First half year report of 2019
for ROCKWOOL International A/S
Release no. 6 – 2019
to Nasdaq Copenhagen

23 August 2019

Positive H1 performance amidst market volatility

"We delivered a strong first half and a good quarter, in which we nonetheless saw some segments and regions slowing down and continued volatility in the market. We initiated capacity reductions in the affected areas. Both the Insulation and Systems segments grew, and we are particularly pleased with the growth across the entire Systems portfolio. Overall, pricing improved, however with strong price pressure in certain markets."

CEO Jens Birgersson

Highlights

- H1 2019 sales reached EUR 1,336 million, a growth of 4.4 percent in local currencies.
- In Q2 2019, sales increased 3.3 percent in local currencies and reached EUR 695 million. Q2 was a short quarter with fewer working days, affecting growth by around 1.5 percentage points.
- EBIT in H1 2019 ended at EUR 178 million, an increase of 11 percent, with a 13.4 percent EBIT margin, up 0.7 percentage points from H1 last year.
- EBIT in Q2 2019 reached EUR 102 million, an increase of 12 percent and an EBIT margin of 14.7 percent, up 1.1 percentage points from Q2 last year.
- Investments in the first half of 2019 reached EUR 172 million, up EUR 101 million compared to last year. The increase is primarily due to ongoing capacity expansions in Germany, Romania and the United States.
- Annualised return on invested capital reached 21.6 percent compared to 20.6 percent last year, driven by higher operational earnings.
- On 10 September 2019, ROCKWOOL Group will introduce quarterly meetings dedicated to Environmental, Social and Governance (ESG) investors. Consistent with our Group purpose to enrich modern living, we are committed to delivering excellent long-term investment performance alongside environmental stewardship, ensuring that our business decisions have a positive impact on the lives of many, beyond financial performance.

Outlook 2019

- Due to the continued volatile market environment, the outlook for net sales growth has been revised; we now expect a full-year net sales growth of 2-5 percent in local currencies from the previous 4-8 percent.
- EBIT margin at around the same level as last year (12.8 percent), including the one-off positive EBIT impact from the Rockfon North America legal case settlement.
- Investment level is expected around EUR 390 million from previous EUR 330 million.

Conference call

ROCKWOOL Group will host an earning call on 23 August 2019 at 11.00 CET. To attend the conference call dial +45 35445577, +44 3333000804 or +1 6319131422. Passcode 74566843#. The conference call will be transmitted live on www.rockwoolgroup.com

Main figures / key figures for the Group

	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018	FY 2018
		Unaudited			Audited
Income statement (EURm)					
Net sales	695	667	1,336	1,270	2,671
EBITDA	144	132	264	244	507
Depreciation, amortisation and write-downs	42	41	86	83	166
EBIT	102	91	178	161	341
Profit before tax	100	86	172	155	335
Profit for the period	79	69	136	123	265
Balance sheet (EURm)					
Non-current assets			1,611	1,370	1,468
Current assets			915	862	963
Total assets			2,526	2,232	2,431
Equity			1,959	1,732	1,877
Non-current liabilities			151	137	121
Current liabilities			416	363	433
Net interest-bearing cash/(debt)			174	202	375
Net working capital			322	292	198
Invested capital			1,765	1,547	1,542
Cash flow (EURm)					
Cash flow from operating activities	110	101	100	99	408
Investments and acquisitions	94	39	172	71	212
Free cash flow	16	62	-72	28	196
Others					
Number of employees at end of period			11,641	11,253	11,511
Ratios					
EBITDA margin	20.7%	19.9%	19.8%	19.2%	19.0%
EBIT margin	14.7%	13.6%	13.4%	12.7%	12.8%
Return on invested capital (rolling 4 quarters)			21.6%	20.6%	22.8%
Return on equity (rolling 4 quarters)			15.1%	15.8%	14.9%
Equity ratio			77.4%	77.4%	77.2%
Share information (DKK)					
Earnings per share	27	23	46	42	91
Cash flow per share	37	34	34	34	140
Book value per share			664	586	638
Share capital (million)			220	220	220
Price per A share			1,502	2,177	1,430
Price per B share			1,670	2,472	1,697
Market cap (million)			34,689	50,572	34,168
Number of own shares			73,244	134,465	75,865

For definition of key figures and ratios see pg. 112 in the ROCKWOOL International A/S Annual Report 2018 available on our website: www.rockwoolgroup.com.

Management report for the period 1 January to 30 June 2019

Global sales development

ROCKWOOL Group has secured a good first half of 2019, with positive development in both sales and earnings - especially in Systems segment and several key Insulation markets. Construction activity has remained high in most of our geographical regions apart from the market for large commercial projects in Eastern Europe and general Insulation in South-East Asia. The German building market has a high level of construction backlog, but execution rates were lower than last year. To accommodate for market changes, production capacity has been reduced within the Insulation segment while we are ramping up in the Systems segment.

In the first half of 2019, ROCKWOOL Group generated net sales of EUR 1,336 million, an increase of 4.4 percent in local currencies. Foreign exchange rates had a positive impact of 0.8 percentage points on the increase in net sales, primarily due to the U.S. and Canadian dollars, resulting in sales growth of 5.2 percent in reported figures.

Group sales
+4.4%

In Q2 2019, net sales amounted to EUR 695 million, an increase of 3.3 percent in local currencies compared to same period last year. Although this is slightly lower than expected, we are pleased with the efforts and adaptability of our teams in markets with challenging conditions. Net sales for the quarter was negatively impacted by fewer working days, affecting growth in the quarter by around 1.5 percentage points. Sales growth in reported figures was 4.2 percent, foreign exchange rates had a positive impact of 0.9 percentage points.

During the first half year, both sales price development and product mix were favourable, although the competitive pressure in some geographic areas and certain segments made it difficult to pass on needed price adjustments.

Regional sales development

In the first half of the year, sales in Western Europe reached EUR 820 million, an increase of 7.2 percent in local currencies and 7.3 percent in reported figures. Growth was seen in most key markets, and especially France and UK performing well while Germany had a slow first half. In Q2 2019, sales in Western Europe increased 6.0 percent in local currencies and reached EUR 423 million (6.1 percent in reported figures).

Sales in Western Europe
+7.2%

In Eastern Europe, sales reached EUR 226 million for the first half, up 0.5 percent in local currencies and down 0.4 percent in reported figures. The key positive driver was the growth in Russia, while sales in Czech Republic and Ukraine decreased. In Q2 2019, sales in Eastern Europe decreased 2.3 percent in local currencies and reached EUR 124 million (-1.6 percent in reported figures) as most key markets delivered at same level as last year or decreased, except Russia and Romania.

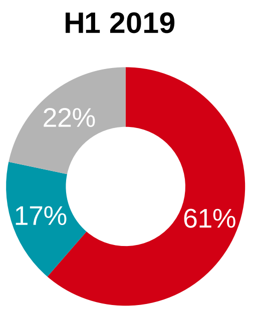
Sales in Eastern Europe
+0.5%

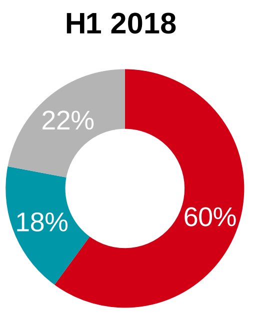
In the rest of the world, sales in the first half of the year were affected by negative markets in Asia, and reached EUR 290 million, an increase of 0.1 percent in local currencies or 3.8 percent in reported figures due to positive currency impact from North America. North America and India contributed positively, while the remaining key

Sales in rest of the world
+0.1%

markets in Asia declined. In Q2 2019, the sales amounted to EUR 148 million, up 0.6 percent in local currencies (4.0 percent in reported figures).

Regional sales





Western Europe | Eastern Europe including Russia | North America, Asia and others

Group profitability

EBITDA margin
+0.6 %-points

EBITDA for first half of the year increased by 8.0 percent to EUR 264 million resulting in an EBITDA margin of 19.8 percent, up 0.6 percentage points compared to last year.

The EBITDA for the first half of 2019 was positively impacted by a settlement in a legal case in Rockfon North America of EUR 10 million and by the accounting reclassification from the new IFRS 16 leasing standard of EUR 8 million (non-operational items).

Furthermore, the EBITDA was negatively impacted by the unusual development of the inventory level, resulting from a pre-planned reduction of stock levels, as the capitalised overhead costs (IPC) was negative in first half of 2019 with a net effect of EUR 8 million compared to the same period last year.

Correcting for these non-operational items and IPC, the EBITDA margin for the first half of 2019 was unchanged compared to last year, indicating that the increase in sales prices compensated for the higher costs on raw materials and logistics.

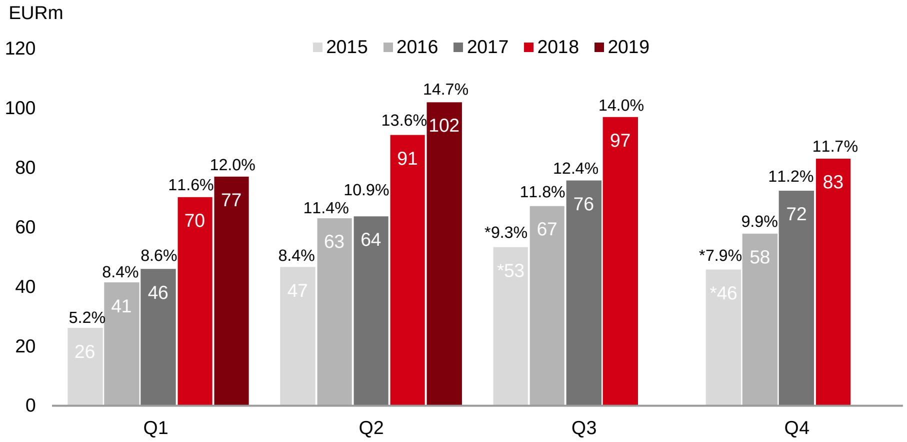
In Q2 2019, EBITDA amounted to EUR 144 million, up 8.7 percent, with an EBITDA margin of 20.7 percent. Excluding the non-operational items and IPC, the EBITDA margin for Q2 was at level compared to same quarter last year.

EBIT margin
+0.7 %-points

EBIT for the first half of 2019 increased by 10.8 percent and reached EUR 178 million, corresponding to a 13.4 percent EBIT margin – an increase of 0.7 percentage points. Correcting for the above-mentioned non-operational items and IPC, the operational EBIT margin for the first half of 2019 improved by 0.5 percentage points compared to last year.

EBIT for Q2 2019 was EUR 102 million equal to an EBIT margin of 14.7 percent for the period, up 1.1 percentage points from Q2 last year. Correcting for the same non-operational items and IPC, the EBIT margin from underlying activities for the quarter increased 0.5 percentage points compared to same period last year.

EBIT & EBIT MARGIN



*) 2015 figures corrected for redundancy costs and write-downs in Asia

The effective tax rate was 21 percent for the first half year, in line with year-end 2018.

Net profit for the first half of 2019 amounted to EUR 136 million, which is an improvement of EUR 13 million compared to last year. The net profit for Q2 2019 amounted to EUR 79 million.

Cash flow and balance sheet

Cash flow from operations before financial items and tax in the first half of 2019 was EUR 155 million, which is EUR 8 million higher than the same period last year. The increase comes mainly from higher earnings.

Operational cash flow before financial items and tax
155 MEUR

Net working capital over annualised net sales was 11.8 percent roughly unchanged from last year (11.6 percent). Net working capital amounted to EUR 322 million, an increase of EUR 30 million from the first half of 2018 due to higher trade receivables related to the growing sales.

Capital expenditure during the first half of 2019 was EUR 172 million compared to EUR 89 million last year, excluding last year's sales of listed securities in Flumroc amounting to EUR 18 million. The largest individual investments in 2019 relate to ongoing factory projects in the United States (West Virginia) and Romania as well as the expansion in Germany.

Free cash flow of EUR -72 million, is EUR 100 million lower than last year due to higher investment level.

Free cash flow
-72 MEUR

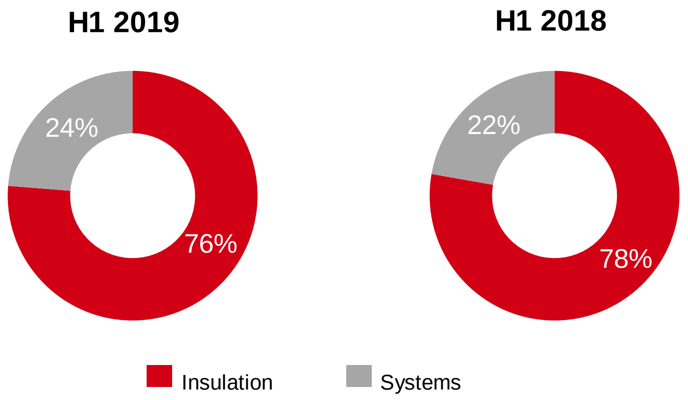
Annualised return on invested capital was 21.6 percent compared to 20.6 percent for the same period last year, driven by improved profitability.

ROIC
+1.0 %-points

Total assets at the end of the first half of 2019 amounted to EUR 2,526 million. The equity ratio at the end of the period was 77 percent with no difference compared to same period last year.

Business segments

Sales per business



Key figures Insulation segment

EURm	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018
External net sales	533	520	1,019	988
EBIT	68	71	122	125
EBIT margin	11.2%	12.0%	10.6%	11.3%

Sales for the first half of 2019 in the Insulation segment reached EUR 1,019 million, which is an increase of 2.6 percent in local currencies. In reported figures, the total growth was 3.1 percent. The increase was mainly carried by the building insulation segment in key markets in Western Europe. In Q2 2019, sales increased 1.8 percent in local currencies, and reached EUR 533 million.

Insulation sales
+2.6%

The Insulation segment EBIT for the first half of 2019 reached EUR 122 million with an EBIT margin of 10.6 percent, a decrease of 0.7 percentage points compared to the same period last year, due to IPC as well as start-up costs for the new factories in Germany, Romania and the United States. Adjusted for these non-recurring items, the EBIT margin from underlying activities improved by around 0.5 percentage points.

Insulation EBIT margin
-0.7 %-points

In Q2 2019, EBIT reached EUR 68 million and an EBIT margin of 11.2 percent, down 0.8 percentage points from last year. Adjusting for the IPC difference and start-up costs, the EBIT margin from underlying activities improved by around 0.6 percentage point.

Key figures Systems segment

EURm	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018
External net sales	162	147	317	282
EBIT	34	20	56	36
EBIT margin	21.2%	13.9%	17.7%	12.8%

The Systems segment's sales in the first half of 2019 amounted to EUR 317 million, which is an increase of 10.8 percent in local currencies and 12.3 percent in reported figures. This growth was driven by all business areas within Systems segment. In Q2 2019, sales amounted to EUR 162 million, up 8.7 percent in local currencies.

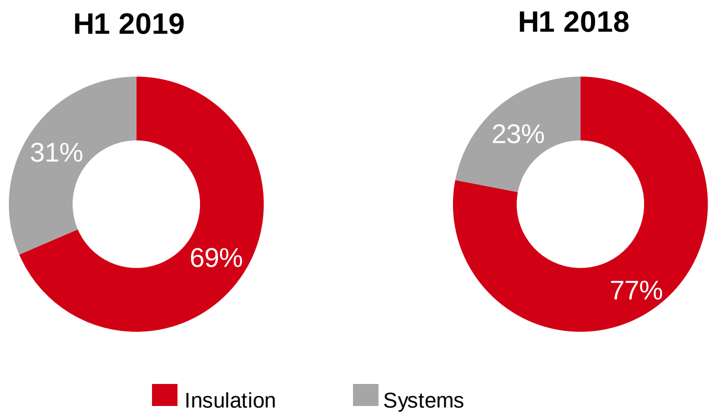
Systems sales
+10.8%

The Systems segment generated an EBIT of EUR 56 million with an EBIT margin of 17.7 percent up 4.9 percentage points compared to last year. Excluding the positive impact from the Rockfon North America legal case settlement, EBIT margin was 14.5 percent, up 1.7 percentage points, with all business units contributing positively.

Systems EBIT margin
+4.9 %-points

In Q2 2019, EBIT amounted to EUR 34 million with an EBIT margin of 21.2 percent. Excluding the Rockfon settlement the EBIT margin for Q2 increased 1.3 percentage points.

EBIT per business



Outlook for the full year 2019

Due to the continued volatile market environment, the outlook for net sales growth has been revised; we now expect a full-year net sales growth of 2-5 percent in local currencies from the previous 4-8 percent.

EBIT margin is expected at around the same level as last year (12.8 percent), including the one-off positive EBIT impact from the Rockfon North America legal case settlement.

Investment level this year is expected to reach around EUR 390 million excluding acquisition (previous around EUR 330 million). The additional investment relates to new activities supporting Systems segment growth, acceleration of investment within Insulation and an investment increase for the North America factory due to higher costs on material, equipment and civil works.

2019 outlook overview

	8 February 2019	16 May 2019	23 August 2019
Net sales	Growth in net sales to be 4-8 percent in local currencies	Growth in net sales to be 4-8 percent in local currencies	Growth in net sales to be 2-5 percent in local currencies
EBIT margin	Around 12 percent	Around the same level as 2018 (12.8 percent)	Around the same level as 2018 (12.8 percent), including the one-off positive EBIT impact from the Rockfon North America legal case settlement
Investments excluding acquisitions	Around EUR 330 million	Around EUR 330 million	Around EUR 390 million

Further information:
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At ROCKWOOL Group, we are committed to enriching the lives of everyone who experiences our products. Our expertise is perfectly suited to tackle many of today's biggest sustainability and development challenges, from energy consumption to noise pollution and water scarcity to flooding. Our range of products reflects the diversity of the world's needs, supporting our stakeholders in reducing their own carbon footprint along the way.

Stone wool is a versatile material and forms the basis of all our businesses. With more than 11,600 passionate colleagues in 39 countries, we are the world leader in stone wool solutions, from building insulation to acoustic ceilings, external cladding systems to horticultural solutions, engineered fibres for industrial use to insulation for the process industry and marine & offshore.

Management statement

The Board of Directors and the Registered Directors have today considered and approved the interim report of ROCKWOOL International A/S for the first half year of 2019.

This interim report, which has not been audited or reviewed by the ROCKWOOL Group auditor, has been prepared in accordance with IAS 34 “Interim Financial Reporting”, as approved by the EU and additional Danish interim reporting requirements for listed companies.

In our opinion, the interim report presents a true and fair view of Group’s assets and liabilities, and the financial position at 30 June 2019 and the result from Group’s operations and cash flow for the period 1 January to 30 June 2019.

Furthermore, we believe that the management report includes a true and fair presentation about the development in the Group’s operations and financial matters, the result for the period and the Group’s financial position overall as well as a description of the most significant risks and uncertainties faced by the Group.

Besides what has been disclosed in this interim report no changes in the Group’s most significant risks and uncertainties have occurred relative to what was disclosed in the consolidated annual report for 2018.

23 August 2019

Registered Directors

Jens Birgersson CEO	Kim Junge Andersen CFO

Board of Directors

Henrik Brandt Chairman	Carsten Bjerg First Deputy Chairman	Søren Kähler Second Deputy Chairman
Thomas Kähler	Andreas Ronken	Jørgen Tang-Jensen
René Binder Rasmussen	Connie Enghus Theisen	Christian Westerberg

Income statement

EURm	Unaudited				Audited
	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018	FY 2018
Net sales	695	667	1,336	1,270	2,671
Other operating income	10	0	14	2	11
Operating income	**705**	**667**	**1,350**	**1,272**	**2,682**
Raw material costs and Production material costs	238	223	447	421	909
Delivery costs and indirect costs	100	94	192	177	385
Other external costs	52	57	109	113	232
Personnel costs	171	161	338	317	649
Operating costs	**561**	**535**	**1,086**	**1,028**	**2,175**
EBITDA	**144**	**132**	**264**	**244**	**507**
Depreciation, amortisation and write-downs	42	41	86	83	166
EBIT	**102**	**91**	**178**	**161**	**341**
Income from investments in associated companies	0	0	0	0	1
Financial items	-2	-5	-6	-6	-7
Profit before tax	**100**	**86**	**172**	**155**	**335**
Tax on profit for the period	21	17	36	32	70
Profit for the period	**79**	**69**	**136**	**123**	**265**
Attributable to:					
Non-controlling interests	0	0	0	0	0
Shareholders of ROCKWOOL International A/S	79	69	136	123	265
	79	**69**	**136**	**123**	**265**
Earnings per share of DKK 10 (EUR 1.3)	3.6	3.1	6.2	5.6	12.1
Earnings per share of DKK 10 (EUR 1.3), diluted	3.6	3.1	6.2	5.6	12.1

Statement of comprehensive income

EURm	Unaudited				Audited
	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018	FY 2018
Profit for the period	**79**	**69**	**136**	**123**	**265**
Items that will not be reclassified to the income statement:					
Actuarial gains and losses of pension obligations	0	0	0	0	1
Tax on other comprehensive income	0	0	0	0	1
Items that may be subsequently reclassified to the income statement:					
Exchange rate adjustments of foreign subsidiaries	-1	3	34	-13	-22
Hedging instruments, value adjustments	0	1	0	2	0
Tax on other comprehensive income	0	0	0	0	0
Other comprehensive income	**-1**	**4**	**34**	**-11**	**-20**
Comprehensive income for the period	**78**	**73**	**170**	**112**	**245**
Attributable to:					
Non-controlling interests	0	0	0	0	0
Shareholders of ROCKWOOL International A/S	78	73	170	112	245
	78	**73**	**170**	**112**	**245**

Segment and sales reporting

	Unaudited							
YTD Q2	**Insulation segment**		**Systems segment**		**Eliminations**		**The ROCKWOOL Group**	
EURm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External net sales	1,019	988	317	282	0	0	1,336	1,270
Internal net sales	133	117	0	0	-133	-117	0	0
Total net sales	**1,152**	**1,105**	**317**	**282**	**-133**	**-117**	**1,336**	**1,270**
EBIT	**122**	**125**	**56**	**36**	**0**	**0**	**178**	**161**
EBIT margin	*10.6%*	*11.3%*	*17.7%*	*12.8%*			*13.4%*	*12.7%*
Goods transferred at a point in time	1,019	988	317	282			1,336	1,270

Geographical split of external net sales

EURm	**Q2 2019**	**Q2 2018**	**YTD Q2 2019**	**YTD Q2 2018**	**FY 2018**
Western Europe	423	397	820	763	1,586
Eastern Europe including Russia	124	126	226	227	514
North America, Asia and others	148	144	290	280	571
Total external net sales	**695**	**667**	**1,336**	**1,270**	**2,671**

Balance sheet

(condensed)	**Unaudited**		**Audited**
EURm	**Q2 2019**	**Q2 2018**	**FY 2018**
Assets			
Intangible assets	189	164	189
Tangible assets	1,331	1,169	1,227
Right of use assets	41	-	-
Other financial assets	10	6	6
Deferred tax assets	40	31	46
Total non-current assets	**1,611**	**1,370**	**1,468**
Inventories	249	238	238
Receivables	448	420	339
Cash	218	204	386
Total current assets	**915**	**862**	**963**
Total assets	**2,526**	**2,232**	**2,431**
Equity and liabilities			
Share capital	29	29	29
Foreign currency translation	-123	-148	-157
Proposed dividend	0	0	88
Retained earnings	2,048	1,844	1,912
Hedging	1	3	1
Non-controlling interests	4	4	4
Total equity	**1,959**	**1,732**	**1,877**
Non-current liabilities	151	137	121
Current liabilities	416	363	433
Total liabilities	**567**	**500**	**554**
Total equity and liabilities	**2,526**	**2,232**	**2,431**

Cash flow statement

(condensed)	Unaudited				Audited
EURm	Q2 2019	Q2 2018	YTD Q2 2019	YTD Q2 2018	FY 2018
EBIT	102	91	178	161	341
Adjustments for depreciation, amortisation and write-downs	42	41	86	83	166
Other adjustments	1	5	1	7	-7
Change in net working capital	-18	-25	-110	-104	-22
Cash flow from operations before financial items and tax	**127**	**112**	**155**	**147**	**478**
Cash flow from operating activities	**110**	**101**	**100**	**99**	**408**
Cash flow from investing activities	**-94**	**-39**	**-172**	**-71**	**-204**
Cash flow from acquisitions	**0**	**0**	**0**	**0**	**-8**
Cash flow from operating and investing activities (free cash flow)	**16**	**62**	**-72**	**28**	**196**
Cash flow from financing activities	-94	-66	-96	-65	-54
Change in cash available	**-78**	**-4**	**-168**	**-37**	**142**
Cash available – beginning of period	294	213	380	243	243
Exchange rate adjustments	0	-6	4	-3	-5
Cash available – end of period	**216**	**203**	**216**	**203**	**380**
Unutilised, committed credit facilities			**429**	**429**	**428**

Statement of changes in the equity

	Unaudited							
EURm	Share capital	Foreign currency translation	Proposed dividend	Retained earnings	Hedging	Equity before non-controlling interests	Non-controlling interests	Total
Equity 1/1 2019	**29**	**-157**	**88**	**1,912**	**1**	**1,873**	**4**	**1,877**
Profit for the period				136		136		**136**
Other comprehensive income		34				34		**34**
Comprehensive income for the period	**0**	**34**	**0**	**136**	**0**	**170**	**0**	**170**
Sale and purchase of own shares				-2		-2		**-2**
Expensed value of options/RSUs issued				2		2		**2**
Transactions non-controlling interests						0		**0**
Dividend paid to the shareholders			-88			-88		**-88**
Equity Q2 2019	**29**	**-123**	**0**	**2,048**	**1**	**1,955**	**4**	**1,959**
Equity 1/1 2018	**29**	**-135**	**71**	**1,711**	**1**	**1,677**	**7**	**1,684**
Profit for the period				123		123		**123**
Other comprehensive income		-13			2	-11		**-11**
Comprehensive income for the period	**0**	**-13**	**0**	**123**	**2**	**112**	**0**	**112**
Sale and purchase of own shares				5		5		**5**
Expensed value of options/RSUs issued				4		4		**4**
Transactions non-controlling interests						0	-3	**-3**
Dividend paid to the shareholders			-71	1		-70		**-70**
Equity Q2 2018	**29**	**-148**	**0**	**1,844**	**3**	**1,728**	**4**	**1,732**

Main figures in DKK million

	Unaudited				Audited
			YTD	YTD	
	Q2 2019	Q2 2018	Q2 2019	Q2 2018	FY 2018
Net sales	5,188	4,967	9,972	9,460	19,911
Depreciation, amortisation and write-downs	313	308	639	621	1,233
EBIT	761	677	1,332	1,199	2,543
Profit before tax	744	642	1,286	1,153	2,500
Profit for the period	588	513	1,016	916	1,975
Total assets			18,849	16,635	18,153
Equity			14,621	12,907	14,012
Cash flow from operating activities	819	754	744	739	3,044
Investments and acquisitions	705	291	1,283	533	1,577
Exchange rate	7.46	7.45	7.47	7.45	7.45

Accounting policies

The interim report for the first half of 2019 has been prepared in accordance with IAS 34 and the additional Danish regulations for the presentation of quarterly interim reports by listed companies.

The interim report for the first half of 2019 follows the same accounting policies as the Annual report for 2018, except for the latest International Financial Reporting Standards (IFRS) and amendments effective as of 1 January 2019 as adopted by the European Union.

Updated accounting policies for leases

For contracts containing a lease, a Right-of-use (ROU) asset and a lease liability are recognised at commencement of the lease. The ROU asset is initially measured at the present value of future lease payments, plus the cost of obligations to refurbish the asset. The ROU assets are depreciated on a straight-line basis over the shorter of the expected lease term or the useful life of the underlying asset. ROU assets are tested for impairment whenever there is an indication that the assets may be impaired.

Lease payments include fixed payments and variable payments that depend on a rate or an index, such as an inflation index. If the lease contains an extension or purchase option that the Group considers reasonably certain to be exercised, these are included in the lease payments.

ROU assets and the lease liability are presented separately in the balance sheet.

The Group’s portfolio of leases covers leases of office buildings, warehouses and other equipment such as cars and forklifts. For building leases, lease terms are based on contract terms as well as taking its strategic importance into consideration.

Impact from IFRS 16 “Leases”

The standard replaces IAS 17, and requires that leases previously classified as operating leases are recognised in the balance sheet as a right-to-use (ROU) asset with the corresponding lease liability. In the income statement, the lease cost under operating cost is replaced by depreciation of the leased asset and an interest expense for the financial liability. In addition, the cash flow will be impacted as part of the current lease payments will be moved from operating activities to cash flow from financing activities (instalments).

The standard was implemented on 1 January 2019 using the modified retrospective approach, and comparative figures have not been restated. At initial recognition in the opening balance of 1 January 2019, ROU assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Lease liabilities are measured at the present value of future lease payments. The Group has chosen not to include payments related to service components in the lease liability for ROU assets. Variable service components invoiced separately are expensed as operational costs.

The Group will not apply IFRS 16 to short-term leases, or low-value leases (e.g. computers, printing and photocopying machines).

On adoption, the lease liabilities related to leases previously classified as operating leases are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.

The incremental borrowing rate (IBR) is calculated per main country/region per asset. The IBR level in Europe is 3-7 percent, in Russia around 12 percent, in North America 5-6 percent while the level in Asia is 5-15 percent. The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right of use assets - increase by EUR 37 million
- Lease liabilities - increase by EUR 37 million

Disclaimer

The statements on the future in this report, including expected sales and earnings, are associated with risks and uncertainties and may be affected by factors influencing the activities of the Group, e.g. the global economic environment, including interest and exchange rate developments, the raw material situation, production and distribution-related issues, breach of contract or unexpected termination of contract, price reductions due to market-driven price reductions, market acceptance of new products, launches of competitive products and other unforeseen factors.