



BY APPOINTMENT TO
THE ROYAL DANISH COURT

HARBOE

ANNUAL REPORT
2017/2018

“This year’s profit reflects the fact that we’re on a journey that requires patience and investments in the future. We do, however, find it highly encouraging that the investments we’ve already made have produced very positive results.”

Bernhard Giese
CEO

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PURE

Harboe markets its own juices under the brand Pure. Pure juice is not based on concentrate like most juices, but on pure juice from freshly squeezed fruit and berries. The juice is produced in the group's aseptic production facilities, thus ensuring a high, uniform quality and unique keeping qualities – entirely without the use of additives or preservatives. Pure therefore meets an increasing demand for healthy drinks products and is marketed in five fruit flavours with all fruits coming from carefully selected growers. Pure is marketed in selected markets in Europe and Asia. ■

STRATEGIC CHANGES TO ALLOW FUTURE VALUE CREATION

Intensive marketing creates results with growth and growing recognition of the group's own brands in the prioritised international key markets. Developments support the group's strategy of increasing the relative weighting of the group's own brands in relation to private-label products. This requires changes, capacity prioritisation and extensive investments in sales and marketing. The changes and the investments currently affect both revenue and earnings, but the results are paving the way for a future-proof and sustainable business with new potential for international organic growth.

ENHANCED FOCUS AND INCREASED MARKETING PRODUCE RESULTS

This year's profit reflects the fact that we are on a journey that requires patience and investments in the future. We do, however, find it highly encouraging that the investments we have already made have produced very positive results. We have revised our marketing strategy and intensified our sales and marketing efforts for our own brands, which we build systematically in close partnership with regional and international distributors. We have intensified our market focus further in order to maximise the value creation of our products and brands. And we have seen that the markets react positively to the efforts with growing recognition among the consumers, enabling us to establish and expand our position in the higher price segments that generate attractive earnings margins. This is where we see future opportunities for growth and value creation – and this is where we want to expand our position in order to consolidate our business around our own brands in the coming years.

FOCUS ON LONG-TERM COLLABORATION

Our private-label activities remain a very important part of group activities. Our collaboration with major customers in the retail sector is the foundation of an efficient use of our competencies and capacity, while at the same time forming a dynamic framework for the continued development of products and concepts within the drinks segment. This is a development that creates value for us, for our customers and for the consumers in Northern Europe. Therefore, we give priority to maintaining the long-term collaboration agreements with customers based on common goals and ambitions of quality and development.

But our goal of creating increased value through continued growth in sales of our own brands also means that more short-term private-label contracts with low earnings must yield capacity in the production to better earning

volumes. This is the primary explanation for this year's fall in total sales. It is a strategic decision, and we expect that our better-earning own brands will gradually fill capacity, thus also gradually increase our underlying earnings margins and total earnings.

COMPLEX ROAD TO NEW INGREDIENTS

Changes do, however, take time. Validation and commercialisation of the new malt-based ingredients are both complex and lengthy processes. We are in no doubt about the quality and the difference the new ingredients will make for the food industry, but the test procedures requiring close partnership with the customers and the final implementation in their recipes and production processes are important preconditions for the final success – and they take time.

PRIORITISATION OF SUSTAINABLE VALUE CREATION

Overall, our strategic priorities mean that the organic growth and increased earnings will only gradually be reflected in the financial figures. During the year, we have therefore had to adjust our outlook regarding this year's profit. But we are on the right track, and our priorities are in line with our fundamental values where we focus on long-term and sustainable value creation – even if the cost is a reduction in short-term earnings.

As we go along, we maintain the intensive focus on ensuring an efficient cost structure where we prioritise using resources for development and new value creation, while continuing to streamline and optimise production and processes in the value chain wherever possible.

STRONG FOUNDATION FOR REALISING STRATEGY

It is an essential element for the successful completion of this journey that we have sufficient flexibility in terms of liquidity and a solid capital base.



This is a precondition for ensuring that we can meet any challenges along the way without having to compromise on our strategic focus and the investments required to achieve our goals. Therefore, we are still working hard to optimise our working capital and cash flow.

We are thus well equipped to continue carrying out our strategy, and we look forward to documenting the results of our efforts in the coming years. This is a journey we will be making in close partnership with our customers – very much driven by the strong support we are experiencing every day from our employees. They are the ones who create the values in our business and the ones who will maintain our culture as an important element in the realisation of our future goals. This is something we will continue to build on in the coming year.

CONSOLIDATION OF THE PLATFORM IN 2018/2019

In 2018/2019, we expect revenue to be driven by continued growth in sales of our own brands, but offset by lower revenue from private-label products where we will focus on the long-term agreements with reasonable earnings. We expect increased earnings from the sale of our own brands, but continued investments in positioning and marketing will postpone their effect. We expect that, in the coming year, we will be taking new important strategic steps to consolidate our platform for future value creation. In terms of profits, we expect them to be on a par with the current financial year. ■

Bernhard Griesse
CEO



THE FINANCIAL YEAR FOR THE GROUP IN OUTLINE

HARBOES BRYGGERI IN BRIEF

Harboe is an international brewery producing and marketing high-quality drinks products. Its product range comprises variants of beer, soft drinks, energy drinks and non-alcoholic malt beverages, which are prioritised based on growth potential and opportunities for attractive value creation. Harboe markets its drinks under its own brands and, particularly in the mature markets in Northern Europe, under private labels for the large supermarket chains. Marketing of the group's own brands focuses on selected growth markets and market segments in Europe, the Middle East, Asia, Africa and the Americas, where demand, market conditions, competition and potential make it possible to establish a value-adding position. Harboe's own key brands account for an increasing share of the group's total revenue and earnings.

Harboe also develops and produces malt-based ingredients, which are marketed to selected segments in the food industry, in particular to bakeries and

confectionary businesses. The main product is Harboe's own malt extract, which with its attractive natural properties contributes flavour, colour, texture and crispness to bread. Harboe's malt extract is marketed with a variety of applications and is, among other things, sold to the largest bakeries in Europe. In close collaboration with its customers, Harboe is also in the process of developing a number of new malt-based ingredients and performing test procedures preparatory to production.

Harboe has its head office in Skælskør in Denmark and has modern, quality and environmentally certified production units in Denmark, Germany and Estonia. The group has 581 employees, and the Harboe family, which has owned and managed the company through five generations, continues to be strongly represented as the majority shareholder of the listed company and in the company's management. This ensures continuity in the continuation of the company's values and strategy for long-term value creation.

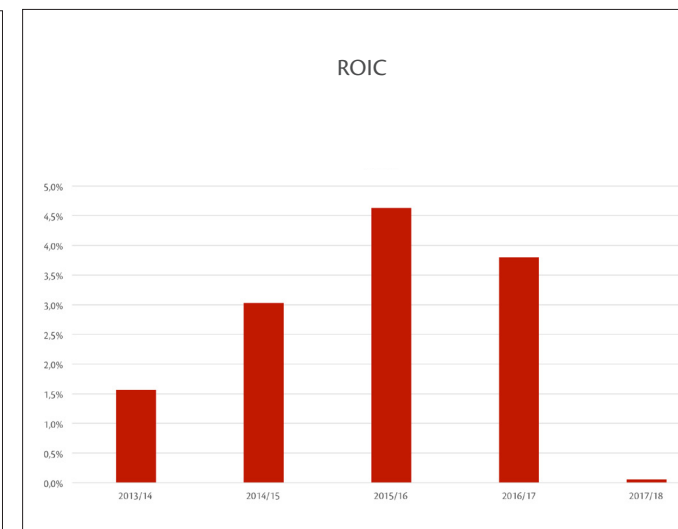
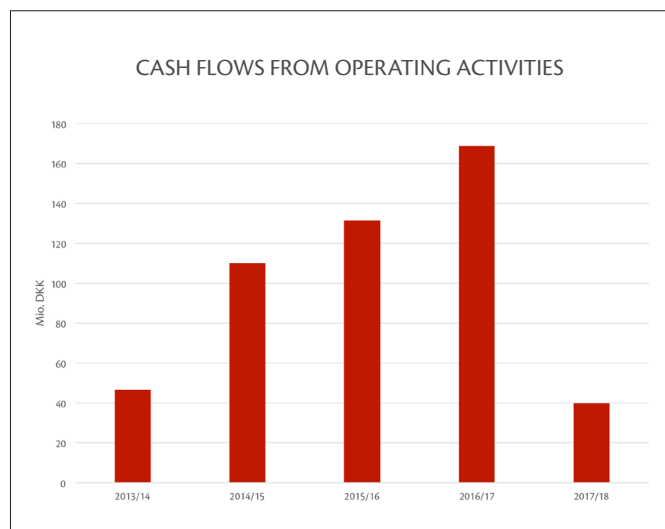
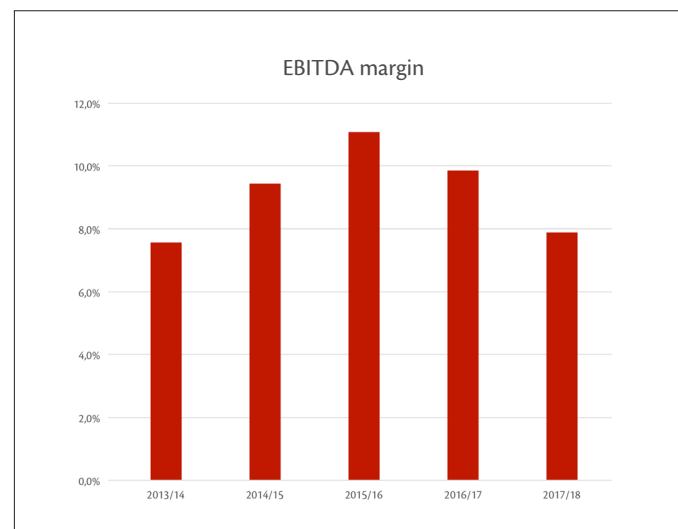
GROWTH IN SALES OF OWN BRANDS – BUT ABANDONING LARGE PRIVATE-LABEL AGREEMENTS AFFECTS REVENUE

- Group revenue was DKK 1,338 million against DKK 1,431 million the year before.
- Sales decreased by 6.6% to 5.7 million hectolitres.
- Revenue generated by Harboe's own key brands rose, driven by continued targeted sales and marketing. Revenue generated by the private-label segment was significantly lower than last year, primarily as a result of abandoning a number of large contracts with limited earnings and lower demand.
- Continued attractive potential in malt-based ingredients, but commercialisation is taking longer than expected.

- Earnings are influenced by investments in development and marketing
- EBITDA fell from DKK 140.9 million last year to DKK 105.4 million in 2017/2018, corresponding to an EBITDA margin of 7.9%.
- The lower earnings are due to lower revenue, strategic investments in sales and marketing as well as higher costs for development activities, quality and production management.
- Consolidated profit before tax was DKK 4.5 million against DKK 45.4 million the year before, corresponding to the most recently published outlook.
- Cash flows from operating activities were DKK 39.8 million.

OUTLOOK 2018/2019

- EBITDA on a par with 2017/2018 (in the region of DKK 100-110 million)
- Profit before tax on a par with 2017/2018 (in the region of DKK 0-10 million)



FINANCIAL HIGHLIGHTS

DKK	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
KEY FIGURES					
EARNINGS					
Revenue	1,337.7	1,431.3	1,376.5	1,371.3	1,420.1
EBITDA	105.1	140.9	152.4	129.4	107.4
Operating profit/(loss) (EBIT)	10.1	50.1	61.2	38.6	16.7
Net financials	(5.6)	(4.7)	(10.1)	(5.3)	(6.3)
Profit/(loss) before tax	4.5	45.4	51.1	33.4	10.4
Net profit/(loss) for the year	0.2	31.5	34.6	24.0	10.6
BALANCE SHEET					
Total assets	1,304.3	1,356.7	1,298.8	1,292.2	1,383.7
Equity	750.9	758.7	736.9	709.9	706.6
Net interest-bearing debt	185.2	135.9	120.7	154.4	196.8
INVESTMENTS ETC.					
Investments in intangible assets	2.2	1.4	1.1	2.0	2.4
Investments in property, plant and equipment	160.8	109.4	75.7	56.2	34.1
depreciation, amortisation, impairment losses and write-downs	95.3	90.9	91.2	90.7	90.7
CASH FLOWS					
Cash flows from operating activities	39.6	168.7	131.4	109.9	46.6
Cash flows from investing activities	(79.6)	(174.2)	(93.6)	(49.6)	125.4
Cash flows from financing activities	(25.4)	(25.2)	(19.5)	(33.2)	(98.9)
Changes in cash and cash equivalents	(65.4)	(30.7)	18.3	27.1	73.2
EMPLOYEES					
Average number of full-time employees	581	595	588	606	603

REVENUE

DKK 1.338 million

EBITDA

DKK 105.1 million

Profit/(loss) before tax

DKK 4.5 million

Investments in property, plant and equipment

DKK 160.8 million

FINANCIAL HIGHLIGHTS, CONTINUED

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
RATIOS (IN %)					
Profit margin	0.8	3.5	4.4	2.8	1.2
Solvency ratio	57.6	55.9	56.7	54.9	51.1
EBITDA margin	7.9	9.8	11.1	9.4	7.5
Financial gearing	24.7	17.9	16.4	21.7	27.9
Acid test ratio	134.0	137.9	175.5	169.7	151.0
Return on invested capital (ROIC)	0.1	3.7	4.6	3.0	1.6
SHARE-RELATED RATIOS					
Earnings per DKK 10 share, DKK (EPS)	0.1	6.9	7.6	5.2	2.1
Cash flow per DKK 10 share, DKK (CFPS)	8.7	37.0	28.8	23.8	9.1
Equity value per DKK 10 share, DKK	125.1	126.5	122.8	118.3	117.7
Share price, end of year, DKK	84.6	132.5	114.0	105.5	93.5
Price/earnings ratio, DKK	1,650.8	19.2	15.0	20.3	45.2
Dividend per DKK 10 share, DKK	1.00	2.00	2.00	2.00	2.00

DEFINITIONS OF FINANCIAL HIGHLIGHTS

The financial highlights have been defined and calculated in accordance with the current version of 'Recommendations and Ratios' issued by the Danish Finance Society (*Finansforeningen*), the specific definitions being:

Investments:	The year's additions of intangible assets and property, plant and equipment, excl. property, plant and equipment under construction and spare parts
Gross margin:	Gross profit/loss in per cent of revenue
Profit margin:	Operating profit/loss (EBIT) in per cent of revenue
EBITDA margin:	Earnings before interest, tax, depreciation and amortisation in per cent of revenue
Return on net assets:	Operating profit/loss (EBIT) in per cent of average operating assets
Operating assets:	Balance sheet total at the end of the year less financial assets and cash
Return on invested capital:	Operating profit/loss (EBIT) less tax thereon in per cent of average invested capital (equity + minority interests + net interest-bearing debt + provisions - financial assets)
Net interest-bearing debt:	Interest-bearing liabilities less interest-bearing assets, including cash and cash equivalents
Net interest-bearing debt:	Mortgage debt and debt to credit institutions less cash and cash equivalents
Return on equity:	Net profit/loss for the year in per cent of average equity
Solvency ratio:	Equity at the end of the year in per cent of the balance sheet total at the end of the year
Financial gearing:	Net interest-bearing debt at the end of the year in per cent of equity at the end of the year
Earnings per share (EPS):	Net profit/loss for the year in relation to the average number of shares
Cash flow per share:	Cash flows from operating activities in relation to the average number of shares
Price/earnings ratio:	Share price at the end of the year in relation to earnings per share
Current ratio:	Current assets in per cent of current liabilities

The ratios have been calculated on the basis of the net profit or loss for the year along with the balance sheet total and equity at the end of the year.



HARBOE BEVERAGES IN BRIEF

The production and marketing of drinks products is Harboe's core business. Harboe's drinks are increasingly marketed under the group's own brands in selected markets in Europe, the Middle East, Asia, Africa and the Americas – and as private-label products, primarily for large customers in the retail sector in the markets in Northern Europe.

Bear Beer is the leading brand of the beer category, but Darguner, Harboe, Puls and speciality products under the 'GB' brand also feature in marketing. In addition, Harboe also markets a range of soft drinks and energy drinks, i.a. under the group's own brand X-Ray and juice variants under the brand Pure. The

portfolio also comprises a number of other non-alcoholic products and malt beverages, which, among other things, are marketed as Hyper Malt.

Harboe's own brands are marketed mainly in medium and premium segments in international growth markets with an increasing demand for imported brands. The group's international quality certifications, Nordic tradition and history are key elements in the creation of brand value.

The international sales organisation is working closely with customers and distributors on the targeting of the product range and brands, the aim being to expand the group's position in existing markets,

support consumer preferences and generate further growth. Harboe supports marketing efforts through targeted marketing support and brand manuals for the group's key brands.

The private-label activities are based on the supply of high volumes of an attractive range of drinks products, particularly to the major retail chains in Northern Europe, where Harboe has established a strong position. Harboe maintains this position by providing customers with high-quality products, reliable deliveries and a flexible response to fluctuations in demand. ■

BUSINESS DEVELOPMENT HIGHLIGHTS IN 2017/2018

- Substantial progress in international sales of the group's own brands.
- New sales and marketing strategy focuses efforts and supports the value of own brands.
- Private-label activities affected by abandoned contracts and lower demand.

Positioning and growth in sales of own brands

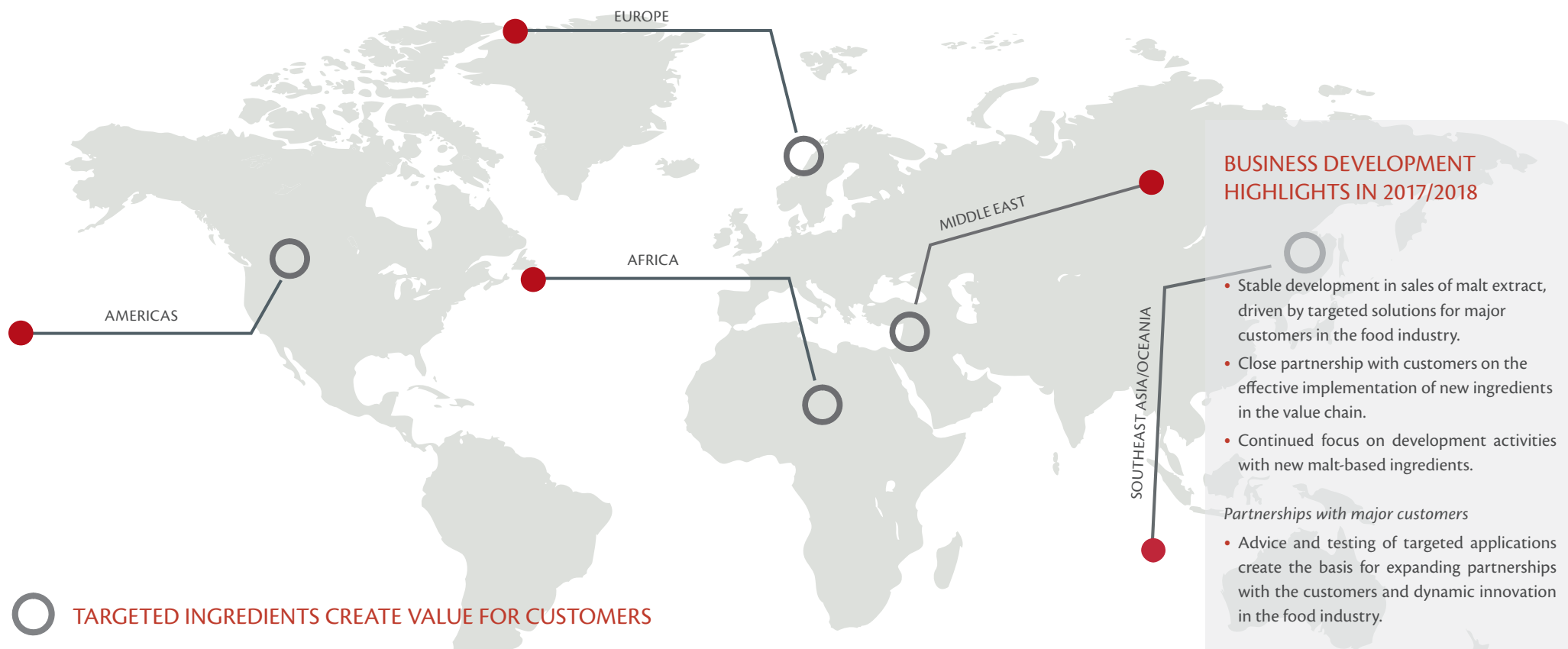
- Sales of own brands account for an increasing share of the group's revenue. Investments in sales and marketing to pave the way for attractive earnings and consolidation of the group's position in prioritised international markets.

Partnerships with major customers and distributors

- Strategic collaboration agreements with customers and distributors form the basis for combining in-depth market knowledge with targeted products and effective positioning of the group's own brands.

Innovation and launch of new brands and products

- Analyses of consumer preferences and international trends form the basis of continued innovation of speciality products and brand stories that can compete successfully in very competitive markets.



HARBOE INGREDIENTS IN BRIEF

For more than 60 years, Harboe has produced and marketed malt extract for the European food industry. Today, Harboe is one of Europe's leading producers of malt extract, and the product portfolio has undergone constant development, adding a number of targeted product variants that are marketed under the group's own brand Barlex. By continued innovation and further processing, Harboe seeks to maintain and

strengthen its market position with targeted solutions that create added value for customers. Malt extract is used as a natural alternative to flavourings and colourings used in the production of many different foods, including bread, cereal and chocolate. In addition to the natural colourings and sweeteners, malt extract has a number of good properties in terms of nutrition and quality, and the attractive product profile is an important asset in marketing. The customers

are a large number of European food companies, including, among other things, Europe's largest bakeries.

An international sales organisation markets and advises on the use of Harboe's portfolio of malt-based ingredients to existing and new customers – primarily in the European neighbouring markets – but also in selected markets outside Europe where interesting business opportunities have been identified. ■

BUSINESS DEVELOPMENT HIGHLIGHTS IN 2017/2018

- Stable development in sales of malt extract, driven by targeted solutions for major customers in the food industry.
- Close partnership with customers on the effective implementation of new ingredients in the value chain.
- Continued focus on development activities with new malt-based ingredients.

Partnerships with major customers

- Advice and testing of targeted applications create the basis for expanding partnerships with the customers and dynamic innovation in the food industry.

Development in sales of targeted applications

- Intensive work with validation and focus on effective integration of new ingredients in product recipes will form the basis for new business areas.

Innovation and launch of new ingredients

- More sustainable ingredients being developed which can contribute to healthier and attractive food.



BUILDING BRANDS AND FOCUS ON VALUE CREATION

Harboe manufactures and sells drinks products as well as ingredients and malt extract products targeted at demand and market potential in the geographical markets where the group has chosen to target its efforts. It is Harboe's overall strategy to create growth and increase the relative share of sales of own branded drinks products and ingredients for markets and market segments in which the group is able to establish a real position and realise attractive earnings margins.

DIFFERENTIATED APPROACH TO THE MARKET FOR DRINKS PRODUCTS

Harboe's drinks products include high-quality products within beer, soft drinks, energy drinks and non-alcoholic malt beverages. Harboe markets its drinks products under its own brands and, particularly in the mature markets in Northern Europe, under private labels for the large supermarket chains.

In the private-label segment, marketing is based on long-term, well-established customer relations, where the product mix is organised in partnership with the customer and undergoes constant development in order to create value and contribute to a continued dynamic development of the drinks market for the consumers. Harboe's strategy is to focus on maintaining a high volume and protecting its well-established position by providing customers with a high level of quality, flexibility and reliable deliveries and an attractive product range in tune with the times.

The marketing of the group's own brands focuses on medium and premium segments in selected growth markets and market segments in Europe, the Middle

East, Asia, Africa and the Americas. The strategic prioritisation targets markets where demand, market conditions, competition and potential make it possible to establish value-adding positions. Harboe supports the positioning of its own brands through targeted sales and marketing activities and works in close partnership with customers and distributors on building and maintaining brand values and consumer preferences in the markets. Harboe's own brands account for an increasing share of the group's total revenue, and Harboe's strategy is for its own brands to be the driving force behind the continued growth and value creation. Read more about the strategy in the section on Harboe Beverages later in this annual report.

TARGETED PRODUCTS WITHIN MALT-BASED INGREDIENTS

Harboe's activities within malt-based ingredients focus on selected segments in the food industry, in particular bakeries and confectionary businesses. The main product is Harboe's own malt extract, which contributes flavour, colour, texture and crispness to bread. Harboe's malt extract is marketed with a variety of targeted applications and is sold to the European food industry, including the largest bakeries in Europe.

Harboe's ingredients activities still offer an attractive potential, and the group is currently investing in continued processing, development and production of new value-adding ingredients products in close partnership with its customers. It is Harboe's strategy to maintain and develop its market position with targeted solutions that create added value for the customers and can be marketed with attractive

margins. Over the coming years, the development activities will pave the way for further expansion of the business with a view to creating growth and further strengthening the group's earnings basis. Read more about the strategy in the section on Harboe Ingredients later in this annual report.

STRATEGY IMPLEMENTATION AND CONTINUED INVESTMENT IN INNOVATION

Innovation is given high strategic priority, and continued innovation of products and packaging, international marketing and building the group's own brands will be decisive factors for continued growth and value creation. Harboe therefore invests considerable resources in innovation based on demand, market trends and consumer preferences – and with focus on products and solutions where Harboe is able to compete and turn its unique competencies, technology and production capacity to account.

The investments in innovation have, among other things, included a considerable strengthening of the organisation with more and new competencies in order to accelerate development activities and further support the international sales and marketing activities. These investments will be affecting operating expenses in the coming years, but are expected to provide the basis for attractive organic growth and an enhanced earnings potential in the medium term.

MODERATE GROWTH AND INCREASED EARNINGS POTENTIAL

Group growth is expected to be moderate over the coming years. The development will be based on

STRATEGY AND FINANCIAL TARGETS

unchanged or declining revenue in the private-label segment, which will be offset by growth in sales of the group's own brands and ingredients products. The aim is to be able to raise EBITDA margins to a more stable level. Continued investment in innovation and organic growth means that the realisation of the financial objectives will be a gradual development over the next three to five years. In step with the earnings optimisation, the aim is to raise the return on invested

capital to exceed 6%. Harboe is continuously focusing on further optimising its cash flow and ensuring an effective balance between working capital and liquidity that ensures the necessary flexibility in operations.

SOLID CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The group's objectives as regards its capital structure

have been determined based on a desire to maintain a high level of financial resources and flexible liquidity at all times to enable investments in continued organic growth.

Harboe wants its financial resources to be made up of its own funds to a high degree, including a substantial holding of treasury shares. At the same time, it is one of Harboe's clear priorities to ensure long-term value

creation for its shareholders by gradually strengthening the company's market value in step with the planned development of the group's activities. According to Harboe's dividend policy, the aim is for this to be supplemented by regular distribution of dividends and possibly further share buy-backs, taking into account the group's liquidity and financial targets. ■



DARGUNER

Darguner beer has its name from Harboe's German brewery, Darguner Brauerei GmbH, which is located in Dargun in the German federal state of Mecklenburg Vorpommern. The city has a tradition of brewing dating back to the Middle Ages, where local springs and good raw materials secured the best ingredients for the production. Harboe's Darguner brand is a selection of lager and speciality beer products that are marketed in selected markets in Europe, the Middle East and the Americas.

The high quality and the German brewing tradition that focuses on good and simple raw materials without the use of additives is a strong element in marketing. Harboe also regularly gains recognition in the form of medals and awards for its beer products. For instance, Harboe has on several occasions been awarded the prestigious 'Bundesehrenpreis', which is the highest recognition in the German food industry, awarded by the Federal Ministry of Food, Agriculture and Consumer Protection in Germany. ■



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