | 2017 |
|---|---|---|
| Non-current loans and borrowings | 382.3 | 397.3 |
| Current loans and borrowings | 7.8 | 8.0 |
| Interest-bearing debt | 390.1 | 405.3 |
| | | |
| Interest-bearing receivables | -4.4 | -4.9 |
| Cash and cash equivalents | -16.4 | -40.7 |
| Net interest-bearing debt | 369.3 | 359.7 |

Net interest-bearing debt at December 31, 2018 increased by 9.6 mEUR compared to December 31, 2017, primarily due to the change in cash and cash equivalents, which decreased by 24.3 mEUR compared to 2017.

As of December 31, 2018 the net interest-bearing debt primarily consisted of long-term credit facilities and cash and cash equivalents.

The interest-bearing debt was denominated primarily in EUR. As comparison, the percentages in 2017 were 52% in EUR, 36% in USD and 4% in DKK. The change in the allocation in currencies can be explained by the changes in the credit facilities.

At the end of 2018, 48% of the Group's gross debt was fixed-rate debt compared to 38% in 2017.

### 6.3 Interest-bearing receivables

**Specification of interest-bearing receivables**

| EUR million | 2018 | 2017 |
|---|---|---|
| Finance lease receivables | 2.2 | 3.5 |
| Other receivables | 2.2 | 1.4 |
| Total | 4.4 | 4.9 |

### 6.4 Payables to credit institutions and other payables

Payables to credit institutions are predominantly based on floating interest rates and are measured at amortized cost. The carrying amount therefore corresponds in all material respects to fair value and nominal value.

The carrying amount of other payables corresponds in all material respects to fair value and nominal value.

§ **Accounting policy**

Payables to credit institutions, etc. are recognized at the amount of proceeds received at the date of borrowing, net of transaction costs paid. In subsequent periods the financial liabilities are measured at amortized costs using 'the effective interest method', the difference between the proceeds and the nominal value therefore being recognized in the income statement under financial expenses over the term of the loan.

# Note 6

## 6.5 Liabilities from financing activities

Total liabilities from financing activities at December 31, 2018 decreased by 14.7 mEUR compared to December 31, 2017, primarily due to cash out flows.

**Specification of liabilities arising from financing activities**

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| **EUR million** | **2017** | **Cash flows** | **Foreign exchange movements** | **Fair value changes** | **2018** |
| Interest-bearing loans and borrowings, Non-current | 397.3 | -12.6 | -2.4 | - | 382.3 |
| Interest-bearing loans and borrowings, Current | 8.0 | -4.9 | 4.7 | - | 7.8 |
| Interest-bearing receivables | -4.9 | -2.1 | 2.6 | - | -4.4 |
| Total | 400.4 | -19.6 | 4.9 | - | 385.7 |

## 6.6 Capital employed

As of December 31, 2018, capital employed amounted to 516.8 mEUR, which was an increase of 19.6 mEUR or 3.9% compared to 497.2 mEUR at the end of 2017. The development in capital employed was largely driven by the net decrease in liabilities due to settlement of phantom shares offset by lower inventories.

In 2018 Nilfisk's return on capital employed (RoCE) improved by 0.7 percentage points to 16.7% from 16.0% in 2017. The improvement was driven by an increase in EBIT before special items.

# Note 6

## 6.7 Financial items

Financial items, net represented -11.3 mEUR in 2018 compared to -8.9 mEUR in 2017.

Financial income has increased by 2.5 mEUR compared to 2017 due to FX gains and other financial income offset by lower forward points.

Financial expenses has increased by 4.9 mEUR compared to 2017, which can be explained by a small increase in interest expenses, forward points, FX losses and FX loss on derivatives.

### Specification of financial items

| | Financial income | | Financial expenses | |
|---|---|---|---|---|
| **EUR million** | **2018** | **2017** | **2018** | **2017** |
| Interest on financial assets measured at amortized costs | 1.7 | 1.4 | 10.0 | 9.0 |
| Forward points | 4.1 | 6.1 | 3.5 | 2.7 |
| Foreign exchange gains/losses | 7.3 | 3.9 | 10.0 | 8.9 |
| Foreign exchange gains/losses on derivatives | 0.9 | 1.5 | 2.3 | 0.7 |
| Other financial items | 1.6 | 0.2 | 1.1 | 0.7 |
| **Total** | **15.6** | **13.1** | **26.9** | **22.0** |

### § Accounting policy

Financial income comprises interest, dividends, gains on receivables and transactions denominated in foreign currencies, amortization of financial assets etc. Positive changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Financial expenses comprise interest, losses on and impairment of securities, payables and transactions denominated in foreign currencies, amortization of financial liabilities, including finance lease commitments etc. Negative changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

## 6.8 Investments in associated companies

### Carrying amount of associated companies

| EUR million | 2018 | 2017 |
|---|---|---|
| Carrying amount, January 1 | 19.3 | 17.7 |
| Share of result recognized in the income statement | 3.4 | 2.8 |
| Additions through business combination | - | 0.3 |
| Sale/divestment | -0.5 | 0.0 |
| Dividends | -1.3 | -1.3 |
| Revaluation | -1.6 | - |
| Exchange rate adjustments | -0.2 | -0.2 |
| **Carrying amount, December 31** | **19.1** | **19.3** |

### § Accounting policy

An associated company is an entity in which the Nilfisk Group has significant influence, but not control, which in general will be when holding 20% to 50% of the voting rights. Such investments are accounted for using the equity method of accounting. The investment is adjusted by the Nilfisk Group's share of the results after tax of the associated company.

The Nilfisk Group's share of the results is recognized in the income Statement as Other operating income. The share of results will be recognized based on the associated company' full-year outlook, with adjustment for actual full-year result in the following year.

# Note 6

## 6.8 Investments in associated companies – continued

### Details of associated companies

**2018**

| | M2H | CFM Lombardia | |
|---|---|---|---|
| **EUR million** | **France** | **Italy** | **Total** |
| Revenue | 65.6 | 1.5 | 67.1 |
| Result after tax | 7.7 | - | 7.7 |
| Non-current assets | 9.4 | - | 9.4 |
| Current assets | 52.9 | 1.1 | 54.0 |
| Total assets | 62.3 | 1.1 | 63.4 |
| Equity | 41.0 | 0.2 | 41.2 |
| Non-current liabilities | 14.2 | - | 14.2 |
| Current liabilities | 7.1 | 0.9 | 8.0 |
| Equity and liabilites | 62.3 | 1.1 | 63.4 |
| Ownership in % | 44% | 33% | |
| Share of result after tax | 3.4 | - | 3.4 |
| Share of equity | 18.1 | 0.1 | 18.2 |
| Goodwill recognized | 0.9 | - | 0.9 |
| **Carrying value** | **19.0** | **0.1** | **19.1** |
| Goods sold to | 20.5 | 1.2 | 21.7 |
| Good purchased from | - | - | - |
| Receivables from associated company | 2.4 | 0.6 | 3.0 |
| Payables to associated company | - | - | - |

**2017**

| | M2H | CFM Lombardia | Rottest | Chasnic | |
|---|---|---|---|---|---|
| **EUR million** | **France** | **Italy** | **Turkey** | **South Africa** | **Total** |
| Revenue | 60.1 | 1.7 | 1.3 | 2.8 | 65.9 |
| Result after tax | 6.3 | - | - | - | 6.3 |
| Non-current assets | 8.5 | - | - | 0.1 | 8.6 |
| Current assets | 53.4 | 1.0 | 0.1 | 1.2 | 55.7 |
| Total assets | 61.9 | 1.0 | 0.1 | 1.3 | 64.3 |
| Equity | 40.2 | 0.2 | - | 0.9 | 41.3 |
| Non-current liabilites | 6.1 | - | - | 0.2 | 6.3 |
| Current liabilities | 15.6 | 0.8 | 0.1 | 0.2 | 16.7 |
| Equity and liabilities | 61.9 | 1.0 | 0.1 | 1.3 | 64.3 |
| Ownership in % | 44% | 33% | 50% | 30% | |
| Share of result after tax | 2.8 | - | - | - | 2.8 |
| Share of equity | 17.6 | 0.1 | - | 0.3 | 18.0 |
| Goodwill recognized | 0.9 | - | 0.4 | - | 1.3 |
| **Carrying value** | **18.5** | **0.1** | **0.4** | **0.3** | **19.3** |
| Goods sold to | 22.7 | 1.2 | - | 0.8 | 24.7 |
| Good purchased from | - | - | 1.2 | - | 1.2 |
| Receivables from associated company | 2.8 | 0.5 | - | 0.2 | 3.5 |
| Payables to associated company | - | - | - | - | - |

Rottest was divested in 2018. Please refer to Note 7.1.

# Note 6

## 6.9 Financial risks and financial instruments

**Risk management policy**

The Nilfisk Group is exposed to, and manages different financial risks by its operations, investments and financing activities. As a matter of policy, the Nilfisk Group does not actively speculate in financial risks.

The overall objectives and policies for the Nilfisk Group's financial risk management are outlined in an internal Treasury Policy, which is approved by the Board of Directors. The general principle is that only financial risk exceeding a defined risk threshold is hedged. The risk thresholds are defined to provide the Nilfisk Group with sufficient risk protection while taking hedging costs into consideration.

The Nilfisk Group uses financial instruments to hedge exposures relating to currency and interest rate risks.

The financial risks are divided into:
1. Currency risks
2. Interest rate risks
3. Credit risks
4. Liquidity risks

*Currency risks*

With activities in more than 100 countries the Nilfisk Group is exposed to currency risks that could have considerable impact on the income statement and balance sheet.

Currency risks refer to the risks of losses (or opportunities for gains) resulting from changes in currency rates. Currency risks arise through transactions, financial assets, and liabilities denominated in currencies other than the functional currency of the individual Group businesses.

*Translation risks relating to net investments in subsidiaries*

As a basic principle, the hedging of currency risks is not performed for net assets (equity) in foreign subsidiaries. Gains and losses relating to unhedged net assets in foreign subsidiaries are accounted directly in other comprehensive income. For the most significant investments (above 15 mEUR) in foreign currency, excluding EUR/DKK, a rate of exchange which is 10% lower than the actual exchange rate for USD, CNY and GBP would reduce the Nilfisk Group's equity by 11.2 mEUR, compared to 6.8 mEUR in 2017.

Currency risks relating to other investments in foreign entities are not deemed significant.

*Net financing*

Significant currency risks relating to receivables and payables that influence the Nilfisk Group's net income are hedged. Balances with credit institutions are denominated in the functional currency of the businesses concerned. The Nilfisk Group had no significant currency risks relating to receivables and payables in foreign currency at December 31, 2018 and at December 31, 2017, and the Nilfisk Group's net income would therefore not have been significantly influenced by changes in the exchange rates at those dates.

*Future cash flows*

The Nilfisk Group's principal currency exposure relates to sales and purchases in currencies other than the functional currency of the individual Nilfisk Group businesses. Hedging of these currency risks is based on assessments of the likelihood of the future transaction being performed and whether the associated currency risk is significant.

# Note 6

## 6.9 Financial risks and financial instruments – continued

Expected cash flows with significant currency risk are hedged on a 12-14 month rolling basis. The fair value of the effective part of the hedge is recognized in other comprehensive income on a continuous basis. The table to the right shows net outstanding forward exchange hedging contracts at December 31, 2018 for the Nilfisk Group which are used for and fulfil the conditions for hedge accounting of future transactions.

Forward exchange contracts relate to hedging of product sales/purchase. During the year, a net loss of 1.4 mEUR was recognized under financial items due to ineffective hedge contracts. For comparison, the amount was a gain of 0.8 mEUR in 2017.

The fair value of the current portfolio of effective hedging contracts will impact other comprehensive income if currency rates change. The sensitivity analyses shown in the table to the right assume currency rate changes equal to the individual currency's historic volatility. The analysis shows that for instance a 1% change in the AUD/DKK rate will change other comprehensive income by 1.2 mEUR.

### Outstanding FX hedging contracts

| | 2018 | | 2017 | |
|---|---|---|---|---|
| EUR million | Notional value[1] | Recognized in OCI[2] | Notional value[1] | Recognized in OCI[2] |
| AUD/DKK | -13.2 | 0.2 | -16.3 | 0.5 |
| CNY/DKK | 69.2 | -0.3 | 94.0 | -1.8 |
| GBP/DKK | -24.0 | 0.5 | -26.0 | 0.5 |
| NOK/DKK | -12.5 | 0.4 | -16.0 | 0.7 |
| SEK/DKK | -16.8 | 0.1 | -20.9 | 0.3 |
| USD/DKK | -13.8 | -0.4 | -12.7 | 0.6 |
| CAD/USD | -12.8 | 0.5 | -13.4 | -0.3 |
| Total | -23.9 | 1.0 | -11.3 | 0.5 |

[1] Forward exchange contracts with positive notional values are purchases of the relevant currency; negative notional values are sales.
[2] Other Comprehensive Income.

### Sensitivity analysis

| | 2018 | | 2017 | |
|---|---|---|---|---|
| EUR million | Historic volatility | Change recognized in OCI[2] | Historic volatility | Change recognized in OCI[2] |
| AUD/DKK | 9% | 1.2 | 8% | 1.3 |
| CNY/DKK | 7% | 4.8 | 7% | 6.6 |
| GBP/DKK | 11% | 2.6 | 8% | 2.1 |
| NOK/DKK | 5% | 0.6 | 8% | 1.3 |
| SEK/DKK | 6% | 1.0 | 5% | 1.0 |
| USD/DKK | 8% | 1.1 | 8% | 1.0 |
| CAD/USD | 7% | 0.9 | 7% | 0.9 |
| Total | | 12.2 | | 14.2 |

[2] Other Comprehensive Income.

# Note 6

## 6.9 Financial risks and financial instruments – continued

The following tables detail the foreign currency forward contracts outstanding at the end of the reporting period, as well as information regarding their related hedged items. Foreign currency forward contract assets and liabilities are presented in the line "Derivative financial instruments" (either as assets or as liabilities) in the balance sheet.

**2018**

| Cash flow hedges | Average exchange rate | Notional value: Foreign currency | Notional value: Local currency | Carrying amount of hedges, net | Change in value used for calculated ineffectiveness | Inefficiency recognized in the income statement |
|---|---|---|---|---|---|---|
| | | (tFCY) | (tLCY) | EUR thousand | | |
| **Sell AUD** | **AUD/DKK** | **AUD** | **DKK** | | | |
| - 0-6 months | 4.5739 | -10,875 | 49,741 | 158.9 | 157.6 | 1.3 |
| - 7-14 months | 4.5076 | -10,500 | 47,330 | 79.3 | 79.3 | - |
| **Sell GBP** | **GBP/DKK** | **GBP** | **DKK** | | | |
| - 0-6 months | 8.3168 | -11,350 | 94,396 | 281.3 | 281.2 | 0.1 |
| - 7-14 months | 8.2398 | -10,300 | 84,870 | 169.4 | 168.7 | 0.7 |
| **Sell NOK** | **NOK/DKK** | **NOK** | **DKK** | | | |
| - 0-6 months | 0.7602 | -67,600 | 51,392 | 227.4 | 227.4 | - |
| - 7-14 months | 0.7572 | -57,200 | 43,310 | 191.7 | 184.8 | 6.9 |
| **Sell SEK** | **SEK/DKK** | **SEK** | **DKK** | | | |
| - 0-6 months | 0.7369 | -89,000 | 65,583 | 146.1 | 149.5 | -3.4 |
| - 7-14 months | 0.7193 | -83,700 | 60,203 | -48.1 | -43.2 | -4.9 |
| **Sell USD** | **USD/DKK** | **USD** | **DKK** | | | |
| - 0-6 months | 6.0972 | -7,000 | 42,680 | -231.8 | -143.8 | -88.0 |
| - 7-14 months | 6.1923 | -8,750 | 54,183 | -120.5 | -88.0 | -32.5 |
| **Sell CAD** | **CAD/USD** | **CAD** | **USD** | | | |
| - 0-6 months | 0.7701 | -9,800 | 7,547 | 270.9 | 269.2 | 1.7 |
| - 7-14 months | 0.7596 | -1,015 | 7,710 | 173.7 | 173.7 | - |
| **Buy CNH** | **CNH/DKK** | **CNH** | **DKK** | | | |
| - 0-6 months | 0.9145 | 196,400 | -179,599 | -295.0 | -295.0 | - |
| - 7-14 months | 0.9024 | 263,700 | -237,951 | 129.9 | 129.9 | - |
| **Buy CNY** | **CNY/DKK** | **CNY** | **DKK** | | | |
| - 0-6 months | 0.9026 | 85,000 | -76,718 | -88.4 | -88.4 | - |
| - 7-14 months | - | - | - | - | - | - |
| **Total** | | | | **1,044.8** | **1,162.9** | **-118.1** |

# Note 6

## 6.9 Financial risks and financial instruments – continued

**2017**

| Cash flow hedges | Average exchange rate | Notional value: Foreign currency | Notional value: Local currency | Carrying amount of hedges, net | Change in value used for calculated ineffectiveness | Inefficiency recognized in the income statement |
|---|---|---|---|---|---|---|
| | | (tFCY) | (tLCY) | EUR thousand | | |
| **Sell AUD** | **AUD/DKK** | **AUD** | **DKK** | | | |
| - 0-6 months | 4.9675 | -10,295 | 51,141 | 349.1 | 341.5 | 7.6 |
| - 7-14 months | 4.7682 | -14,750 | 70,331 | 142.5 | 105.4 | 37.2 |
| **Sell GBP** | **GBP/DKK** | **GBP** | **DKK** | | | |
| - 0-6 months | 8.5303 | -10,650 | 90,848 | 354.0 | 353.7 | 0.3 |
| - 7-14 months | 8.3199 | -12,400 | 103,167 | 87.0 | 80.7 | 6.2 |
| **Sell NOK** | **NOK/DKK** | **NOK** | **DKK** | | | |
| - 0-6 months | 0.7883 | -75,800 | 59,750 | 459.0 | 415.1 | 43.9 |
| - 7-14 months | 0.7657 | -81,200 | 62,177 | 240.9 | 158.0 | 82.9 |
| **Sell SEK** | **SEK/DKK** | **SEK** | **DKK** | | | |
| - 0-6 months | 0.7736 | -95,050 | 73,533 | 233.1 | 213.5 | 19.6 |
| - 7-14 months | 0.7615 | -110,900 | 84,453 | 102.2 | 72.1 | 30.1 |
| **Sell USD** | **USD/DKK** | **USD** | **DKK** | | | |
| - 0-6 months | 6.5015 | -7,440 | 48,371 | 413.7 | 277.2 | 136.5 |
| - 7-14 months | 6.1910 | -7,750 | 47,980 | 166.7 | 136.1 | 30.6 |
| **Sell CAD** | **CAD/USD** | **CAD** | **USD** | | | |
| - 0-6 months | 0.7669 | -8,685 | 6,660 | -242.5 | -236.8 | -5.7 |
| - 7-14 months | 0.7895 | -11,790 | 9,308 | -100.5 | -100.5 | - |
| **Buy CNH** | **CNH/DKK** | **CNH** | **DKK** | | | |
| - 0-6 months | 0.9461 | 60,000 | -56,766 | - | - | - |
| - 7-14 months | - | - | - | - | - | - |
| **Buy CNY** | **CNY/DKK** | **CNY** | **DKK** | | | |
| - 0-6 months | 0.9490 | 310,800 | -294,955 | -1,852.0 | -1,844.9 | -7.1 |
| - 7-14 months | 0.9071 | 363,200 | -329,443 | -24.7 | -29.0 | 4.3 |
| **Total** | | | | **328.5** | **-57.9** | **386.4** |

# Note 6

## 6.9 Financial risks and financial instruments – continued

Nilfisk has entered into foreign exchange forward contracts to hedge the exchange rate risk arising from these anticipated future transactions. It is anticipated that the sales and purchases will take place during the next 14 months at which time the amount deferred in equity will be reclassified to profit or loss.

Nilfisk has entered into contracts to purchase from suppliers in China. Nilfisk has entered into foreign exchange forward contracts to hedge the exchange rate risk arising from these anticipated further purchases.

As of December 31, 2018, the aggregated amount of loss under foreign exchange forward contracts deferred in the cash flow hedge reserve relating to these anticipated future purchase transactions is 0.3 mEUR (2017: gain of 1.9 mEUR). It is anticipated that these purchases will take place during the next financial year at which time the amount deferred in equity will be removed from equity and included in the carrying amount of the cost of sales. It is anticipated that the amount related to cost of goods sold will be converted into inventory and sold within 12 months after purchase.

The following table details the effectiveness of the hedging relationships and the amounts reclassified from hedging reserve to profit or loss:

**Interest rate risks**

Interest rate risks refer to the influence of changes in market interest rates on future cash flows concerning the Nilfisk Group's interest-bearing assets and liabilities. At December 31, 2018, Nilfisk Group's interest-bearing debt exceeded its interest-bearing assets by 369.3 mEUR compared to 359.7 mEUR as of December 31, 2017.

Nilfisk Group has entered two interest rate cap agreements with the interest rate capped at 0.00% p.a. The notional amount is 185 mEUR compared to 137.5 mEUR in 2017 and is hedging 48% of gross debt at December 31, 2018 compared to 38% in 2017. The interest rate caps matures June 30, 2021. At December 31, 2018, the total market value of the caps including interest is -0.4 mEUR compared to 0.0 mEUR in 2017. It is estimated that a 1% rise in market interest rate for the Nilfisk Group's net interest-bearing items at December 31, 2018 would, impact pre-tax earnings negatively on an annual basis by approximately 1.4 mEUR p.a. compared to 1.7 mEUR in 2017.

| Cash flow hedges | Change in the fair value of hedging instrument recognized in OCI | | Hedge ineffectiveness recognised in PL | | Line item in PL in which hedge ineffectiveness is included | | Amount from cash flow hedge reserve transferred to inventory | |
|---|---|---|---|---|---|---|---|---|
| EUR Thousand | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Forecast sales | 1,298.2 | -2,206.1 | -118.1 | 389.2 | Exchange gains/ losses, hedge | Exchange gains/ losses, hedge | - | - |
| Forecast purchase | -253.5 | 1,877.4 | - | -2.8 | Exchange gains/ losses, hedge | Exchange gains/ losses, hedge | 78.4 | -55.1 |

# Note 6

## 6.9 Financial risks and financial instruments – continued

### Credit risks

The Nilfisk Group's credit risks relate partly to receivables and cash at bank and in hand, and partly to derivative financial instruments with positive fair value. The maximum credit risk attached to financial assets corresponds to the values recognized in the balance sheet.

The Nilfisk Group has no material risks relating to a single customer or partner. The Nilfisk Group's policy for acceptance of credit risks entails ongoing credit rating of important customers and other partners.

Insurance cover and similar measures to hedge receivables are rarely applied as this is not deemed necessary.

### Development in trade receivables provision

| EUR million | 2018 | 2017 |
|---|---|---|
| Trade receivables from sales and services | 194.6 | 198.3 |
| *Impairment for bad and doubtful debts:* | | |
| January 1 | 4.4 | 5.0 |
| Exchange rate adjustments | -0.3 | -0.2 |
| Write-downs included in income statement in "Other operating income, net" | 2.1 | 1.2 |
| Reversal of impairment included in income statement in "Other operating income, net" | -1.8 | -0.7 |
| Realized losses included in "Other operating income, net" | -0.5 | -0.9 |
| Bad debt provision, December 31 | 3.9 | 4.4 |
| Net receivables from sales and services | 190.7 | 193.9 |

Impairments amount to 3.9 mEUR compared to 4.4 mEUR as of December 31, 2017. 1.3 mEUR is attributable to individual impairment compared to 2.3 mEUR as of December 31, 2017. Impairment recognized in the income statement in 2018 is 0.6 mEUR compared to 0.6 mEUR in 2017.

### Liquidity risks

It is the Nilfisk Group's policy to maintain adequate cash resources for implementing planned operating activities and to be able to operate effectively in the event of unforeseen fluctuations in liquidity. The Nilfisk Group's cash resources consist of cash, cash equivalents and undrawn credit facilities.

The below items do not include interest. The forward contracts are recognized at fair value and the discount element is considered insignificant due to short maturity.

Payables to credit institutions are consequently recognized in the balance sheet at the amounts stated above.

### Maturity of the Nilfisk Group's liabilities

| EUR million | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | More than 5 years | Total |
| Forward contracts | 4.2 | - | - | - | - | - | 4.2 |
| Credit institutions | 7.8 | 382.3 | - | - | - | - | 390.1 |
| Other financial liabilities | 218.8 | 1.1 | - | - | - | 0.1 | 220.0 |
| Total | 230.8 | 383.4 | - | - | - | 0.1 | 614.3 |

| EUR million | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | More than 5 years | Total |
| Forward contracts | 4.9 | - | - | - | - | - | 4.9 |
| Credit institutions | 8.0 | - | 397.2 | - | - | 0.1 | 405.3 |
| Other financial liabilities | 231.8 | 1.2 | - | - | - | - | 233.0 |
| Total | 244.7 | 1.2 | 397.2 | - | - | 0.1 | 643.2 |

# Note 6

## 6.9 Financial risks and financial instruments – continued

### Remuneration risks

Nilfisk has an exposure on its share-based incentive schemes (LTI programs) – a cash-settled and two equity-settled schemes. The exposure is the development in the price of the Nilfisk share that impacts the costs of the cash-settled scheme and liquidity required to settle the equity-settled schemes by own shares.

To mitigate the risk, Nilfisk has on December 13, 2018 entered into a Total Return Swap (TRS) of 410,000 Nilfisk shares, with a fixed strike price of 257.25 DKK, equivalent to a notional amount of 14.1 mEUR. The TRS carries an interest of 1.64% p.a. on the outstanding amount. For 2018, the interest expense amounted to 0.0 mEUR. The TRS expires at June 13, 2019. Nilfisk is obligated to exercise all shares within the TRS at the date of expiration. Dividends from the shares are fully compensated to Nilfisk.

The market value of the TRS, including accrued interest, at December 31, 2018 amounts -1.6 mEUR, of which -0.9 mEUR of the market value is recognized in OCI related to the cash-settled program, and -0.7 mEUR is recognized in financial items related to the equity-settled programs. Value adjustment of -0.8 mEUR is recognized in staff costs related to the cash-settled program.

### Fair values

Financial instruments measured at fair value in the balance sheet are designated as belonging to one of the following three categories (the 'fair value hierarchy'):

Level 1: Listed prices (unadjusted) in active markets for identical assets and liabilities

Level 2: Input, other than listed prices on Level 1, which is observable for the asset or liability either directly (as prices) or indirectly (derived from prices)

Level 3: Input for the asset or liability which is not based on observable market data (non-observable input)

Financial instruments measured at fair value consist of derivative financial instruments. The fair value at December 31, 2018 and 2017 of the Nilfisk Group's forward transactions is measured in accordance with Level 2 as the fair value is based on official exchange rates and forward rates at the balance sheet date. The fair value at December 31,2018 of the TRS is measured in accordance with Level 2 as the fair value is based on inputs of which most are observable including the share price of Nilfisk.

### Financial assets and liabilities by category

| EUR million | 2018 | 2017 |
|---|---|---|
| *Financial assets:* | | |
| Receivables | 214.2 | 211.7 |
| Interest-bearing receivables | 4.4 | 4.9 |
| Financial assets at amortized cost | 218.6 | 216.6 |
| Derivatives | 4.7 | 6.5 |
| Fair value through other comprehensive income | 4.7 | 6.5 |
| Total | 223.3 | 223.1 |
| *Financial liabilities:* | | |
| Credit institutions | 390.1 | 405.3 |
| Other financial liabilities | 220.0 | 233.0 |
| Financial liabilities at amortized cost | 610.1 | 638.3 |
| Derivatives | 4.2 | 4.9 |
| Fair value through other comprehensive income | 4.2 | 4.9 |
| Total | 614.3 | 643.2 |

# Note 6

## 6.9 Financial risks and financial instruments – continued

### § Accounting policy

**Derivative financial instruments**
Derivative financial instruments are recognized from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively. Fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods.

**Fair value hedges**
Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as a fair value hedge of a recognized asset or a recognized liability are recognized in the income statement together with changes in the value of the hedged asset or hedged liability. Apart from foreign currency hedging, hedge of future cash flows according to a firm commitment is treated as fair value hedge.

The ineffective portion of the change in the fair value of a derivative financial instrument is presented under financial items.

**Cash flow hedges**
Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as hedges of future cash flows are recognized in other comprehensive income and accumulated in a separate hedging reserve under equity until the hedged item influences the income statement. Gains or losses relating to such hedging transactions are then transferred through other comprehensive income and recognized in the income statement in the same item as the hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income.

If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. The accumulated reserve in equity remain in equity if it is still probably that the hedged cash flows will occur and is transferred through other comprehensive income to the income statement when the hedged cash flows influence the income statement.

If the hedged cash flows are no longer expected to be realized, the accumulated reserve in equity is immediately transferred to the income statement.

The ineffective portion of the change in the fair value of a derivative financial instrument is recognized immediately in income statement and presented under financial items.

**LTI program hedges**
*Cash-settled program*
Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as hedges of the impact from development in the price of the Nilfisk share on cash-settled programs are recognized in other comprehensive income and accumulated in a separate hedging reserve under equity. The accumulated reserve in equity is transferred through other comprehensive income and recognized in the income statement under staff costs, when the expenses are recognized in the income statement. The hedge of subsequent changes to recognized expenses are accounted for as a fair value hedge.

If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. The accumulated reserve in equity is immediately transferred through other comprehensive income to the income statement.

*Equity-based programs*
Hedge accounting cannot be applied on equity-based programs as fluctuations in the price of the Nilfisk share do not affect the income statement. Thus, changes in the fair value of derivative financial instruments hedging the liquidity risk related to the settlement of equity-settled programs are recognized in the income statement under financial items.

**Other derivative financial instruments**
Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized under financial items as they arise.

# Note 6

## 6.10 Share capital

The total number of shares is 27,126,369 with a nominal value of 20 DKK each. No shares carry special rights. Nilfisk Holding A/S' Articles of Association specifies no limits in respect of ownership or voting rights, and the Executive Management Board is unaware of any agreements in this regards.

### Earnings per share

Earnings per share of 0.37 is based on Profit attributable to equity holders of Nilfisk Holding A/S of 10.0 mEUR and an average number of shares of 27,126,369.

| EUR | 2018 | 2017 |
|---|---|---|
| Basic earnings per share | 0.37 | 1.49 |
| Diluted earnings per share | 0.37 | 1.49 |

### Dividends

At the Annual General Meeting to be held on March 26, 2019, the Board of Directors will propose not to distribute dividends for the financial year of 2018.

| EUR million | 2018 | 2017 |
|---|---|---|
| Dividends distributed | - | - |
| Dividends distributed per share | - | - |

### § Accounting policy

Dividends are recognized as a liability at the date of adoption at the Annual General Meeting (declaration date). Proposed dividend payments for the year are disclosed as a separate item under equity.
Interim dividends are recognized as a liability at the date when the decision to pay such dividends are made.

**Foreign exchange reserve**

The foreign exchange reserve comprises:

- exchange rate adjustments arising on translation of the financial statements of foreign entities with a currency that is not the Group's functional currency

**Hedging reserve**

Hedging reserve covers:

- cash flow hedging of interest payments
- hedging of currency risk of cash flows
- hedging of LTI program

# Note 7

## 7. Group structure

This note describes acquisitions and divestments of businesses during the year and Nilfisk Group's structure at December 31, 2018.

### 7.1 Acquisitions/divestments of businesses

**2018 Acquisitions and divestments**

Over the course of the year, Nilfisk completed several significant divestments across the portfolio. The divestments followed a series of strategic reviews that concluded that the businesses in question were not a strategic fit to Nilfisk's core business and did not represent markets attractive to Nilfisk.

| EUR million | Segment | Interest |
|---|---|---|
| Chemicals business | EMEA Professional | 100% |
| Rottest | EMEA Professional | Associated |
| Hydramaster business | Specialty Professional | Activities |
| Outdoor business | Specialty Professional | Activities |
| Nilfisk South Africa | EMEA Professional | 100% |

The above divestments have not been classified as discontinued operations as per IFRS 5 as none of the above divestments represents a separate major line of business or geographical area of operations.

The Nilfisk Group has not acquired new businesses in 2018.

**Divestment impact**

Below table summarizes the divestment impact by caption, the total loss and the cash flow impact from the above divestments.

| EUR million | 2018 | 2017 |
|---|---|---|
| Non-current assets | 12.8 | - |
| Current assets and liabilities, net | 21.1 | - |
| Net assets disposed | 33.9 | - |
| Divestment cost | 11.6 | - |
| Loss on divestment of business[1] | -42.4 | - |
| Consideration received (cash flow) | 3.1 | - |

[1]Refer to Note 2.4 for further details

The divestments made have certain mechanism that could subsequently change the gain/loss for the year as the final purchase price, in some cases, is dependent on subsequent events and financial performance. Any subsequent adjustment made will be recognized as special items.

**2017 Acquisitions and divestments**

The Nilfisk Group has not acquired new businesses or made divestments in 2017.

# Note 7

## 7.1 Acquisitions/divestments of businesses – continued

### § Accounting policy

Businesses acquired or formed during the year are recognized in the consolidated financial statements from the date of acquisition/formation. Businesses sold or wound up are recognized in the consolidated financial statements until the date of disposal.

In the case of acquisitions where Nilfisk Holding A/S directly or indirectly gains control of the business acquired, the purchase method is used. The identifiable assets, liabilities and contingent liabilities of the acquisition are measured at fair value at the acquisition date. Identifiable intangible assets are recognized if they are separable or arise from a contractual right.

Deferred tax on revaluations is recognized.

The date of acquisition is the date at which Nilfisk Holding A/S directly or indirectly gains actual control of the business acquired.

Positive differences (goodwill) between on the one side the purchase consideration, the value of minority interests in the acquisition and the fair value of any previously acquired equity investments, and on the other side the fair value of the acquired identifiable assets, liabilities and contingent liabilities, are recognized as goodwill under intangible assets. Goodwill is not amortized but a test for impairment is carried out annually. The first impairment test is performed before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units which subsequently form the basis for impairment tests. Goodwill and fair value adjustments relating to acquisition of a foreign entity having a functional currency other than the Nilfisk Group's presentation currency are treated as assets and liabilities belonging to the foreign entity and, on first-time recognition, are translated into the functional currency of that entity at the exchange rate prevailing at the transaction date. Negative differences (negative goodwill) are recognized in the income statement at the acquisition date.

The purchase consideration for a business consists of the fair value of the agreed consideration in the form of transferred assets, assumed liabilities, and issued equity instruments. If parts of the purchase consideration are contingent upon future events or fulfilment of agreed conditions, this part of the purchase consideration is recognized at fair value at the date of acquisition. Costs relating to business combinations are expensed directly in the income statement as incurred.

If uncertainty exists at the date of acquisition as to identification or the measurement of acquired assets, liabilities or contingent liabilities, or as to the determination of the purchase consideration, first-time recognition is based on values stated provisionally. If identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities subsequently proves to have been incorrect at first-time recognition, the calculation is adjusted retrospectively, including goodwill, until 12 months after the acquisition, and comparative figures are restated. Thereafter goodwill is not adjusted. Revised estimates of contingent purchase consideration are recognized in the income statement.

On whole or partial disposal of wholly owned foreign entities where control is relinquished, the currency adjustments which are recognized in other comprehensive income and which are attributable to the entity are reclassified from other comprehensive income to the profit/loss for the year together with gains or losses arising from the disposal.

On disposal of part-owned foreign subsidiaries the part of the translation reserve relating to minority interests is not transferred to the income statement.

Gains or losses on disposal of winding up of subsidiaries and associates are stated as the difference between the selling price or disposal sum and the carrying amount of net assets, including goodwill, at the time of sale, and selling or winding up costs.

**Business combinations between entities under common control**
In business combinations between entities under common control, the acquired assets and liabilities are recorded at their existing carrying values and comparative figures are restated to the latter of the beginning of the earliest comparative period and the date on which the combining entities first came under common control.

**Non-current assets held for sale**
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

# Note 7

## 7.2 Group companies

| Denmark | |
|---|---|
| Nilfisk Holding A/S | Denmark |
| Nilfisk A/S | Denmark |
| Nippon Investment Corporation ApS | Denmark |

| Europe | |
|---|---|
| Nilfisk GmbH | Austria |
| Nilfisk N.V./S.A. | Belgium |
| Nilfisk s.r.o. | Czech Rep. |
| Nilfisk Oy | Finland |
| Nilfisk S.A.S. | France |
| Jungo Voirie S.A.S. | France |
| Nilfisk-Advance Eppingen GmbH | Germany |
| Nilfisk GmbH | Germany |
| Nilfisk Hellas S.A. | Greece |
| Nilfisk Production Kft. | Hungary |
| Nilfisk Commercial Kft. | Hungary |
| Nilfisk Ltd | Ireland |
| Nilfisk S.p.A. | Italy |
| Nilfisk B.V. | Netherlands |
| Nilfisk AS | Norway |
| Nilfisk Polska Sp.z.o.o. | Poland |
| Nilfisk Lda | Portugal |
| Nilfisk-Advance S.R.L. | Romania |
| Nilfisk LLC | Russia |
| Nilfisk s.r.o. | Slovakia |
| Nilfisk S.A. | Spain |
| Nilfisk AB | Sweden |
| Nilfisk AG | Switzerland |
| Nilfisk Profesyonel Temizlik Ekipmanlari Ticaret. A.S. | Turkey Nilfisk Ltd. |
| Nilfisk Ltd. | United Kingdom |
| Floor Cleaning Machines | United Kingdom |

| North and Central America | |
|---|---|
| Nilfisk Canada Company | Canada |
| Nilfisk de Mexico S. de R.L. de C.V. | Mexico |
| Nilfisk de Mexico Services S. de R.L. de C.V. | Mexico |
| Nilfisk de Mexico Manufacturing Services S. de R.L. de C.V. | Mexico |
| Nilfisk de Mexico Manufacturing S. de R.L. de C.V. | Mexico |
| Nilfisk U.S Holding Inc. | US |
| Nilfisk Inc. | US |
| Hathaway North America Inc. | US |
| Hydro Tek Systems, Inc. | US |
| Nilfisk Pressure-Pro, LLC. | US |

| South America | |
|---|---|
| Nilfisk S.R.L. | Argentina |
| Nilfisk Equipamentos de Limpeza Ltda. | Brazil |
| Nilfisk S.A. | Chile |
| Nilfisk S.A.C. | Peru |

| Asia/Pacific | |
|---|---|
| Nilfisk Pty. Ltd. | Australia |
| Kerrick Distributers (Aust) Pty. Ltd. | Australia |
| Dongguan Viper Cleaning Equipment Co. Ltd. | China |
| Nilfisk Cleaning Equipment (Shanghai) Co. Ltd | China |
| Nilfisk Professional Cleaning Equipment (Suzhou) Co. Ltd. | China |
| Nilfisk Ltd. | Hong Kong |
| Nilfisk India Private Ltd. | India |
| Nilfisk Inc. | Japan |
| Nilfisk Korea Co. Ltd. | Korea |
| Nilfisk Sdn Bhd | Malaysia |
| Nilfisk Ltd. | New Zealand |
| Nilfisk Pte. Ltd. | Singapore |
| Nilfisk Ltd. (Branch) | Taiwan |
| Nilfisk Co. Ltd. | Thailand |
| Nilfisk Company Ltd. | Vietnam |
| Nilfisk Ltd. (Branch) | Macau |

| Associates | |
|---|---|
| M2H S.A. (44%) | France |
| CFM Lombardia S.r.l. (33%) | Italy |
| Nilfisk Trading LLC (49%) under incorporation | UAE |

Ownership below 100% is disclosed in brackets.

# Note 8

## Other notes

This note contains other statutory notes and notes considered less essential to the understanding of the Nilfisk Group's financial development.

### 8.1 Fees to auditors elected at the annual general meeting

**Fees to auditor**

| EUR million | 2018 | 2017 |
|---|---|---|
| *Deloitte* | | |
| Statutory audit | 1.0 | 0.9 |
| Other assurance services | 0.0 | 0.3 |
| Tax and VAT advice | 0.0 | 0.1 |
| Other non-audit services | 1.0 | 1.6 |
| Total | 2.0 | 2.9 |

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab Denmark, amounted to 1.0 mEUR, and consisted mainly of assistance related to Marketing outsourcing, HR System and agreed-upon procedures related to foreign subsidiaries and other accounting advisory services.

### 8.2 Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the presentation of the Financial Statements that materially affect the assessment of the consolidated financial statements.

### 8.3 Accounting standards issued but not yet effective

IASB has issued a number of new standards and interpretations that were not mandatory during preparation of the 2018 Annual Report. The new standards and interpretations are not expected to materially influence Nilfisk's financial reporting except for IFRS 16.

**IFRS 16 Leases**

IASB has issued IFRS 16 Leases, with the effective date of January 1, 2019. The standard eliminates the distinction between operating and finance leases, and requires that all leases must be recognized in the lessee's balance sheet as an asset with a related liability. The lessee's income statement will be affected, as the annual lease costs in the future will consist of two elements, depreciation of the leased asset and an interest expenses for the financial liability. Today, the annual costs relating to operating leases are recognized as overhead costs. The accounting for lessors will not significantly change.

The simplified transition approach will be applied and will not restate comparative amounts for the year prior to first adoption. The impact analysis concluded that IFRS 16 will have an insignificant impact on result for the year. The adoption is expected to have positive impact on the Group's EBITDA Margin before special items of approximately 2.4% percentage points based on the Group's current use of leasing in 2018. The impact on EBIT will be insignificant. The implementation will result in an increase in total assets and liabilities by approximately 65 mEUR. This will consequently negatively affect ROIC by approximately 1.9% percentage points.

From January 1, 2019 the right-of-use assets and lease liability are to be presented separately in the balance sheet or disclosed in the notes. The implementation of IFRS 16 will further require additional disclosures.

# Note 8

## 8.4 Contingent liabilities, securities and contractual obligations

Nilfisk Holding A/S has issued guarantees in total of 49.1 mEUR (2017: 53.6 mEUR). This includes rental commitments of 12.6 mEUR (2017: 13.8 mEUR). In addition, guarantees of 36.0 mEUR (2017: 26.4 mEUR) to support local bank facilities for subsidiaries were established by Nilfisk A/S.

Nilfisk Holding A/S and all its Danish subsidiaries are subject to mandatory joint taxation. Being the ultimate parent company in the Nilfisk Group, Nilfisk Holding A/S acts as the administration company of the joint taxation scheme and consequently settles all payments of tax with the tax authorities. Joint taxation contributions to/from subsidiaries are recognized under income tax related to net profit. Tax payable and tax receivable are stated under current assets/liabilities.

Nilfisk Holding A/S is liable for obligations attributable to the activities, assets and liabilities of NKT A/S that existed at the demerger September 11, 2017. The joint and several liabilities of Nilfisk Holding A/S and NKT A/S respectively cannot exceed an amount corresponding to the net value of the assets and liabilities. Nilfisk Holding A/S has entered into an indemnification agreement with NKT A/S, under which each party has a defined right of recourse with respect to any liabilities a party may incur in respect of the other party under the joint and several liability. The Nilfisk Group is engaged in certain disputes, legal proceedings and inquiries from authorities, including tax authorities, the outcome of which is not expected to materially impact the Group's financial position.

### § Accounting policy

**Contingent liabilities**
Disclosure concerning contingent assets and liabilities and when they must be recognized takes place against the background of evaluations of the expected outcome of the individual issues. These evaluations are based on legal opinions of the agreements contracted, which in significant issues also include opinions obtained from external advisors, including lawyers.

Assets are recognized when it is virtually certain that the issue will have a positive outcome for the company. A liability is recognized when it is likely that, at the balance sheet date, there will be an outflow from the Nilfisk Group's financial resources and when the liability can be reliably stated. If this is not the case, the matter is disclosed in the notes to the financial statements. Decisions relating to such situations may in future accounting periods lead to realized gains or losses that may differ significantly from the recognized amounts or disclosures.

**Contractual liabilities – leasing**
Lease commitments are divided for accounting purposes into finance leases and operating leases.

A finance lease is one that in all material respects transfers risks and benefits relating to ownership of the leased asset. Other leases are designated operating leases.

The accounting treatment of assets held under a finance lease and the associated liability are described in the section on property, plant and equipment and in the section on financial liabilities, respectively.

Rental payments made under an operating lease are recognized on a straight-line basis over the term of the lease.

Assets leased out under operating leases are recognized, measured and presented in the balance sheet in the same way as the Nilfisk Group's other assets of similar type.

### Contractual obligations

| EUR million | 2018 | 2017 |
|---|---|---|
| Contractual obligations relating to purchase of buildings and production plants | 0.1 | 0.1 |

### Operating lease commitments

The Nilfisk group leases property and production equipment, etc. under operating leases. Lease commitments relate principally to property. The leases are indexed annually and contain no special purchasing rights, etc.

| EUR million | 2018 | 2017 |
|---|---|---|
| ***Interminable minimum lease payments are specified as follows:*** | | |
| Within 0-1 year | 24.8 | 24.5 |
| Within 1-5 years | 39.0 | 40.1 |
| After 5 years | 4.0 | 5.5 |
| Total | 67.8 | 70.1 |
| Lease payments expensed in the income statement | 29.7 | 32.0 |
| Sub-rental, income | 0.1 | 0.1 |
| ***Operating lease income:*** | | |
| Operating lease income related to products leased to customers | 14.2 | 12.0 |
| ***Interminable minimum rent income is specified as follows:*** | | |
| Within 0-1 year | 3.1 | 7.6 |
| Within 1-5 year | 3.7 | 6.5 |
| Total | 6.8 | 14.1 |

# Note 8

## 8.5 Related parties

Nilfisk A/S was a wholly-owned subsidiary of NKT A/S until October 10, 2017. On this date, a demerger of NKT A/S was completed, effectively transferring the full ownership of Nilfisk A/S (and all its subsidiaries and affiliated companies) to a newly established Danish holding company, Nilfisk Holding A/S. Therefore, NKT A/S is only considered a related party until October 10, 2017. Following the demerger, on October 12, 2017 the shares of Nilfisk Holding A/S were listed at the Nasdaq Copenhagen stock exchange.

The Nilfisk Group has had the following transactions and balances with related parties:

**Related parties**

| EUR million | 2018 | 2017 |
|---|---|---|
| Service fee to NKT A/S | - | 0.4 |
| Interest expenses and derivative losses paid to NKT A/S | - | 6.2 |
| Income taxes paid to NKT A/S | - | 0.1 |
| Service fee from NKT A/S | - | 1.5 |
| Interest income and derivative gains received from NKT A/S | - | 0.9 |
| Goods sold to associated companies | 21.7 | 24.7 |
| Goods purchased from associated companies | - | 1.2 |
| Dividends received from associated companies | 1.3 | 1.3 |
| Trade receivables from associated companies | 3.0 | 3.5 |
| Trade payables to associated companies | - | - |

Please refer to Note 3.3 and Note 3.4 for remuneration to the Executive Management Board.

## 8.6 Non-cash adjustments

**Non-cash adjustments**

| EUR million | 2018 | 2017 |
|---|---|---|
| Writedown of non-current assets in relation to divestments | 19.7 | - |
| Gains and losses from disposal of assets | - | 1.2 |
| Share of profit of net result, associated companies | -3.4 | -2.8 |
| Change in provisions | -2.5 | -1.3 |
| Share based payment | - | -0.2 |
| Other non-cash items | -2.9 | -1.5 |
| Total | 10.9 | -4.6 |

Writedown of assets in relation to divestments of 19.7 mEUR (2017: 0 mEUR) relates to the divestment of Hydramaster, Outdoor, Chemicals as well as the Nilfisk South Africa businesses. The witedowns are mainly related to non-current assets. Please refer to Note 7.1 for further details.

# Note 8

## 8.7 Definitions

| Item | Key figures and ratios | Definition |
|---|---|---|
| 1 | Cash conversion | Cash flow from operations before financial items and income taxes as a percentage of EBITDA |
| 2 | Capital employed | Group equity plus net interest-bearing debt |
| 3 | Diluted earnings per share | Result attributable to equity holders of Nilfisk A/S as a percentage of diluted average number of outstanding shares |
| 4 | EBITDA before special items | Earnings (profit) before interest, tax, depreciation, amortization, impairment and special items |
| 5 | EBITDA | Earnings (profit) before interest, tax, depreciation, amortization and impairment |
| 6 | EBITDA margin before special items | EBITDA before special items as a percentage of revenue |
| 7 | EBITDA margin | EBITDA as a percentage of revenue |
| 8 | EBIT before special items | Earnings (profit) before interest, tax and special items |
| 9 | EBIT | Earnings before interest and tax (result before financial items and income taxes) |
| 10 | EBIT margin before special items | EBIT before special items as a percentage of revenue |
| 11 | EBIT margin | EBIT as a percentage of revenue |
| 12 | Earnings per outstanding share (EPS) | Result attributable to equity holders of Nilfisk A/S relative to average number of outstanding shares |
| 13 | Equity value per outstanding share | Equity attributable to equity holders of Nilfisk A/S per outstanding share at December 31 |
| 14 | Finacial gearing | Net interest bearing debt divided by EBITDA before special items |
| 15 | Free cash flow | Cash flow from operating activities less cash flow from investing activities |
| 16 | Free cash flow excluding acquisitions and divestments | Free cash flow plus cash flow from acquisition of businesses and less cash flow from divestment of businesses |
| 17 | Gross margin | Gross profit as a percentage of revenue |
| 18 | Net interest-bearing debt | Current and non-current interest-bearing loans and borrowings less interest-bearing receivables and cash Specified in Note 6.2 and 6.3 |
| 19 | Operating performance | EBITDA before special items and phantom shares |
| 20 | Organic growth | Organic growth in local currency excluding acquisitions and divestments and foreign exchange rates |
| 21 | Overhead cost ratio | Overhead costs as a percentage of revenue |
| 22 | Return on capital employed (RoCE) | EBIT before special items as a percentage of the average of the capital employed, calculated by taking the capital employed at December 31 and at the end of the preceding four quarters |
| 23 | Solvency ratio | Equity attributable to equity holders of Nilfisk A/S as a percentage of total assets |
| 24 | Working capital | Current assets minus current liabilities (excluding interest-bearing items and provisions) |
| 25 | Working capital ratio | Average working capital LTM (latest twelve month) as a percentage of revenue |

# Note 8

## 8.8 5-year financial highlights

| EUR million | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ***Income statement*** | | | | | |
| Revenue | 1,054.3 | 1,081.9 | 1,058.5 | 980.0 | 917.6 |
| EBITDA before special items | 125.5 | 120.1 | 116.8 | 98.0 | 107.3 |
| EBIT before special items | 87.4 | 81.5 | 75.8 | 63.8 | 77.4 |
| Depreciation and impairment of property, plant and equipment | -15.6 | -15.3 | -13.9 | -12.7 | -11.3 |
| Amortization and impairment of intangible assets | -17.3 | -17.1 | -19.9 | -16.6 | -15.0 |
| Amortization and impairment of acquisition-related intangible assets | -6.2 | -6.2 | -9.0 | -4.9 | -3.5 |
| EBITDA | 69.8 | 99.5 | 96.8 | 98.0 | 120.2 |
| EBIT | 18.9 | 60.9 | 54.0 | 63.8 | 90.3 |
| Special items, net | -68.5 | -20.6 | -21.8 | - | 12.9 |
| Financial items, net | -11.3 | -8.9 | -11.0 | -7.9 | -10.3 |
| Result before income taxes | 7.6 | 52.0 | 43.0 | 55.9 | 80.1 |
| Result for the year | 10.0 | 40.3 | 29.5 | 41.8 | 58.1 |
| Result attributable to equity holders of Nilfisk Holding A/S | 10.0 | 40.3 | 29.5 | 41.6 | 58.0 |
| ***Cash flow*** | | | | | |
| Cash flow from operating activities | 33.1 | 41.4 | 114.7 | 59.8 | 75.7 |
| Cash flow from investing activities | -38.6 | -35.3 | -72.6 | -67.5 | -19.0 |
| - hereof investments in property, plant and equipment | -18.6 | -15.3 | -20.6 | -21.7 | -13.7 |
| Free cash flow excluding acquisitions and divestments | -8.6 | 6.1 | 74.2 | 19.8 | 45.7 |
| ***Balance sheet*** | | | | | |
| Share capital | 72.9 | 72.9 | 67.2 | 67.2 | 67.2 |
| Equity attributable to equity holders of Nilfisk Holding A/S | 147.5 | 137.5 | 224.8 | 199.8 | 334.0 |
| Non-controlling interests | - | - | - | 0.9 | 0.8 |
| Group equity | 147.5 | 137.5 | 224.8 | 200.7 | 334.8 |
| Total assets | 794.4 | 827.2 | 983.1 | 935.5 | 862.3 |
| Net interest-bearing debt | 369.3 | 359.7 | 265.8 | 300.9 | 105.9 |
| Capital employed | 516.8 | 497.2 | 490.6 | 501.6 | 440.7 |
| Working capital | 170.4 | 163.5 | 141.7 | 173.3 | 159.7 |

| EUR million | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ***Financial ratios and employees*** | | | | | |
| Organic growth | 2.0% | 3.7% | 3.1% | 0.4% | 5.6% |
| Gross margin | 42.0% | 42.2% | 41.9% | 40.8% | 41.0% |
| Overhead costs ratio | 33.1% | 34.1% | 33.9% | 33.7% | 32.1% |
| EBITDA margin before special items | 11.9% | 11.1% | 11.0% | 10.0% | 11.7% |
| EBIT margin before special items | 8.3% | 7.5% | 7.2% | 6.5% | 8.4% |
| EBITDA margin | 6.6% | 9.2% | 9.1% | 10.0% | 13.1% |
| EBIT margin | 1.8% | 5.6% | 5.1% | 6.5% | 9.8% |
| Working capital ratio | 18.5% | 16.2% | 17.6% | 20.0% | 19.2% |
| Cash conversion % | 80% | 63% | 143% | 86% | 80% |
| Solvency ratio | 18.6% | 16.6% | 22.9% | 21.4% | 38.7% |
| Return on capital employed (RoCE) | 16.7% | 16.0% | 14.6% | 12.9% | 17.6% |
| Number of shares ('000) | 27,126 | 27,126 | 27,126 | 27,126 | 27,126 |
| Nominal share value DKK | 20 | 20 | 20 | 20 | 20 |
| Earnings per outstanding share (EPS) | 0.4 | 1.5 | 1.1 | 1.5 | 2.1 |
| Dividend paid, per share | - | - | - | 6.4 | 0.8 |
| Equity value per outstanding share | 5.4 | 5.1 | 8.3 | 7.4 | 12.3 |
| Number of full-time employees, average | 5,819 | 5,708 | 5,636 | 5,464 | 5,473 |
| Financial gearing | 2.9 | 3.0 | 2.3 | 3.1 | 1.0 |

# Parent company **financial statements** 2018



## Notes

# Income statement

## for the period January 1, 2018 to December 31, 2018

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| **Other income** | | **2.2** | **0.0** |
| Administrative costs | 1 | -3.7 | -1.1 |
| **Result before financial items and income taxes (EBIT)** | | **-1.5** | **-1.1** |
| Financial expenses | 2 | -0.7 | -0.1 |
| **Result before income taxes** | | **-2.2** | **-1.2** |
| Income taxes | 3 | 0.7 | 0.2 |
| **Result for the year** | | **-1.5** | **-1.0** |
| *To be distributed as follows:* | | | |
| Loss attributable to equity holders of Nilfisk Holding A/S | 6 | -1.5 | -1.0 |
| **Total** | | **-1.5** | **-1.0** |

# Balance sheet

## at December 31

| EUR million | Note | 2018 | 2017 |
|---|---|---|---|
| *Assets* | | | |
| *Non-current assets* | | | |
| Investments in subsidiaries | 4 | 215.6 | 216.2 |
| Deferred tax | 3 | 0.7 | - |
| **Total non-current assets** | | **216.3** | **216.2** |
| *Current assets* | | | |
| Prepayments | 5 | 0.1 | 0.1 |
| Receivable to group companies | 8 | 0.8 | 0.2 |
| **Total current assets** | | **0.9** | **0.3** |
| **Total assets** | | **217.2** | **216.5** |
| *Equity* | | | |
| Share capital | | 72.9 | 72.9 |
| Retained earnings | | 23.8 | 25.4 |
| **Total equity** | | **96.7** | **98.3** |
| *Non-current liabilities* | | | |
| Interest-bearing loans and borrowings | | 3.1 | - |
| Loans from group companies | 8 | 117.1 | 117.0 |
| **Total non-current liabilities** | | **120.2** | **117.0** |
| *Current liabilities* | | | |
| Payable to Group companies | | - | 1.2 |
| Trade payables and other liabilities | | 0.3 | - |
| **Total current liabilities** | | **0.3** | **1.2** |
| **Total liabilities** | | **120.5** | **118.2** |
| **Total equity and liabilities** | | **217.2** | **216.5** |

# Statement of changes in equity

## for the period January 1, 2018 to December 31, 2018

| EUR million | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Equity, January 1, 2018** | **72.9** | **25.4** | **98.3** |
| Foreign exchange translation adjustments | - | -0.3 | -0.3 |
| Result for the year | - | -1.5 | -1.5 |
| Share option programme | - | 0.2 | 0.2 |
| **Total changes in equity in 2018** | **-** | **-1.6** | **-1.6** |
| **Equity, December 31, 2018** | **72.9** | **23.8** | **96.7** |

| EUR million | Share capital | Retained earnings | Total equity |
|---|---|---|---|
| **Equity, October 10, 2017** | **72.9** | **26.2** | **99.1** |
| Foreign exchange translation adjustments | - | 0.2 | 0.2 |
| Result for the year | - | -1.0 | -1.0 |
| **Equity, December 31, 2017** | **72.9** | **25.4** | **98.3** |

The share capital is 27,126,369 shares with a nominal value of 20 DKK each.
The shares are not split into classes of shares. See Note 3.4 to the consolidated financial statements for a description of the share option program to the Executive Management Board.
Changes in equity 2018 comprises Profit (loss) for the year. No dividends are proposed for 2018.

# Note 1-6

Nilfisk Holding A/S is the parent company of the Nilfisk Group. The parent company comprises transactions related to holding of the subsidiaries, please refer to the Management review.

## 1. Administrative costs

| EUR million | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 3.6 | 0.9 |
| Security costs | - | - |
| Total | 3.6 | 0.9 |
| | | |
| Number of full-time employees, average | 2 | 2 |
| Number of full time employees, year end | 2 | 2 |
| | | |
| Remuneration to Board of Directors | 0.6 | 0.1 |
| Remuneration to the Executive Management Board | 3.0 | 0.8 |
| | | |
| Other administrative costs | 0.1 | 0.2 |
| **Total** | **3.7** | **1.1** |

The Executive Management Board are granted short-term bonus agreements contingent upon the fulfilment of the prerequisites, goals and conditions defined in a bonus agreement and long-term incentive programs. See Note 3.3 and 3.4 of the consolidated financial statements. Management fee of 2.2 mEUR was received by Nilfisk Holding A/S, and recognized in the income statement as other income.

## 2. Financial expenses

| EUR million | 2018 | 2017 |
|---|---|---|
| Foreign exchange gains/losses | -0.3 | -0.1 |
| Interest to group companies | -0.4 | - |
| **Total** | **-0.7** | **-0.1** |

## 3. Tax

### Tax recognized in the income statement

| EUR million | 2018 | 2017 |
|---|---|---|
| Current tax | - | 0.2 |
| Deferred tax | 0.7 | - |
| Total | 0.7 | 0.2 |
| Reported tax rate | 31.1% | 20.0% |
| | | |
| *Reconciliation of tax:* | | |
| Calculated tax of 22.0% (2017: 22%) on Profit before tax | 0.5 | 0.3 |
| *Tax effect of:* | | |
| Non-taxable income/non-deductible expenses | - | -0.1 |
| Adjustment for previous years | 0.2 | 0.0 |
| Total | 0.7 | 0.2 |

### Deferred tax assets and liabilities

| EUR million | 2018 | 2017 |
|---|---|---|
| Deferred tax assets, January 1 | - | - |
| Deferred tax recognized in the income statement | 0.7 | - |
| **Deferred tax, December 31** | **0.7** | **-** |
| | | |
| *Presentation of deferred tax:* | | |
| Deferred tax assets | 0.7 | - |
| Deferred tax liabilities | - | - |
| **Deferred tax, December 31** | **0.7** | **-** |

## 4. Investments in subsidiaries

| EUR million | 2018 | 2017 |
|---|---|---|
| Carrying amount, January 1 | 216.2 | 216.1 |
| Exchange rate adjustments | -0.6 | 0.1 |
| **Carrying amount, December 31** | **215.6** | **216.2** |

## 5. Prepayments

| EUR million | 2018 | 2017 |
|---|---|---|
| Insurance | 0.1 | 0.1 |
| **Total** | **0.1** | **0.1** |

## 6. Proposed distribution of result for the year

| EUR million | 2018 | 2017 |
|---|---|---|
| Suggested distribution of result for the year | - | - |
| Result attributable to equity holders of Nilfisk Holding A/S | -1.5 | -1.0 |
| **Total** | **-1.5** | **-1.0** |

# Note 7-10

## 7. Contingent liabilities, securities and contractual obligations

Nilfisk Holding A/S has issued guarantees in total of 49.1 mEUR (2017: 53.6 mEUR). This includes rental commitments of 12.6 mEUR (2017: 13.8 mEUR). In addition, guarantees of 36.0 mEUR (2017: 26.4 mEUR) to support local bank facilities for subsidiaries were established by Nilfisk A/S.

Nilfisk Holding A/S and all its Danish subsidiaries are subject to mandatory joint taxation. Being the ultimate parent company in the Nilfisk Group, Nilfisk Holding A/S acts as the administration company of the joint taxation scheme and consequently settles all payments of tax with the tax authorities. Joint taxation contributions to/from subsidiaries are recognized under income tax related to net profit. Tax payable and tax receivable are stated under current assets/liabilities.

Nilfisk Holding A/S is liable for obligations attributable to the activities, assets and liabilities of NKT A/S that existed at the demerger September 11, 2017. The joint and several liabilities of Nilfisk Holding A/S and NKT A/S respectively cannot exceed an amount corresponding to the net value of the assets and liabilities. Nilfisk Holding A/S has entered into an indemnification agreement with NKT A/S, under which each party has a defined right of recourse with respect to any liabilities a party may incur in respect of the other party under the joint and several liability.
The Nilfisk Group is engaged in certain disputes, legal proceedings and inquiries from authorities, including tax authorities, whose outcome is not expected to materially impact the Group's financial position.

## 8. Related parties

Transactions with affiliated undertakings comprise the following:

| EUR million | 2018 | 2017 |
|---|---|---|
| Non-current interest bearing loan from Nilfisk A/S | 117.1 | 117.0 |
| Income tax receivable from Danish entities part of the joint taxation | - | 0.2 |
| Receivables from group companies | 0.8 | - |
| Other payables to group companies | - | 1.2 |

Management fee of 2.2 mEUR was included in the 0.8 mEUR as a net receivable.

Other matters of interest in relation to related parties are disclosed in the notes to the consolidated financial statements.

## 9. Events after the balance sheet date

No significant events of importance to the financial statements of Nilfisk Holding A/S have occurred since December 31, 2018.

## 10. Fees to auditors

| EUR million | 2018 | 2017 |
|---|---|---|
| *Deloitte* | | |
| Statutory audit | 0.1 | - |
| Other assurance services | - | - |
| Tax and VAT advice | - | - |
| Other non-audit services | - | - |
| **Total** | **0.1** | - |

# Note 12

## § Accounting policy

The financial statements for the parent company are included in this Annual Report in pursuance of the requirements of the Danish Financial Statements Act.

The financial statements for the parent company are prepared in accordance with the Danish Financial Statements Act for accounting class D companies.

The financial statement for the parent company 2018 covers the period from January 1, 2018 to December 31, 2018 (October 10, 2017 to December 31, 2017).

The Annual Report is presented in EUR rounded to nearest EUR 1,000,000 with one decimal. The presentation currency is EUR as the Nilfisk Group's main business activities are EUR denominated

**DESCRIPTION OF ACCOUNTING POLICIES**

In relation to the accounting policies described for the financial statements of the Nilfisk Group (see Note 1.1 to the consolidated financial statements), the accounting policies of the parent company differ in the following:

**Income from investments in subsidiaries**

Dividends from investments in subsidiaries companies are recognized in the income statement of the parent company in the year the dividends are declared.

**Investments in subsidiaries**

Investments in subsidiaries are measured at costs. If there is indication of impairment, impairment testing is carried out. Where the carrying amount exceeds the recoverable amount it is written down to the recoverable amount.

**Tax**

Nilfisk Holding A/S and all its Danish subsidiaries are subject to mandatory joint taxation. Being the ultimate parent company in the Nilfisk Group, Nilfisk Holding A/S acts as the administration company of the joint taxation scheme and consequently settles all payments of tax with the tax authorities. Joint taxation contributions to/from subsidiaries are recognized under income tax related to net profit. Tax payable and tax receivable are stated under current assets/ liabilities. Companies that use tax losses in other companies pay joint taxation contributions to the parent company equivalent to the tax base of the tax losses utilized. Companies whose tax losses are used by other companies receive joint taxation contributions from the parent company equivalent to the tax base of the tax losses utilized (full absorption).

**Cash flow statement**

The parent company has in accordance with the Danish Financial Statements Act, Section 86 (4) not prepared separate cash flow statements. Please refer to the consolidated cash flow statements. References to notes to the consolidated financial statements For the following notes, see information in the consolidated financial statements:

- Remuneration – see Note 3 Remuneration
- Share capital – see Note 6.10 Share Capital

# **Management's** statement

The Board of Directors and the Executive Management Board have today discussed and approved the Annual Report of Nilfisk Holding A/S for the financial year 2018.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards which have been adopted by the EU. The parent company financial statements have been prepared in accordance with the Danish Financial Statements Act.

Further, the consolidated financial statements and the parent company financial statements have been prepared in accordance with additional requirements under the Danish Financial Statements Act.

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

The management review contains in our opinion a true and fair review of the development in the Nilfisk Group's and the parent company's operations, financial circumstances and results for the year, and of the parent company's financial position, and describes the material risks and uncertainties affecting the Nilfisk Group and the parent company.

We recommend that the Annual Report be approved at the Annual General Meeting.

Brøndby, March 1, 2019

## Executive Management Board

**Hans Henrik Lund**
President and CEO

**Karina Kjær Deacon**
CFO

## Board of Directors

**Jens Peter Due Olsen**
Chairman

**Lars Sandahl Sørensen**
Deputy Chairman

**Jens Maaløe**

**Jutta af Rosenborg**

**Anders Erik Runevad**

**René Svendsen-Tune**

**Gerner Raj Andersen**

**Søren Giessing Kristensen**

**Yvonne Markussen**

# Independent **auditor's report**

## To the shareholders of Nilfisk Holding A/S

**Opinion**

We have audited the consolidated financial statements and the parent financial statements of Nilfisk Holding A/S for the financial year January 1, 2018 to December 31, 2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of accounting policies, for the Group as well as the Parent, and the statements of comprehensive income and cash flows for the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

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

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at December 31, 2018, and of the results of its operations for the financial year January 1, 2018 to December 31, 2018 in accordance with 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 financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We were appointed auditors of Nilfisk Holding A/S for the first time on October 12, 2017. We have been elected by decision of the general assembly for a total contiguous engagement period of 2 years up to and including the 2018 financial year.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year January 1, 2018 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Classification and presentation of special items**

Expenses recognised as special items in 2018 represent a net expense of EUR 68.5 million (2017: an expense of EUR 20.6 million) and comprise expenses related to cost saving programs, business restructuring, results of divestments and costs related to the split from NKT A/S.

Classifying income and expenses as special items may have a material impact on the presentation of the Group's profit or loss and on comparability from year to year. In addition, estimates are included in the identification, classification and measurement of items presented as special items, due to the non-routine nature of such items. There is also a risk that the Group's accounting policy for special items is not applied consistently.

Based on the significance of special items, special items are considered to be a key audit matter. We refer to Note 2.4 in the consolidated financial statements.

**How the matter was addressed in our audit**

We have assessed the appropriateness of expenses classified and presented as special items and the consistency thereof with the Group's accounting policies. In this context, we:

- Assessed whether expenses classified and presented as special items only represent significant non-recurring expenses of a special nature, different from the Group's ordinary operations
- Assessed the completeness of the special items
- Examined all material income and expenses classified and presented as special items to supporting documentation and where relevant assessed the reasonableness of the judgement applied by Management in estimating the amounts
- Assessed whether disclosures in Note 2.4 are adequate and appropriate

**Statement on the Management review**
Management is responsible for the Management review.

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

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the Management review and, in doing so, consider whether the Management review is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Moreover, it is our responsibility to consider whether the Management review provides the information required under the Danish Financial Statements Act.

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

**Management's responsibilities for the consolidated financial statements and the parent financial statements**
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well as the preparation of parent financial statements that give a true and fair view in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent 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 financial statements**
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the 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 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'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 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'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent 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, March 1, 2019

**Deloitte**
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

| | |
|---|---|
| Kirsten Aaskov Mikkelsen | Sumit Sudan |
| State-Authorised | State-Authorised |
| Public Accountant | Public Accountant |
| MNE no mne21358 | MNE no mne33716 |

Nilfisk's Annual Report 2018 was published on March 1, 2019.
The report is also available at www.nilfisk.com.

Nilfisk Holding A/S, Kornmarksvej 1, DK-2605 Brøndby, Denmark.
Company reg. No. 38 99 88 70.

Investor Relations contact
Henrik Mølgaard
Tel. +45 43 23 81 00

Nilfisk