

ANNUAL REPORT

2018-2019

” *Our strategic focus on our own brands gave positive results again this financial year, with growth and a good contribution to earnings. Unfortunately, due to market challenges and a large extraordinary impairment loss on our activities in Estonia, we ended the year with a net loss. But the underlying momentum in our other activities gives us a positive outlook for the coming years.*

Bernhard Griese
CEO

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POSITIVE UNDERLYING MOMENTUM AND A MAINTAINED STRATEGIC FOCUS

Our strategic focus on marketing Harboe's own brands produced good results again in the last financial year and ensured continued growth in revenue. The growing recognition of our products and brands supports our strategic direction, and we will continue to invest in international sales and marketing in the coming years. We are very pleased with the growth, and the results are in line with our original expectations for the year at EBITDA level. We were greatly helped by the excellent summer at the beginning of the financial year, and the Danish market in particular made a significant contribution to the positive trend.

However, our Estonian subsidiary has seen increasing challenges to growth in

recent years. We have focused on adapting our activities to the rapidly deteriorating market conditions, and our employees have worked hard to re-adjust production and marketing in line with this. Yet the activities pulled down earnings again in the current financial year, and due to the ongoing negative results, we finally decided to write down the value of our investment in the company by DKK 11.5 million in June 2019.

It is very disappointing to have reached that point, and this meant that we ended the 2018/2019 financial year with a loss before tax. We are working on further restructuring of the activities, and expect to be able to gradually reduce the costs. However, the full effect is not expected to be realised before the 2020/2021 financial year.

In the meantime, we are maintaining sales of our products and brands on the Baltic markets, including our Estonian Puls brand, which continues to enjoy recognition – also on some of our other international markets.

This year's financial results do not fulfil the value creation goals we have formulated in our strategy and financial targets. But the underlying results show that we continue to have momentum in our strategic focus areas, and we want to build further on this in the coming years.

We will therefore maintain the strategic focus on creating growth in sales of our own brands.

We are working on good customer relationships, with a focus on continued

consolidation of our strong position in the Northern European private label markets.

We will also expand our activities in relation to malt-based ingredients for the food and beverage industry in Europe.

We expect our efforts to lead to positive results in the coming year and net profits. These results have to be created in close cooperation with our customers and partners – and with the dedication and efforts from our talented employees that we see every day and which is vital to our success in creating sustainable long-term value in Harboes Bryggeri A/S.

Bernhard Griese
CEO



” We are currently working on a targeted strategy to further prioritise our activities in relation to consumers, regions and brands – and we have formulated action plans and KPIs for the various focus areas to ensure effective execution and follow-up on goals. The results will pave the way for a future-oriented and sustainable business with new potential for organic international growth.

THE FINANCIAL YEAR FOR THE GROUP IN OUTLINE

HIGHLIGHTS OF THE YEAR

Growth primarily driven by our own brands and good summer weather.

- Consolidated revenue totalled DKK 1,370 million in the 2018/2019 financial year compared to DKK 1,338 million the year before. This corresponds to an increase of 2.4%.
- Sales rose 3.5% to 5.9 million hectolitres.
- Sales of our own brands contributed to the growth, especially in Denmark, due in part to the long hot summer
- Private-label revenue also rose, but more modestly.
- Sales in Ingredients saw stable growth during the financial year, based on successful partnerships with existing customers.

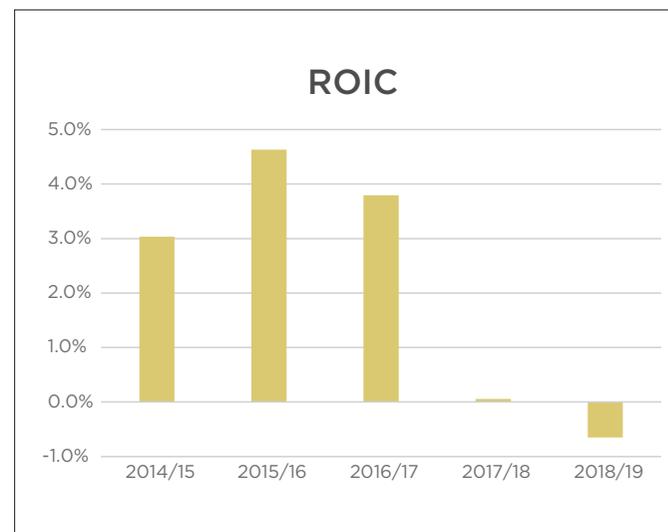
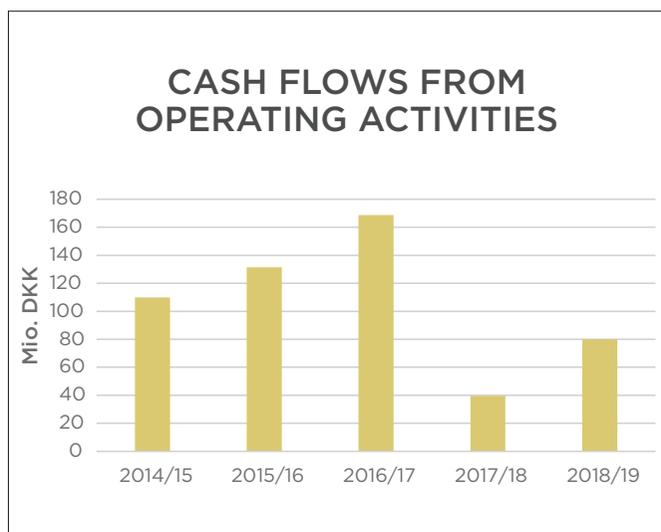
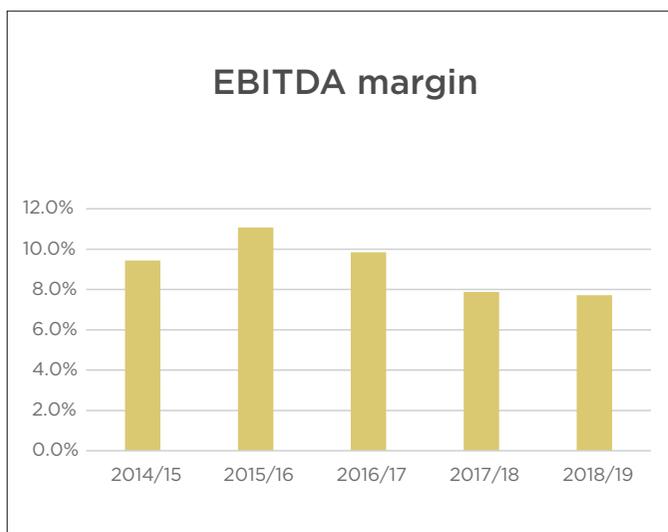
EBITDA WAS AS EXPECTED, BUT THE BOTTOM LINE WAS IMPACTED BY AN EXTRAORDINARY IMPAIRMENT LOSS ON ACTIVITIES IN ESTONIA

- EBITDA was on a par with last year at DKK 106.1 million. This is in line with our expected EBITDA of DKK 100-110 million. The EBITDA margin was 7.7%.
- This outcome has been achieved despite negative growth in the group's Estonian subsidiary, continued high marketing costs and investments in sales and marketing in the organisation to support the development and international positioning of the group's own brands and products.
- As the company announced on 11 June 2019, as a result of a negative market trend and several years of losses, Harboe decided to write down the value of its investment in its Estonian subsidiary, AS Viru Õlu, by DKK 11.5 million. This impairment loss impacts on the bottom line for the 2018/2019 financial year.

- Earnings before tax ended with a loss of DKK 10.3 million, compared to a profit of DKK 4.5 million the year before. The forecast for earnings before tax was a profit in the range DKK 0-10 million. Before the write-down on the activities in Estonia, the group's earnings before tax would have been in line with the original expectations.
- Earnings after tax for 2018/2019 were DKK -12.9 million, compared to DKK 0.2 million the year before.
- Cash flows from operating activities were DKK 80.0 million, compared to DKK 39.6 million during the same period last year.

OUTLOOK 2019/2020

- EBITDA in the range DKK 105-115 million
- Earnings before tax in the range DKK 5-15 million



FINANCIAL HIGHLIGHTS

DKKm	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
KEY FIGURES					
EARNINGS					
Revenue	1,369.7	1,337.7	1,431.3	1,376.5	1,371.3
EBITDA	106.1	105.1	140.9	152.4	129.4
Operating profit/(loss) (EBIT)	(5.0)	10.1	50.1	61.2	38.6
Net financials	(5.3)	(5.6)	(4.7)	(10.1)	(5.3)
Profit/(loss) before tax	(10.3)	4.5	45.4	51.1	33.4
Net profit/(loss) for the year	(12.9)	0.2	31.5	34.6	24.0
BALANCE SHEET					
Total assets	1,283.5	1,304.3	1,356.7	1,298.8	1,292.2
Equity	707.8	750.9	758.7	736.9	709.9
Net interest-bearing debt	211.6	185.2	135.9	120.7	154.4
INVESTMENTS ETC.					
Investments in intangible assets	3.8	2.2	1.4	1.1	2.0
Investments in property, plant and equipment	47.7	160.8	109.4	75.7	56.2
Depreciation, amortisation, impairment losses and write-downs	111.1	95.3	90.9	91.2	90.7
CASH FLOWS					
Cash flows from operating activities	80.0	39.6	168.7	131.4	109.9
Cash flows from investing activities	(39.9)	(79.6)	(174.2)	(93.6)	(49.6)
Cash flows from financing activities	(56.9)	(25.4)	(25.2)	(19.5)	(33.2)
Changes in cash and cash equivalents	(16.8)	(65.4)	(30.7)	18.3	27.1
EMPLOYEES					
Average number of full-time employees	594	581	595	588	606

REVENUE

DKK 1,370 million

EBITDA

DKK 106.1 million

CASH FLOWS FROM OPERATING ACTIVITIES

DKK 80.0 million

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

DKK 47.7 million

FINANCIAL HIGHLIGHTS, CONTINUED

	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
RATIOS (IN %)					
Profit margin	(0.4)	0.8	3.5	4.4	2.8
Solvency ratio	55.1	57.6	55.9	56.7	54.9
EBITDA margin	7.7	7.9	9.8	11.1	9.4
Financial gearing	29.9	24.7	17.9	16.4	21.7
Acid test ratio	128.3	134.0	137.9	175.5	169.7
Return on invested capital (ROIC)	(0.7)	0.1	3.7	4.6	3.0
SHARE-RELATED RATIOS					
Earnings per DKK 10 share, DKK (EPS)	(2.9)	0.1	6.9	7.6	5.2
Cash flow per DKK 10 share, DKK (CFPS)	17.8	8.7	37.0	28.8	23.8
Equity value per DKK 10 share, DKK	118.0	125.1	126.5	122.8	118.3
Share price, end of year, DKK	86.6	84.6	132.5	114.0	105.5
Price/earnings ratio, DKK	(30.2)	1,650.8	19.2	15.0	20.3
Dividend per DKK 10 share, DKK	0.00	1.00	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.

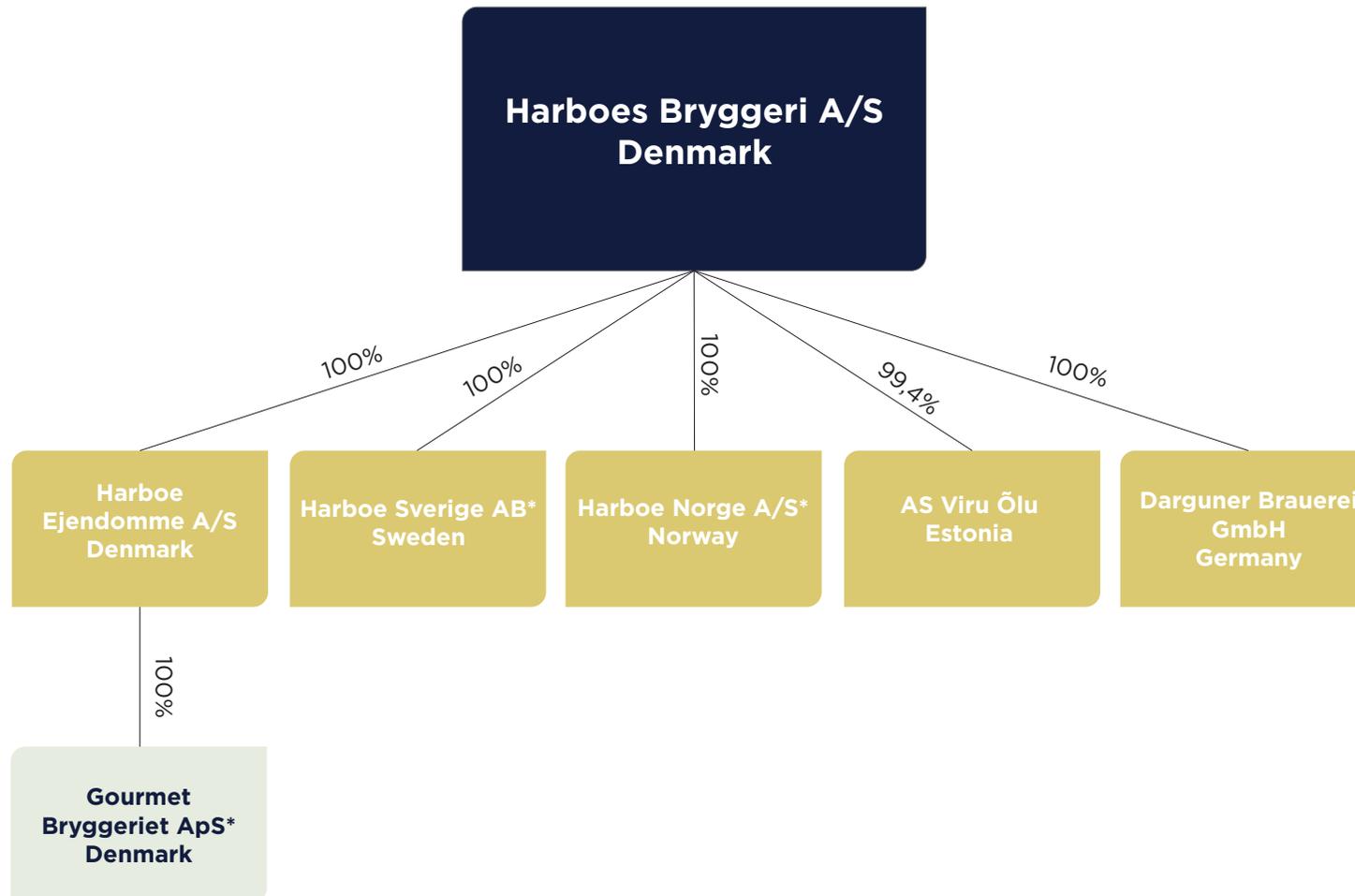
GROUP CHART

CORE BUSINESS

Harboes Bryggeri A/S is listed on the stock exchange and is the parent of the Harboe group.

The group's core business is brewery activities, comprising the production and sale of beer, soft drinks, malt beverages and malt wort products (Ingredients).

* Without activity



HARBOE'S PATH TO VALUE CREATION



Harboe develops, produces and markets beverages and malt-based food ingredients. Our products create positive experiences for consumers, and our brands communicate our Nordic history and traditions.

We are innovative, and contribute to the continual development of food and beverage products that meet customer requirements for quality, freshness and sustainability.

Harboes Bryggeri A/S is listed on Nasdaq Copenhagen, and the Harboe family have been co-owners and have led the company since 1883. The fifth and sixth generation of the family are currently responsible for operational management and have a

controlling interest among the company's shareholders.

Our company is based on strong values, which serve as the foundation for everything we do.

We are passionate about our work, and always strive to create the best results – with respect for each other and for our surroundings. We see profits as a means towards new objectives, and not as an end in themselves.

We take a long-term view, and will continue to make a difference for our customers, employees, shareholders and society around us.

” VISION

We are dedicated, we take a leading position, and we win the hearts of consumers through performance, innovation and agility.

HARBOE'S PATH TO VALUE CREATION

STRATEGY AND BUSINESS MODEL

Harboe's strategy is to expand activities in relation to the group's own brands in selected markets, and to consolidate our strong private label position. The strategy is based on our vision, and aims to ensure a stronger focus on consumers, regions and brands over the next three years.

Action plans and KPIs have been formulated for the various focus areas, to ensure efficient implementation and regular goal follow-up across the entire organisation.

The strategic plan focuses on four core areas and associated strategic initiatives, and is based on the fundamental values of our company:



STRATEGY AND FINANCIAL TARGETS

BUILDING BRANDS AND FOCUSING ON VALUE CREATION

Harboe produces and sells beverages and malt-based ingredients, targeted at consumer demand and market potential in the geographic markets where the group has chosen to focus its efforts. It is Harboe's overall strategy to create growth and increase the relative share of sales of its own beverage and ingredient brands for markets and market segments in which the group is able to establish a real position and realise attractive earnings margins.

DIFFERENTIATED MARKET APPROACH FOR BEVERAGES

Harboe's beverages include high-quality beer, soft drinks and energy drinks and non-alcoholic malt beverages. Harboe markets its beverages 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 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 beverages market for consumers. Harboe's strategy is to focus on maintaining a high volume and consolidating its well-established

position by providing customers with a high level of quality, flexibility and reliable deliveries and an attractive and contemporary product range.

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 materials, 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 customers and can be marketed with attractive margins.

STRATEGY IMPLEMENTATION AND INVESTMENTS 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 take advantage of its unique competencies, technology and production capacity. The investments in innovation have, among other things, included a considerable strengthening of the

organisation with more and new competencies in order to continue the development 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 organic growth and an enhanced earnings potential in the medium term.

To support efficient execution of the group's strategy and ongoing development activities, there is also a focus on optimising the value chain – from supply chain and production to logistics, financial reporting and the group's inspection and quality systems.

MODERATE GROWTH AND INCREASED EARNINGS POTENTIAL

Group growth is expected to be moderate over the coming years. The net growth will be based on unchanged or declining revenue in the private-label segment, 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 of more than 10%.

In step with the earnings optimisation, the aim is to raise the return on invested capital to above 6%.

STRATEGY AND FINANCIAL TARGETS

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 and financial independence.

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. With regard 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.



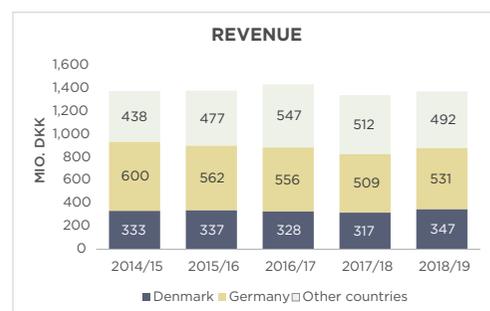
FINANCIAL REPORT

The group's business growth

REVENUE

Consolidated revenue totalled DKK 1,370 million in the 2018/2019 financial year compared to DKK 1,338 million the year before. This corresponds to an increase of 2.4%.

Sales of beer and soft drinks, including malt beverages and malt wort products, increased by 3.5% to 5.9 million hectolitres, compared to 5.7 million hectolitres last year.



Own brand revenue contributed to this growth, underpinned by continued marketing activities and positioning. Revenue rose in Denmark in particular, due in part to the long hot summer, while sales in regions such as Asia and South America pulled in the opposite direction. Soft drinks, energy drinks and water were the main drivers of growth, but beer sales were also up on last year.

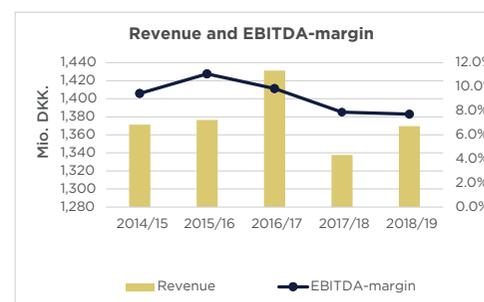
Harboe also saw growth in sales of several types of beer under its own brands, including Bear Beer, Darguner and Puls, in other markets. Private-label revenue also rose, but more modestly.

In Ingredients, sales showed stable growth in the financial year, based on successful partnerships with existing customers and a number of new contracts with customers looking for specialised ingredients products. Read more about developments in the various business units in the relevant sections in this report.

EARNINGS

Earnings before depreciation, financial items and tax (EBITDA) are on a par with last year at DKK 106.1 million, compared to DKK 105.4 million in 2017/2018. This is in line with the forecast EBITDA of approx. DKK 100-110 million. The EBITDA margin was 7.7%.

This outcome has been achieved despite negative growth in the group's Estonian subsidiary, continued high marketing costs and investments in sales and marketing in the organisation to support the development and international positioning of the group's own brands and products. Resources have also been invested in additional specialised skills and continued product development in Harboe Ingredients during the financial year.



RESTRUCTURING AND IMPAIRMENT OF ASSETS IN ESTONIA

Harboe's Estonian brewery, AS Viru Õlu, has been affected by negative market developments with declining sales on local markets, driven in part by substantial increases in taxes on beer and a generally declining population base throughout the Baltic region. The Estonian subsidiary has thus returned negative earnings in recent years. As the company announced on 11 June 2019, as a result of this, Harboe decided to write down the value of its investment in AS Viru Õlu, by DKK 11.5 million. The impairment impacts on the results for the 2018/2019 financial year. Depreciation and amortisation of intangible assets and property, plant and equipment in the amount of DKK 111.1 million have been recognised in operating profit, compared to DKK 95.3 million in the prior-year period.

Operating profit/loss (EBIT) was DKK -5.0 million, compared to DKK 10.1 million last year. Financial items amounted to an expense of DKK 5.3 million in the financial year, compared to an expense of DKK 5.6 million last year.

Earnings before tax ended with a loss of DKK 10.3 million, compared to a profit of DKK 4.5 million the year before.

The forecast for earnings before tax was a profit in the range DKK 0-10 million. Before the write-down on the activities in Estonia, the group's profit before tax would have been in line with the original outlook.

Earnings after tax for 2018/2019 were DKK -12.9 million, compared to DKK 0.2 million the year before.

EQUITY

As at 30 April 2019, equity amounted to DKK 707.8 million, compared to DKK 751.0 million the year before.

Equity was affected by the results for the year, foreign currency translation adjustments in respect of foreign subsidiaries, adjustment of other investments and securities, share buy-back and dividend distribution.

Payment of a dividend corresponding to DKK 1.00 per share, or a total of DKK 6.0 million, was adopted at the company's annual general meeting held on 28 August 2018.

The company's holding of Class B treasury shares totals 1,777,342 shares, corresponding to DKK 153.9 million stated at the market price as at 30 April 2019. Harboe bought back 342,939 class B shares for DKK 27.0 million during the 2018/2019 financial year.

FINANCIAL REPORT

The shareholder information section describes Harboe's dividend policy and the authorisation granted by the general meeting to buy back shares.

INVESTMENTS

Investments in tangible and intangible assets during the financial year amounted to DKK 51.5 million, compared to DKK 163.0 million last year. The investments were primarily made in optimising production plant, as well as DKK 10 million for leases for land and buildings in line with changed IFRS requirements. The capital investments made in recent years have created an efficient foundation for the continued expansion of the group's activities. The investment strategy for the coming years will focus on ongoing improvements, energy optimisation and efficiency improvements, as well as investments supporting the strategic group development.

LIQUIDITY

Harboe has an ongoing focus on the continued optimisation of its working capital through procurement and trade payables management etc., and has, for instance, supply chain finance agreements with major customers. Cash flows from operating activities were positive at DKK 80.0 million, compared to DKK 39.6 million in the prior-year period.

Free cash flow (changes in cash and cash equivalents) amounted to DKK -16.8 million, compared to DKK -65.4 million in the prior-year period. The liquidity effect of investment activities reduced the

group's free cash flow by a total of DKK -39.9 million.

CASH RESOURCES

The group's cash resources are composed of cash and credit facilities granted but not yet activated and amounted to DKK 149.9 million as at 30 April 2019. To this should be added the holding of Class B treasury shares amounting to DKK 153.9 million stated at the market price as at 30 April 2019. As at 30 April 2019, the group's interest-bearing debt amounted to DKK 227.3 million, compared to DKK 201.5 million at the end of the previous year.

NET INTEREST-BEARING DEBT

Adjusted for cash deposits etc. of DKK 15.2 million, the group's net interest-bearing debt amounted to DKK 211.6 million as at 30 April 2019, compared to DKK 185.2 million at the end of the previous year.



EVENTS OCCURRING AFTER THE END OF THE FINANCIAL YEAR

Apart from the decision to write down the value of activities in Estonia, no events have occurred from the balance sheet

date to this date which materially affect the assessment of the annual report.

OUTLOOK 2019/2020

Market conditions are expected to remain challenging, but Harboe will focus on maintaining its position as an attractive and flexible supplier and strategic partner to large customers in the retail sector and distributors in the various markets and regions.

Further tuning and consolidation of the group's international activities, with ongoing positioning and marketing of the group's own brands, will continue to have high priority in the coming year. Investment will be made in targeted sales and marketing activities that support the value of the products and build consumer preferences in relevant market segments.

The strategic focus will be on consolidating Harboe's position in key priority markets where demand for beverages is growing, enabling Harboe to position its products in attractive price segments. The group's own brands are expected to be the main growth driver for the group in the next year. Focus will also be on the activities within malt-based ingredients, with ongoing validation and commercialisation of new ingredient products and development of customer relations in Europe and in selected international markets outside Europe.

Earnings will be affected by intense competition and pressure on prices, just as seasonal fluctuations and the annual

renegotiation of major contracts may impact the group's total profit. At the same time, the continued investments in marketing the group's own brands and development activities in relation to ingredients, which are largely financed from operations, will impact on cost levels and profit.

EBITDA is expected to be approx. DKK 105-115 million.

Depreciation of plant and production equipment is expected to be in the range DKK 90-95 million.

The group expects profit before tax to be in the range DKK 5-15 million.

DISCLAIMER

This annual report contains forward-looking statements, including such as relate to the future earnings performance. Such statements are subject to risks and uncertainties concerning a number of factors, many of which are outside the Harboe group's control. This may cause the actual results to deviate significantly from the outlook described in this annual report. Factors which may impact the outlook include general economic and commercial conditions, changes in commodity prices, new taxes and regulation, political conditions, demand, exchange rate fluctuations and competition. This annual report is published in Danish. An English summary is also published. In the event of discrepancies between the Danish and the English text, the Danish text will prevail.

HARBOE BEVERAGES



PRODUCTION AND MARKETING OF BEVERAGES IS HARBOE'S CORE BUSINESS

HARBOE BEVERAGES IN BRIEF

The production and marketing of beverages is Harboe's core business. Harboe's beverages 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. Harboe also markets a range of soft drinks and energy drinks, including under the group's own X-Ray brand, juice variants under the Pure brand and the Ego organic soft drink range.

The portfolio also comprises a number

of other non-alcoholic products and malt beverages, which, among other things, are marketed as Hyper Malt and Caribia.

Harboe's own brands are marketed mainly in higher price segments in international growth markets with increasing demand for imported brands. The group's international quality certifi-

cations, 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 beverages, 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.

HARBOE BEVERAGES

BUSINESS DEVELOPMENT HIGHLIGHTS IN 2018/2019

- Good growth in sales of the group's own brands – primarily in H1 due to the hot summer
- Execution of the group's sales and marketing strategy supports the value of the group's own brands
- Private label activities also advanced

FOLLOW-UP ON STRATEGIC FOCUS AREAS

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.

MARKET CONDITIONS AND COMPETITION

The activities in Harboe Beverages focus on the group's key mature markets in Northern Europe, and give priority to the growth markets in the Middle East, Africa, Asia and the Americas, and European

markets outside Northern Europe. Harboe is pursuing a differentiated strategy for beverages, marketed in part under its own brands through international distributors and partners, and in part under private labels, primarily sold to major customers in the retail sector.

THE MARKET FOR HARBOE'S OWN BRANDS

The composition of the product categories and the priorities given to various brands are based on the demand and market potential in the various regions and markets. The market approach is prioritised and decided in close collaboration with distributors and partners, based on their in-depth market knowledge and regular analyses of demand patterns, potential and market risks.

Competition in all markets is strong, but economic growth and increasing purchasing power are also driving an increasing demand for beverages in selected markets outside Europe.

General market growth and maturation are seen in both the retail sector and the on-trade segment, supporting rapidly rising demand for beer, soft drinks, energy drinks and non-alcoholic beverages. A general trend is also being seen across the markets, with an increasing interest in and demand for speciality products such as craft beer, non-alcoholic drinks and beverages with natural and sustainable profiles. Harboe is targeting its products based on local preferences and general demand trends in the various markets. The competitors are local, regional and international breweries.

THE PRIVATE LABEL MARKET

The private label market has seen on-going consolidation in recent years,

especially among the discount chains, which continue to increase their relative share of the total retail trade. However, throughout most of Europe, the total value of the segment is declining, while the middle and premium segments are seeing growth.

Total beer sales have been falling in the past ten years in Europe. Yet there has been a gradual increase in value in the beer market in recent years, driven by increasing sales of speciality beer, largely marketed in the premium segment. Sales of soft drinks continue to grow, but at moderate rates. Growth in sales of soft drinks is driven primarily by continued product development within this segment, including energy and sports drinks, and the demand for juices and cordials is still increasing.

The Northern European beverages market, in particular, is affected by seasonal fluctuations, and the summer weather has a significant impact on total demand.

STRATEGY AND BUSINESS MODEL

Harboe's strategy for the continued growth and positioning of the group's own brands primarily targets international growth markets, in which economic and demographic developments support increasing purchasing power and demand for quality products – and where it is possible to achieve attractive earnings margins within selected product categories and geographic segments.



HARBOE BEVERAGES

Harboe's strategy is to increase the relative share of the group's own brand revenue. The international focus in marketing efforts will also help smooth out some of the effects of seasonal fluctuations.

The strategy is based on a market-to-market approach, where Harboe can exploit its existing product range and brand portfolio to establish a strong position, taking into account potential and market risks.

Harboe's own brands are typically marketed in higher price segments, targeted at a rapidly growing segment of middle-class consumers who are increasingly demanding imported brands at attractive prices.

The international sales and marketing organisation is being expanded further, and customer relations are based on close ongoing dialogue on the targeting of brands and product range, the aim being to expand and consolidate the group's position in existing markets and generate further growth. Harboe has intensified marketing efforts in recent years through targeted marketing support for the group's key brands. Harboe's own brands are expected to make an increasing contribution to the group's revenue and EBITDA over the coming years.

The business activities in the private label segment focus on establishing close partnerships with customers and

long-term contracts, which ensure that the collaboration can be regularly expanded through close dialogue on the ongoing development of the product range, packaging and sales concepts. This contributes to quality and value development in the segment, improves sales and drives further demand among consumers.

The fierce competition puts the earnings margins under pressure. This limits the opportunities for effectively implementing price increases in step with prices of raw materials and consumables etc. impacting production costs. Harboe therefore constantly focuses on increasing the product value and prioritising the product mix and contract portfolio to ensure the optimum balance between earnings and capacity utilisation in relation to the other business activities of the group.

Overall, private label activities continue to account for a significant portion of group revenue, and make an important contribution to total earnings. The activities also serve as a platform for dynamic development and market testing of new products and concepts, which can drive sales and further increase earnings. Furthermore, the documented results of this are systematically applied in the continued strategic development of the group, where proven products and sales concepts are brought into play under the group's own brands internationally.

STRATEGIC MEASURES AND RESULTS IN 2018/2019

Sales of the group's own brands advanced in 2018/2019. Revenue rose in Denmark in particular, due in part to the long hot summer, while sales in regions such as Asia and South America pulled in the opposite direction. Soft drinks, energy drinks and water were the main drivers of growth, but beer sales were also up on last year. Harboe also saw growth in sales of several types of beer under its own brands, including Bear Beer, Darguner and Puls, in other markets.

The positive growth in own brand sales confirms the group's strategic focus. This growth is underpinned by the intensified marketing support, which is being well received by the markets and is stimulating consumer preferences, enabling marketing of the products in attractive price segments. These activities also help to further strengthen the strategic partnership with regional and international distributors, and targeted investments in the development of the group's brands will continue over the coming years.

Organisational support is also provided for these activities in the form of dedicated brand managers and regional sales teams, and customer services are now managed by a centralised international customer service function.

During the financial year, the group continued its work on developing and strengthening both existing and new brands. Work has been done on visually updating the products, and new product variants and completely new product series have been launched under the group's own brands.

Overall, however, these activities were also reflected in higher sales and marketing costs in the financial year, but based on the market trend, the group will continue its sales and marketing activities in the coming year.

Private-label activities showed a positive trend, particularly in H1, due in part to the long hot summer in the Northern European markets, generating extraordinary demand for water and soft drinks, in particular.

Thanks to the group's efficient and flexible production facilities, Harboe was able to accommodate this demand, further boosting the partnerships with retail customers. Harboe is also working with a number of international partners on large private-label contracts for sales in Africa, among other places. However, activities under these contracts faced the same market challenges as those faced by Harboe's own brands in these markets. Unstable conditions and challenges in maintaining cash flow therefore resulted in declining revenue from these contracts. However, the decline was more than offset by



HARBOE BEVERAGES

increasing revenue from the other private label activities.

SPECIAL RISKS AND PRIORITIES IN 2018/2019

Harboe's activities are exposed to risks in international markets where political factors are less stable, and where general business conditions can be affected by various forms of political turmoil and lack of government control. As part of its efforts to reduce this exposure during the year, Harboe has focused its activities on more stable markets. There has also been a focus on further developing contract formats and updating policies and processes relating to the handling of international customer relations.

During the financial year, Harboe therefore ensured close follow-up and continuously adjusted its efforts in regions in the Middle East and Africa, among other places, which have been affected by unrest and/or political interventions that have impacted on the market situation. Changes in specific operating and debtor risks are regularly assessed and managed, and Harboe seeks to safeguard the company against bad debts by taking out credit insurance and open letters of credit where possible.

The production, distribution and delivery of agreed deliveries on time and good customer service in general are critical

factors for customer satisfaction and for maintaining long-term customer relations. Harboe is therefore constantly focusing on ensuring optimum efficiency in the value chain in step with the increasing sales to the international markets and the growing complexity of the business activities. During the financial year, Harboe continued working to strengthen the management co-ordination of the operating processes between the various links in the entire delivery system, which has resulted in a further improvement in lead times for customers.

During the financial year, there has been a focus in the private label activities on the risk exposure of the sales of the group's products due to increasing competition from national, regional and international competitors. Harboe is working hard to adapt its product mix and introduce innovative new products that are designed to accommodate market trends and drive new demand, ensuring that Harboe may maintain its position in these markets.

Harboe continuously seeks to optimise the use of capital in the group, for example by negotiating terms in contracts concluded with partners at all levels of the value chain. Generally, there is increasing pressure for extended credits, especially from large customers in the retail sector. To counter the risk of increased tie-up of capital, Harboe's

strategic focus is on optimising group cash flows, including by entering into supply chain finance agreements and securing current liquidity by credit facilities and the group's own flexible financial resources.

EXPECTATIONS AND STRATEGIC FOCUS AREAS IN 2019/2020

Activities involving the sale and marketing of the group's own brands are expected to contribute increasingly to the group's revenue and earnings.

The targeted market approach with selected brands supported by marketing activities and cultivation and expansion of the position in priority markets is expected to provide the basis for growth in the coming financial year.

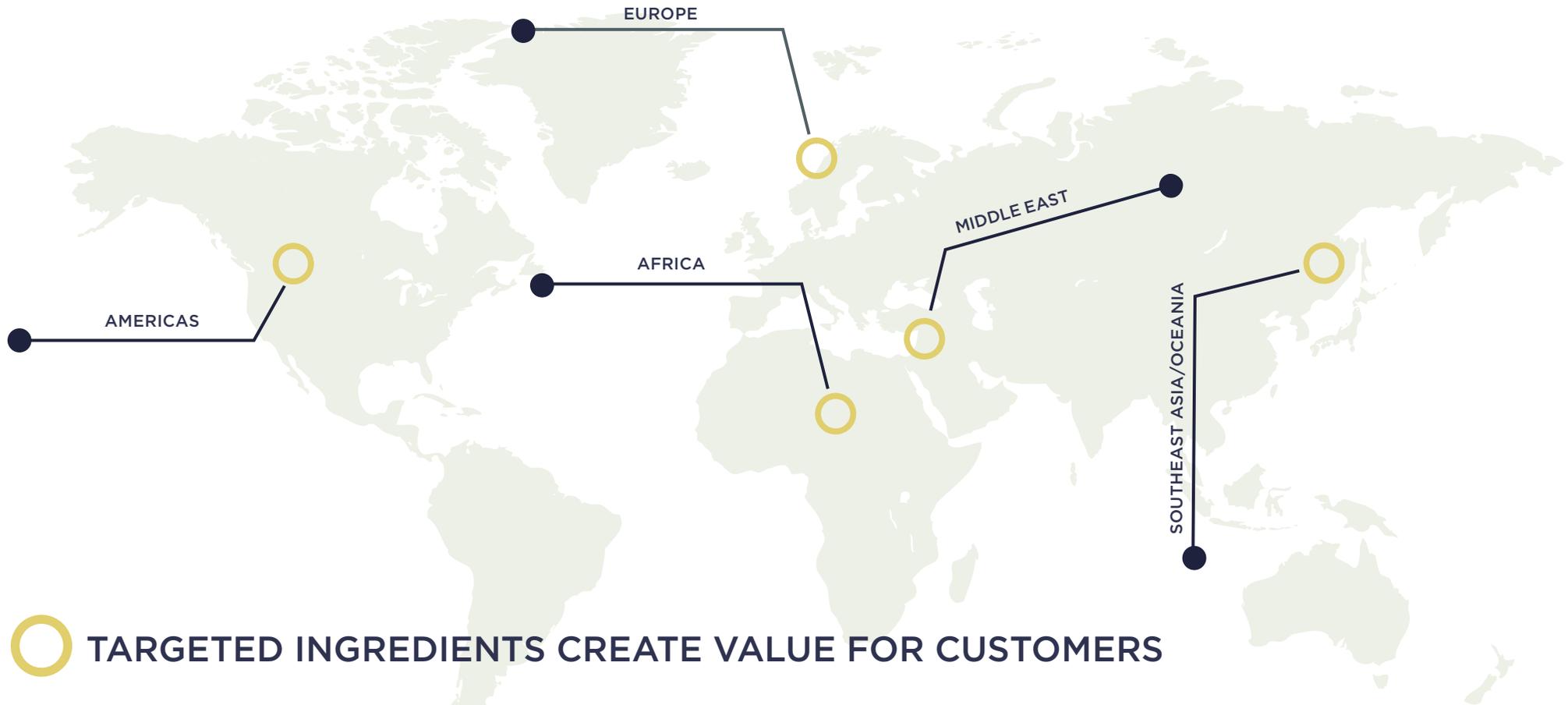
There will be a continued focus on developing and implementing efficient sales tools, brand manuals and marketing support for the group's primary brands, and these investments in future growth will continue to burden earnings in the coming year.

Harboe expects market conditions to remain challenging, but expects that for the coming year the group's offering to customers and business partners of quality, reliability of deliveries and strong value and the history of its brands will gain market share and contribute to maintaining the positive momentum in the activities.

In line with the strategy, Harboe will focus on maintaining its solid position in the private label segment in the Northern European markets in the coming year. The decline in demand for beer is expected to continue, but the category of speciality beer, soft drinks and other non-alcoholic beverages is expected to develop positively. As usual, however, the weather during the high season across the first two quarters of the financial year will have an impact on total demand and sales. We still expect the fierce competition to continue putting pressure on the earnings potential, and the price sensitivity as regards the core raw materials of the group may affect results.

Harboe will continue to prioritise the allocation of capacity to volumes with the most value, and will regularly assess the earning potential in the private label contracts. There will be an emphasis on long-term strategic cooperation with customers that can provide the basis for continued value development in the product range and packaging, in order to stimulate sales and contribute to increased earnings.

HARBOE INGREDIENTS



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 Barlex

brand. 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 2018/2019

- 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.

FOLLOW-UP ON STRATEGIC FOCUS AREAS

- Advice and testing of targeted applications create the basis for expanding partnerships with 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.

INNOVATION AND LAUNCH OF NEW INGREDIENTS

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

MARKET CONDITIONS AND COMPETITION

Harboe's activities in relation to malt extract are driven by stable demand and a general recognition of Harboe's products and certified production processes in a food industry where food safety and quality are paramount. At the same time, interest in better, more natural and competitive

food ingredients is growing, and this trend is supported by the ever-stricter international regulation of the food industry.

The competitors are local and international raw material and ingredients enterprises. Harboe's industry-specific product range, reliability of deliveries and close dialogue with our customers

form the basis of our strong competitive position. By further processing and adapting its products and applications, Harboe seeks to maintain and strengthen its market position with targeted solutions that create added value for customers.

STRATEGY AND BUSINESS MODEL

It is the primary objective of Harboe Ingredients' business model to ensure optimum utilisation of the group's technology and competencies when utilising the market opportunities within malt extract. There is still potential for growth within the business unit.

Based on its in-depth knowledge of customers in the international food industry, their needs and production processes, Harboe is systematically developing its business activities and individual customer relations through sales and advice on the implementation of targeted product applications adding value to the production of food and drinks.

Product development activities in recent years have resulted in the development of a number of new malt-based ingredients with excellent applications in relation to food and beverage production.

In recent years, Harboe also invested significant resources in the development and process optimisation as regards malt extract and currently offers an efficient range of ingredients

standardised for and targeted at bakeries. As regards the beverage industry, Harboe is working on creating an efficient range of natural ingredients. Development activities take place in close collaboration with existing and new customers and include development workshops, production test cycles and concept development.

The development activities are based on the qualification of the potential value creation, efficient utilisation of existing technology and competencies and current demand as well as on analysing the market potential. Development and marketing of malt-based ingredients remains a strategic priority.

The aim is for Harboe Ingredients to make an increasingly positive contribution to the group's growth and earnings in the slightly longer term.

STRATEGIC MEASURES AND RESULTS IN 2018/2019

Sales in Ingredients saw stable growth during the financial year, based on successful partnerships with existing customers. Ongoing advice on product qualifications and production processes contributes directly to the development of customers' value chains, while at the same time supporting marketing and sales of Harboe's ingredients. This supports Harboe's strategic objective of transforming its business model to a knowledge-based supplier of value-adding ingredients, and new

HARBOE INGREDIENTS

customer agreements were entered into on more advanced ingredients during the financial year. Agreements are regularly concluded with new customers with special needs for specialised ingredients products.

Harboe is working closely with customers, the focus being on ongoing advice and continued business development of individual customer relationships. Harboe also carried out collaboration and test procedures during the financial year with customers in the food industry on the use of Harboe's ingredients as alternatives to existing flavouring and colouring ingredients in, for example, bread, biscuits, waffles, chocolate and other confectionery products. Harboe's new test bakery provides good facilities for this collaboration. The testing and advisory activities are conducted in collaboration with the development team to ensure that the functionality and properties that should be included in the development of new ingredients and applications are continuously tailored to customer requirements.

Marketing efforts were continued with participation in international food fairs, and increased sales activities are to contribute to identifying new customers and market opportunities for Harboe's ingredients products.

The development organisation, boasting specialist and research-based skills in food ingredients, helps to accelerate ongoing development activities towards commercialisation.

In other words, development activities and optimisation of quality standards continued during the period.

Development activities, test procedures carried out in collaboration with customers and depreciation of the investments made negatively affected results in the financial year. Commercialisation of new products is a complex and lengthy process, but it is expected this will contribute more positively to earnings within the next 2-3 years.

SPECIAL RISKS AND PRIORITIES IN 2018/2019

Harboe's malt extract activities are exposed to the usual market risks of competition, changes in raw material prices etc.; in addition, market developments in markets prone to volatility in, for instance, the Middle East may affect expected sales.

The group's ingredients activities are also exposed to a number of special risks associated with new product development and the subsequent commercialisation of these products.

It is crucial to ensure that new products comply with the specific functionality requirements in order to be included in the customers' production process.

Harboe therefore focuses strongly on ensuring quality, progress and ongoing inspections in the test procedures carried out in collaboration with the customers. In the past year, Harboe continued to work on strengthening the process organisation and further optimising the quality standards and concepts. New ingredients and concepts are developed according to the same quality control procedures, and investments are made on the basis of preceding market and profitability analyses.

Harboe Ingredients is also exposed to the risk that the market acceptance and breakthrough for the group's new ingredients products cannot be realised to the extent expected or within the estimated time frame. As part of the management of this risk, Harboe has prioritised additional resources for development, customer advice, sales and marketing. Internally, there is also close collaboration between sales and development to ensure that the ongoing market intelligence is integrated optimally in the development activities.

Collaboration with established international ingredients distributors also

contributes to targeting the products at the current and expected future demand.

EXPECTATIONS AND STRATEGIC FOCUS AREAS IN 2019/2020

The activities in Harboe Ingredients are expected to develop positively in the coming financial year.

Harboe expects to see modest growth in sales of malt extract, driven in particular by the focus on the development of our existing customer relations with a view to increasing our business through the sales of more and new applications.

In the coming financial year, the focus of development activities will continue to be on taking further key steps towards readying more products and applications for commercialisation.

HARBOE INGREDIENTS



RISKS, FINANCIAL REPORTING AND CONTROLS

Harboe is constantly analysing and considering the business and financial risks affecting the company's development and results.

The Board of Directors and the Board of Executives are generally responsible for the risk assessment, risk management and internal controls of the group in connection with the financial reporting.

The Board of Directors of Harboe has set up an audit committee consisting of the externally elected, independent members of the Board of Directors. The audit committee is responsible for laying down policies and procedures and for the continuous monitoring of the internal control systems. The annual tasks and areas of responsibility of the committee have been defined in close collaboration with the company's external auditors. Prior to the adoption of the annual report, the committee considers the reporting with the company's external auditors and subsequently reports to the rest of the Board of Directors on accounting policies, significant accounting estimates, transactions with related parties, uncertainties and risks.

The framework for the ongoing risk assessment is laid down by the Board of Directors. Reporting and follow-up for the individual units and business areas form part of the reporting to the Board of Directors. The ongoing monitoring and controls are carried out both in the

individual units of specialised control functions and at group level.

IMPORTANT BUSINESS RISKS

Below follows an outline of the most important risks to which Harboe is exposed in its business activities. The list reflects the most significant risks in terms of probability and potential effect. The list is not exhaustive. The review of the individual business activities contains a detailed description of the current risk exposure, the risk management and the risk expectations for the coming year.

COMPETITION, PRICES AND TAXES

In all the group's markets, the beer and soft drinks segments are characterised by intense competition, leading to pressure on prices. Harboe is therefore sensitive to market fluctuations in the prices of raw materials and consumables, as increasing production costs cannot simply be added to the sales prices. This is particularly true as regards the group's private label agreements, which have modest earnings margins. To counter such fluctuations as much as possible, Harboe is systematically seeking to conclude long-term contracts with suppliers and regularly analyses the scope for additional efficiency improvements in production.

Harboe also has a strategic focus on strengthening sales of its own brands and speciality products in higher price segments, which offer higher earnings

margins and thus less sensitivity. Harboe's beer and soft drinks are, to a varying extent, subject to sales taxes in the group's markets, and marked changes in these taxes may affect Harboe's earnings and, ultimately, the sales of the group's products. Consequently, it is assessed regularly how Harboe can counter this risk in the best possible way through diversification of the group's product strategy and development activities.

MARKET CONDITIONS AND REGULATION

In step with the group's growth in activities outside of the EU-regulated markets in Europe, the group is increasingly being exposed to risks related to changing political and regulatory regimes and business practices, which may affect trading conditions and approvals, import regulation, financial transactions, logistics etc. For this reason, Harboe continuously weighs these risks against the concrete market opportunities and develops its activities in close cooperation with experienced local distributors and partners. Harboe also seeks to continuously strengthen its internal communication and business processes in relation to the handling of the group's contract formats, business practices and ethical standards, to ensure that the employees involved in business relations within sales, marketing, purchasing etc. are given the best possible conditions and guidance on

how to handle deviations from normal standards, including the risk of corruption.

SEASON AND CAPACITY

Sales of beer and soft drinks are characterised by seasonal and weather-dependent fluctuations. Summer is normally the peak season in the Northern European markets, when demand is very high, but a cold and wet summer can change this picture considerably and thus significantly affect the group's operating profit. Fluctuations in demand require highly flexible capacity utilisation. The group seeks to meet this requirement by continually streamlining capacity, and optimisation of production processes and coordination between the group's production units are a strategic focus area. At the same time, the ongoing growth in activities in markets outside Northern Europe is helping to reduce the relative exposure to seasonal fluctuations.

PRODUCTION AND QUALITY

Harboe's production of beverages is exposed to a risk of errors or accidents happening which may affect the quality of the end product. This can result in losses because products must be rejected or recalled from the market and may undermine consumer confidence in the group's products. To minimise the risk of this happening, Harboe is working systematically on the quality assurance of its production processes.

RISKS, FINANCIAL REPORTING AND CONTROLS

Consequently, all the group's production facilities are certified in accordance with international quality standards and apply established operating and maintenance procedures.

Furthermore, Harboe's production facilities are subject to regular unannounced inspections initiated by customers.

The required efficiency and speed of the production and delivery systems increase in step with the group's continued geographical expansion. In order to optimise the group's operating processes, Harboe has a constant focus on strengthening the coherence and coordination of the individual parts of the value chain.

In addition, Harboe invests in quality improvements and optimisation of its production facilities and processes on an ongoing basis, with a view to complying with new requirements and living up to expectations for quality and hygiene at all times.

SUPPLIERS

It is decisive that the raw materials and consumables which Harboe uses for its products meet the highest food safety and quality standards. At the same time, Harboe is dependent on the raw materials and consumables being delivered on time and in the agreed quantities. All of Harboe's suppliers are based in Europe

and thus subject to a standardised legal framework in accordance with European standards. The collaboration with suppliers is often based on long-term relations based on terms and conditions which are adjusted and renegotiated for one to two years at a time. Harboe evaluates the quality and reliability of deliveries of its suppliers at regular intervals and also conducts unannounced inspections. For all primary raw materials, Harboe has two suppliers to ensure the highest possible reliability of delivery.

CUSTOMERS AND AGREEMENTS

Harboe's sales are to a large extent effected through agreements with major retail-sector customers and large distributors. Harboe's revenue is thus dependent on these agreements being renewed, and the company is therefore focusing on cultivating and further developing its collaboration and on ensuring that product offerings, prices and capacity are in line with customer demand and expectations at all times, based on fundamental principles of competition.

All deliveries entail a debtor risk, which increases concurrently with the continued internationalisation of the group and the establishment of new customer relations. Harboe seeks to safeguard the company against bad debts through ongoing assessment of the need to take out credit insurance and open letters of

credit where appropriate and possible.

In recent years, there has been increasing pressure for extended credits, especially from large customers in the retail sector. To counter the risk of increased tie-up of capital, Harboe's focus is on optimising group cash flows, including by entering supply chain finance agreements and securing current liquidity by credit facilities and the group's own flexible financial resources.

PRODUCT DEVELOPMENT, SALES AND BRANDING

The successful introduction of new products is an important precondition for Harboe's continued growth. It is therefore decisive that the market comes to accept the new products and that the products meet or can help drive demand in the markets. Harboe's product development strategy is therefore based on a close and ongoing dialogue with customers, detailed market analyses combined with the targeted exploitation of new production technologies, and innovative product and packaging design. As part of its strategic focus on creating growth by positioning the group's own brands, Harboe is exposed to the risk that these brands do not gain recognition or demand in the selected markets. To counter this risk, Harboe is working closely with local and international distributors to put together the optimal mix of brands and products, and on sales-support activities targeted at the various markets.

IT SECURITY

Harboe's operations, reporting and control systems are largely driven by IT systems and depend on a high level of IT security. System breakdowns or faults, or unauthorised access to the group's IT systems, therefore represent a significant risk to the group's activities. Harboe has established procedures to ensure high security and protect against breakdowns and loss of data in daily operations, and general defence against cybercrime.

FINANCIAL RISKS

Harboe's solid capital structure limits the risk associated with changes in market interest rates. At the end of the financial year, the company's net interest-bearing debt amounted to DKK 211.6 million compared to DKK 185.2 million last year.

As Harboe's sales and purchases in foreign currencies in respect of most of the group's activities are still denominated in EUR, currency risks for the group are seen as limited. In step with the continued growth in the group's international activities, Harboe will assess the need for currency hedging on a regular basis.

The financial risks to which Harboe is exposed are described in more detail in the notes to the consolidated financial statements, which also include sensitivity analyses in connection with such financial risks.

ANNUAL REPORT

2018-2019



BY APPOINTMENT TO
THE ROYAL DANISH COURT

HARBOE

HARBOES BRYGGERI A/S • SPEGERBORGVEJ 34 • 4230 SKAELSKOER, DENMARK