STARK Danmark A/S

C.F. Richs Vej 115

2000 Frederiksberg

Denmark

CVR No. 55 82 84 15

Annual Report

1 August 2017 to 31 July 2018

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21 December 2018

Laurits Anton Jørgensen
Chairman

Contents

Management's Statement on the Annual Report

The Executive Management and Board of Directors have today considered and adopted the Annual Report of STARK Danmark A/S' for the financial year 1 August 2017 to 31 July 2018.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Annual Report gives a true and fair view of the financial position of 31 July 2018 and of the results of the Company for 1 August 2017 to 31 July 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Company, and the results for the year and of the financial position of the Company and as well as a description of the most significant risks and elements of uncertainty facing the Company.

We recommend that the Annual Report be approved at the Annual General Meeting.

Frederiksberg, 13 December 2018

Executive Management

Britta Korre Stenholt

Board of Directors

Søren P. Olesen
Chairman

Sisse Fjelsted Rasmussen

Laurits Anton Jørgensen

Jan Munk Siefert

Peder Stage Boelt Knudsen

Independent auditor's report

To the shareholder of STARK Danmark A/S

Opinion

We have audited the Financial Statements of STARK Danmark A/S for the financial year 1 August 2017 – 31 July 2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the Entity's financial position at 31 July 2018 and of the results of its operations and cash flows for the financial year 1 August 2017 – 31 July 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the Financial Statements* section of this auditor's report. We are independent of the Entity 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.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Entity'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 financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 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 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures in the notes, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on Management's review
Management is responsible for Management's review.

Our opinion on the Financial Statements does not cover Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's review and, in doing so, consider whether Management's review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of Management's review.

Copenhagen, 21 December 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kim Takata Mücke
State-Authorised Public Accountant
mne10944

Company Information

Company	STARK Danmark A/S C. F. Richs Vej 115 2000 Frederiksberg Denmark CVR No. 55 82 84 15 Financial period: 1 August - 31 July
Board of Directors	Søren Peschardt Olesen (Chairman) Sisse Fjelsted Rasmussen Laurits Anton Jørgensen Jan Munk Siefert (elected by the employees) Peder Stage Boelt Knudsen (elected by the employees)
Executive Management	Britta Korre Stenholt
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 DK-2300 København
Annual General Meeting	21 December 2018

Management's review

Financial highlights for the Company

Financial highlights for the Group

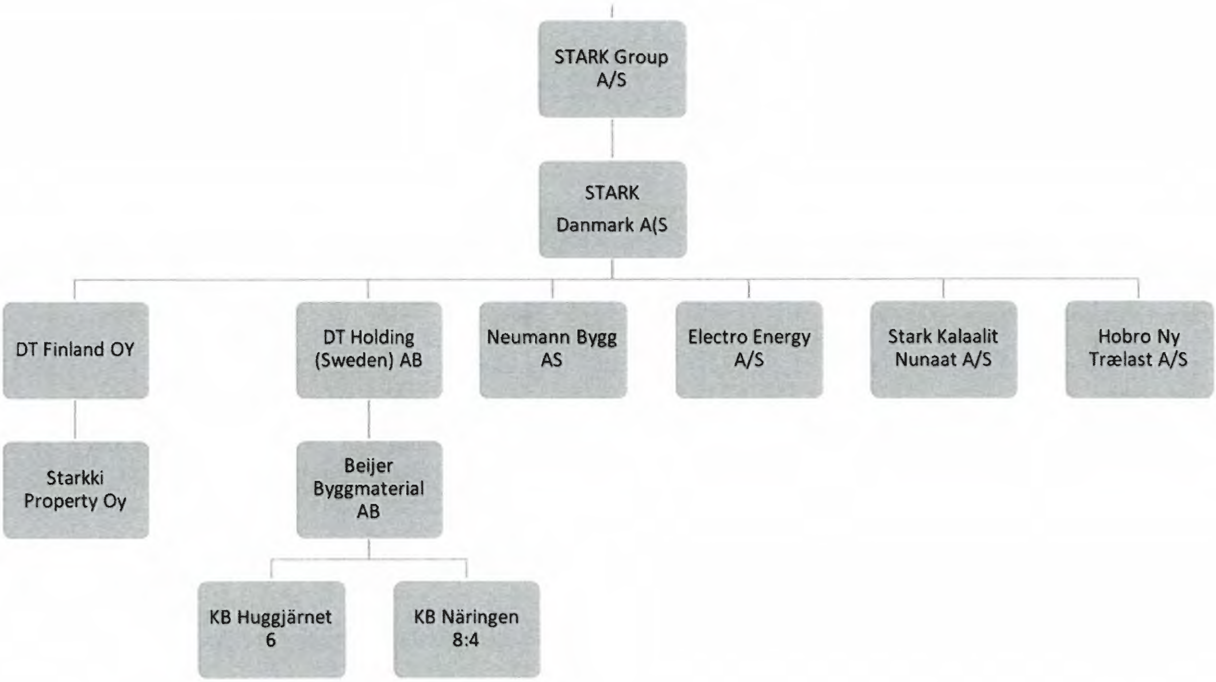
DKK million	2017/18	2016/17	2015/16	2014/15	2013/14
Income statement					
Net sales	6,780	6,766	6,758	8,294	8,150
Gross profit	1,733	1,718	1,722	2,388	2,261
Profit /(loss) before financial income and expenses	600	(65)	122	296	109
Financial items, net	424	32	112	49	270
Results from discontinued operations	(5)	(4)	29	-	-
Results for the year	897	(28)	163	265	307
Balance sheet					
Total assets	6,696	6,719	7,742	7,492	7,935
Equity	4,010	3,373	3,395	3,238	2,968
Investment in property, plant and equipment	166	199	225	130	258
Financial ratios					
Gross margin	25.6%	25.4%	25.5%	28.8%	27.7%
Profit margin	8.9%	(1.0%)	1.8%	3.6%	1.5%
Return on assets	9.0%	(1.0%)	1.6%	4.0%	1.5%
Solvencio ratio	59.9%	50.2%	43.9%	43.2%	37.4%
Return on Equity	24.3%	(0.8%)	4.9%	8.5%	10.4%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts.

Business Review

STARK Danmark A/S is a part of STARK GROUP - the leading retailer and distributor of building materials in the Nordics, targeting the professional craftsmen and small and medium-sized enterprises (SME) within the construction and renovation industry. STARK Group directly operates a total of 181 branches across Denmark, Sweden, Norway and Finland.

Due to historical reasons, STARK Danmark A/S has been the legal unit, which included both the operating retail and distribution activities in Denmark as well as the head quarter activities of STARK Group and the ownership of the subsidiaries with operating business units in the other Nordic Countries. The legal structure as of 31 July 2018 can be illustrated as follows, where STARK Group A/S is a dormant holding company with no activities except the ownership of STARK Danmark A/S:



In March 2018, STARK Group was acquired by the U.S.-based private equity firm Lone Star from the former owner Ferguson plc in the UK. The financial year 2017/18 has been an unusual year, where Group Management has been occupied facilitating the sales transaction from Ferguson to Lone Star and in the same time initiated an internal reorganization and implemented the new strategy including the sale of the DIY chain Silvan end of August 2017. This has also had an impact on the financial performance, as the year is net positively impacted by non-recurring items consisting of costs related to said transactions including a one-off gain from the sale of properties no longer related to the on-going business.

Financial Review

The underlying operating business performance of the retail and distribution activities in Denmark has also progressed well during the financial year 2017/18 where the strategic initiatives to drive sales growth together with the market development had a positive impact on net sales, which was partly offset by branch closures and a colder and longer winter than usual.

Net sales of continuing activities (excl. Silvan) amounted to DKK 6.780 million, corresponding to an organic growth of 3.7% in the operating retail and distribution business in Denmark, when adjusting for internal group charges and for closed branches in the comparable net sales of last year.

Gross margin has increased from 25.4% to 25.6% driven by the strategic initiatives focusing on the SME customers and better sourcing by leveraging on our scale and volumes across the Nordic region.

During the year, non-recurring costs of total DKK 135 million (included in other external expenses) were incurred in connection with the divestment of the STARK Group to Lone Star and related strategic initiatives. In the same time selected properties no longer related to the on-going business were carved out and sold to Ferguson Group resulting in a net gain of DKK 521 million (included in other operating income).

EBIT for the year ended 31 July 2018 amounted to DKK 600 million versus a loss of DKK 65 million last year. The development is significantly impacted by the non-recurring items. Adjusting for the non-recurring items and non-ongoing activities, the adjusted EBIT for 2017/18 was DKK 214 million and grew 29.9% from DKK 164 million in 2016/17, driven by the increased topline and improved margins.

Results from discontinued operations were a loss of DKK 5 million in 2017/18 (2016/17: A loss of DKK 4 million) and include a loss of DKK 8 million from the divestment of the Silvan business.

Results for the year amounted to a profit of DKK 897 million in 2017/18 compared to a loss in 2016/17 of DKK 28 million. The significant increase was driven by a good underlying performance and one-off net gains arising from the sale of the properties which are no longer a part of the on-going business. The results for 2017/18 are considered satisfactory and in line with expectations taking non-recurring items into consideration.

Total assets decreased by DKK 23 million during 2017/18 from DKK 6,719 million as of 31 July 2017 to DKK 6,696 million as of 31 July 2018. The decrease from sale of properties and the divesting of the Silvan business was almost offset by investment in subsidiaries and higher cash and cash equivalents at the end of the financial year compared to the beginning of the year.

Equity increased by DKK 637 million in FY17/18 from DKK 3,373 million as of 31 July 2017 to DKK 4,010 million as of 31 July 2018. The increase was primarily due to the results for the year of DKK 897 million reduced by payment of interim dividend of DKK 260 million.

Expectations to FY18/19

The performance of the Company is to a large extent dependent on the general macroeconomic conditions as well as the activity in the construction, building and renovation sector which drives the demands from our customers. In the first months of the financial year 2018/19 the market for building materials sales have been at a continued high level.

Based on the current market conditions and the positive impact from the strategic initiatives, STARK Denmark A/S expects to deliver improved underlying performance in FY 18/19 through growth in both net sales and adjusted EBIT compared to FY 17/18.

Corporate Social Responsibility

STARK Danmark A/S is included in the consolidated financial statements of STARK Group A/S and subject to the exemption provision of section 99a (6) of the Danish Financial Statements Act regarding reporting on corporate social responsibility. To read the full report, please refer to the following web address: https://starkgroup.dk/about/sustainability.

Employee engagement

The level of engagement of our people is crucial in delivering on our strategic goals and maintaining customer loyalty and the overall sustainability of the business. Our teams in sales, branches, logistics and distribution centers are the local face of our business. Their relationships with both large and small customers are critical to our success and their expert knowledge means they are a key part of our customers' workday.

We value the efforts from all our employees in the company during the past year, where we managed to develop and improve the underlying business of STARK Danmark A/S while at the same time supporting the process of selling STARK Group to our new owners.

Subsequent events

No events have occurred after the balance sheet date that materially affect the Company's financial statements.

Income Statement 1 August - 31 July

Note	DKK million	2017/18	2016/17
2	Net sales	6,780	6,766
	Cost of sales	(5,047)	(5,048)
	Gross Profit	**1,733**	**1,718**
	Other external expenses	(544)	(522)
3	Staff costs	(1,029)	(1,106)
4	Other operating income	522	1
	Earnings before interest, tax, depreciation and amortisation (EBITDA)	**682**	**91**
5	Depreciation, amortisation and writedown of non-current assets	(82)	(156)
	Earnings before interest and tax (EBIT)	**600**	**(65)**
	Income from investments in subsidiaries	436	24
6	Financial income	23	32
7	Financial expenses	(35)	(24)
	Results before tax	**1,024**	**(33)**
8	Tax for the year	(122)	9
	Results for the year before discontinued operations	**902**	**(24)**
9	Results for the year from discontinued operations	(5)	(4)
	Results for the year	**897**	**(28)**
16	**Proposed distribution of profit:**		
	Interim dividend paid	260	-
	Proposed dividend	260	-
	Retained earnings	377	(28)
	Total	**897**	**(28)**

Statement of Financial Position as of 31 July

Note	DKK million	2018	2017
	Non-current assets		
10	**Intangible non-current assets**		
	Goodwill	12	24
	Software	48	-
	Development projects in progress	13	33
	Total intangible non-current assets	**73**	**57**
11	**Tangible non-current assets**		
	Property	1,132	1,489
	Plant and equipment	49	66
	Property, plant and equipment in progress	10	155
	Total tangible non-current assets	**1,191**	**1,710**
	Financial non-current assets		
12	Investments in subsidiaries	1,441	1,105
17	Deferred tax assets	3	-
13	Receivables from related parties	312	378
	Total financial non-current assets	**1,756**	**1,483**
	Total non-current assets	**3,020**	**3,250**
	Current assets		
14	Inventories	943	811
	Trade receivables	753	850
	Receivables from related parties	922	930
	Other receivables	74	57
	Prepayments	4	3
	Cash and cash equivalents	980	333
	Total current assets	**3,676**	**2,984**
9	Assets held for sale	-	485
	Total assets	**6,696**	**6,719**

Statement of Financial Position as of 31 July

Equity and liabilities as of 31 July

Note	DKK million	2018	2017
	Equity		
15	Share capital	462	462
	Restricted reserve	447	-
	Retained earnings	2,841	2,911
	Dividend	260	-
	Total equity	**4,010**	**3,373**
	Non-current liabilities		
17	Deferred tax	87	74
18	Other provisions	42	81
19	Banks and credit institutions	44	596
	Total non-current liabilities	**173**	**751**
	Current liabilities		
19	Banks and credit institutions	-	64
	Trade and other payables	2,270	1,985
	Payables to related parties	243	39
	Total current liabilities	**2,513**	**2,088**
9	Liabilities held for sale	-	**507**
	Total liabilities	**2,686**	**3,346**
	Total equity and liabilities	**6,696**	**6,719**

Statement of Changes in Equity

Note	DKK million	Share capital	Restricted reserve	Retained earnings	Dividend	Total equity
	Equity at 1 August 2016	**462**	**-**	**2,933**	**-**	**3,395**
	Other equity movements	-	-	6	-	6
	Distribution of profit	-	-	(28)	-	(28)
	Equity at 31 July 2017	**462**	**-**	**2,911**	**-**	**3,373**
	Equity at 1 August 2017	**462**	**-**	**2,911**	**-**	**3,373**
	Interim dividend paid	-	-	-	(260)	(260)
16	Distribution of profit	-	-	377	520	897
	Transfer	-	447	(447)	-	-
	Equity at 31 July 2018	**462**	**447**	**2,841**	**260**	**4,010**

Overview of notes to the Financial Statements

Note	Contents
1	Accounting Policies and critical estimates and judgements
2	Net sales
3	Staff costs
4	Other operating income
5	Depreciation, amortisation and write-down of non-current assets
6	Financial income
7	Financial expenses
8	Tax for the year
9	Discontinued operations
10	Intangible non-current assets
11	Tangible non-current assets
12	Investment in subsidiaries
13	Receivables from related parties
14	Inventories
15	Share capital
16	Proposed distribution of profit
17	Provision for deferred tax
18	Other provisions
19	Banks and credit institutions
20	Operating leases
21	Assets pledged as security
22	Contingent liabilities
23	Related parties' transactions

Notes to the Financial Statements

1. Accounting policies and critical estimates and judgements

Basis of Preparation

The financial statements have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017/18 are presented in DKK million.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of STARK Group A/S, STARK Danmark A/S has not prepared consolidated financial statements.

Cash flow statements

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of STARK Group A/S, STARK Danmark A/S has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at transaction date. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency at the rate prevailing on the balance sheet date. All differences are recognized in the income statement.

Derivative financial instruments
Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting.

Net sales

Net sales comprise the fair value of consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Net sales from the sale of goods for resale and finished goods is recognised in the income statement when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of net sales can be measured reliably.

Net sales is recorded net of returns, discounts/offers and value added taxes.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc. to directly and indirectly achieve net sales for the year.

Notes to the Financial Statements

1. Accounting policies and critical estimates and judgements (continued)

Staff expenses

Staff expenses comprise wages and salaries as well as other payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the results for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Company and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5-20 years.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences, consulting costs attributable to the development, design and implementation of the computer software and internal costs directly attributable to the development, design and implementation of the computer software. Costs in respect of training and data conversion are expensed as incurred.

Software costs are amortised on a straight-line basis over their estimated useful lives of 3 - 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses. Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. Interest expenses on loans raised for financing the construction of property, plant, machinery and equipment and which are related to the period of construction are recognised in the income statement.

Depreciation based on cost is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Office buildings	50 years
Commercial buildings and office premises in connection herewith	25 years
Plant and equipment	3 - 10 years

Property, plant and equipment under construction are not depreciated.

Notes to the Financial Statements

1. Accounting policies and critical estimates and judgements (continued)

At the balance sheet date, an assessment is made of the residual values, useful life left and depreciation pattern. Changes are accounted for as changes in accounting estimates.

Gains and losses on disposals or retirements are recognised in the income statement as other external operating income/expenses.

Leases

Leases with terms in which STARK Danmark A/S assumes substantially all the risks and rewards of ownership (finance leases) are on inception recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and impaired under the same policies as determined for the other fixed assets of the Company.

The related lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write down is made to this lower value.

Other fixed asset investments

Other fixed asset investments consist of long-term receivables from group enterprises.

Impairment of assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business.

Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition, and management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets that are classified as held for sale are not depreciated.

Inventories

Inventories, which comprise goods purchased for resale, are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out ("FIFO") method. The cost of goods purchased for resale includes import and custom duties, transport and handling costs, freight and packing costs and other attributable costs less supplier rebates. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions are made against slow-moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than the cost. The risk of obsolescence of slow-moving inventory is assessed by comparing the level of inventory held to estimated future sales on the basis of historical experience.

Trade receivables

Trade receivables are non-interest bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for bad debts.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet to the extent that there is no legal right of offset and/or no practice of net settlement with cash balances. Cash, which is not freely available to the Group, is disclosed as restricted cash.

Notes to the Financial Statements

1. Accounting policies and critical estimates and judgements (continued)

Borrowings

Interest-bearing loans from related parties and bank and credit institutions and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the Group income statement over the period of the borrowings on an effective interest basis.

Trade payables

Trade payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when, in consequence of an event that occurred before or on the balance sheet date, the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Current tax liabilities and receivables are recognized in the balance sheet as a payable to or a receivable from the tax administration company and is included in receivables from or payables to related parties.

Financial highlights information

Gross margin	$= \frac{\text{Gross profit x 100}}{\text{Net sales}}$
Profit margin	$= \frac{\text{EBIT x 100}}{\text{Net sales}}$
Solvency ratio	$= \frac{\text{Equity at year end x 100}}{\text{Total assets}}$
Return on assets	$= \frac{\text{EBIT x 100}}{\text{Total assets}}$
Return on equity	$= \frac{\text{Results for the year}}{\text{Average equity}}$

Notes to the Financial Statements

DKK million		2017/18	2016/17
Note			
2	**Net sales**		
	Sale of goods	6,729	6,668
	Other sales	51	98
	Total net sales	**6,780**	**6,766**
3	**Staff costs**		
	Salaries and wages	936	1,008
	Pensions - contribution plan	75	78
	Pensions - defined benefit plan	-	-
	Other expenses for social security	18	20
	Total staff costs	**1,029**	**1,106**
	Average number of fulltime employees	2,317	3,308

With reference to the Danish Financial Statements Act §98, 3, the remuneration to the Executive Board has not been disclosed, as it only consist of one person.

		2017/18	2016/17
4	**Other operating income**		
	Gain from sale of property, plant and equipment, net	521	-
	Other expenses for social security	1	1
	Total staff costs	**522**	**1**
5	**Depreciation, amortisation and writedown of non-current assets**		
	Other Intangible assets	28	13
	Property	39	95
	Fixtures, fittings, tools and equipment	15	48
	Total depreciation. amortisation and writedown	**82**	**156**
6	**Financial income**		
	Interest from related parties	6	19
	Interest received from debtors	12	12
	Other financial income	5	1
	Total financial income	**23**	**32**
7	**Financial expenses**		
	Other financial expenses	-	19
	Foreign exchange losses	35	5
	Total financial expenses	**35**	**24**

Notes to the Financial Statements

DKK million		2017/18	2016/17
Note			
8	**Tax for the year**		
	Current tax	(99)	(28)
	Deferred tax	(21)	29
	Adjustment of current tax regarding previous years	-	4
	Adjustment of deferred tax regarding previous years	(2)	4
	Total tax for the year	**(122)**	**9**
9	**Discontinued operations**		
	Net sales	134	1,587
	Expenses for raw materials and consumables	(86)	(998)
	Other external expenses	(27)	(276)
	Gross Profit	**21**	**313**
	Other operating expenses	(18)	(318)
	Results before tax	**3**	**(5)**
	Tax for the year	-	1
	Results after tax	**3**	**(4)**
	Loss on disposal	(8)	-
	Results for the year from discontinued operations	**(5)**	**(4)**
	Property, plant and equipment	-	48
	Tangible non-current assets	**-**	**48**
	Inventories	-	368
	Receivables	-	69
	Current assets	**-**	**437**
	Assets relating to discontinued operations	**-**	**485**
	Provisions	-	14
	Trade payables	-	493
	Liabilities relating to discontinued operations	**-**	**507**

Silvan is reported as discontinued operations in the periods ended 31 July 2018 and 2017.

The result for FY 2017/18 covers the period 1 August - 31 August 2017, which were the closing date.

Notes to the Financial Statements

DKK million

Note

10 **Intangible non-current assets**

	Goodwill	Software	Development projects in progress
Cost as of 1 August 2017	551	-	33
Additions for the year	-	-	38
Disposals for the year	-	(52)	(10)
Transfers for the year	-	131	(48)
Cost as of 31 July 2018	**551**	**79**	**13**
Amortisation and impairment as of 1 August 2017	(527)	-	-
Amortisation for the year	(12)	(16)	-
Amortisation of sold assets	-	35	-
Transfers for the year	-	(50)	-
Amortisation and impairment as of 31 July 2018	**(539)**	**(31)**	**-**
Carrying amount at the end of the year	**12**	**48**	**13**

The Company develops software to improve its procedures and competitiveness.

11 **Tangible non-current assets**

	Property	Plant and equipment	Property, plant and equipment in progress
Cost as of 1 August 2017	2,721	250	155
Additions	15	33	118
Disposals	(983)	(36)	-
Transfers for the year	247	(58)	(263)
Cost as of 31 July 2018	**2,000**	**189**	**10**
Depreciation and impairment as of 1 August 2017	(1,232)	(184)	-
Depreciation for the year	(39)	(15)	-
Depreciation and writedown on sold assets	403	18	-
Transfers for the year	-	41	-
Depreciation and impairment as of 31 July 2018	**(868)**	**(140)**	**-**
Carrying amount at the end of the year	**1,132**	**49**	**10**

Properties with a carrying amount of DKK 64 million (2017: DKK 934 million) have been pledged as security for mortgage loans.

Notes to the Financial Statements

DKK million		2017/18	2016/17
Note			
12	**Investments in subsidairies**		
	Cost at the beginning of the year	1,105	1,124
	Additions	345	-
	Disposals	(9)	(19)
	Cost as of 31 July 2018	**1,441**	**1,105**
	Depreciation and impairment as of 31 July 2018	**-**	**-**
	Carrying amount at the end of the year	**1,441**	**1,105**

Investments in subsidiaries are specified as follows:

Name	Country	Voting and ownership share	Equity DKK mio.	Net profit/(loss) for the year DKK mio.
DT Finland Oy	Finland	100%	96	877
Starkki Property Oy	Finland	100%	(4)	139
DT Holding (Sweden) AB	Sweden	100%	492	-
Beijer Byggmaterial AB	Sweden	100%	600	85
KB Huggjärnet 6 KB	Sweden	100%	10	1
KB Näringen 8:4	Sweden	100%	10	1
Neumann Bygg AS	Norway	100%	64	122
Electro Energy A/S	Denmark	100%	116	6
Hobro Ny Trælast A/S	Denmark	100%	11	-
Stark Kalaallit Nunaat A/S	Greenland	100%	113	12

		2017/18	2016/17
13	**Receivables from related parties**		
	Balance at the beginning of the year	378	384
	Additions	312	-
	Repayments	(368)	-
	Exchange rate adjustment	(10)	(6)
	Carrying amount at the end of the year	**312**	**378**

Receivables from related parties include receivables from the Group Company, LSF10 Wolverine BidCo ApS.

	Maturity are specified as follows:		
	Later than 5 years from the balance sheet date	312	378
	At 31 July	**312**	**378**
14	**Inventories**		
	Goods for resale	943	811
	Total inventories	**943**	**811**

Notes to the Financial Statements

DKK million Note		2017/18	2016/17
15	**Share capital**		
	The Company's share capital consists of 23.123.657 issued shares of DKK 20 nominal value. No shares carry any special rights.		
16	**Proposed distribution of profit:**		
	Interim dividend	260	-
	Final dividend declared	260	-
	Retained earnings	377	(28)
	Total	**897**	**(28)**
17	**Provision for deferred tax**		
	Provision for deferred tax as of 1 August	74	112
	Amounts recognised in the income statement for the year	23	(38)
	Other movements due to carve out	(10)	-
	Total	**87**	**74**
	Deferred tax relates to:		
	Intangible assets	4	11
	Property, plant and equipment	73	84
	Inventory	(14)	(32)
	Other liabilities	24	11
	Total	**87**	**74**
18	**Other provisions**		
	At 31 July 2017	81	60
	Utilised in the year	(39)	21
	At 31 July 2018	**42**	**81**
19	**Banks and Credit institutions**		
	Within 1 year	-	64
	Between 1 and 5 years	-	342
	After 5 years	44	254
	Carrying amount	**44**	**660**

20 Operating leases

The Company leases property and equipment under operating leases. The lease terms are typically for terms of between 1 and 5 years, with the possibility of renewal or purchase at the end of the period. Some leases include contingent rent, but the amounts are not material for the Company.

Future minimum lease payments under non-cancellable leases for the following periods are:

	2017/18	2016/17
Due within one year	67	105
Due in two to five years	132	224
Due after 5 years	13	27
Total minimum lease commitments	**212**	**356**

21 Assets pledged as security

Shares in subsidiaries with a carrying amount of DKK 1,318 million have been pledged as security for bond debt amounting to EUR 515 million and Revolving Credit facilities agreement with lenders up to EUR 100 million in the Group company, LSF10 Wolverine Investments S.C.A.

22 Contingent liabilities

The Company is involved in various legal proceedings as part of ordinary business. The outcome of the pending lawsuits is not expected to have material impact on the Company's financial position.

Danish Group companies are jointly and severally liable for the tax on the jointly taxed incomes of the LSF10 Wolverine Bidco ApS and its Danish subsidiaries. The total amount of Danish corporation tax payable until 29 March 2018 is disclosed in the annual report for Ferguson Holding A/S, which was the management company for joint Danish taxation purposes until the change in ownership at 29 March 2018. The total amount of corporation tax payable for the period 29 March 2018 to 31 July 2018 is disclosed in the annual report of LSF10 Wolverine Bidco ApS, which is the management company for joint taxation purposes going forward. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Group's liability.

STARK Danmark A/S has provided guarantees for subsidiaries' liabilities to public authorities and landlords in the amount of DKK 29 million.

23 Related party transactions

Controlling interest

Stark Group A/S is the parent company.

Transactions

There have been no transactions with the Board of Directors, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration. All transactions are made on an arm's length basis and, according to the Danish Financial Statements Act §98c, 7, they are not disclosed.

Consolidated Financial Statements

The Company is included in the Consolidated Financial Statements for STARK Group A/S - CVR No. 27 06 53 33.

The Consolidated Financial Statements for STARK Group A/S may be obtained at the following address:

STARK Group A/S, C.F. Richs Vej 115, 2000 Frederiksberg, Denmark