Demant

Company announcement no 2019-07

14 August 2019

Interim Report 2019

8% growth for the Group – recent product launches drive growth acceleration into H2
12% unit growth drives market share gains in hearing aid wholesale business
Strong growth in Hearing Implants driven by 35% growth in cochlear implants business
Profitability in H1 diluted by product mix, one-off effects and significant investments in future growth
Outlook for EBIT adjusted to DKK 2.65-2.85bn with significantly improved growth and profitability in H2

- Revenue for the first half of 2019 amounted to DKK 7,350 million, corresponding to a growth rate of 8%. Organic growth contributed 5 percentage points, acquisitions 2 percentage points and exchange rate effects 1 percentage point. Driven by new product launches, organic growth accelerated during the reporting period after a slow start to the year, and we expect significantly improved growth and profitability in the second half-year.
- Growth in Hearing Devices was 7% in local currencies, primarily driven by organic growth in our hearing aid wholesale business and acquisitive growth in our hearing aid retail business. Organic growth in the hearing aid wholesale business was 6% driven by broad-based unit growth of 12%, but we saw negative development in the average selling price (ASP) of slightly more than 5% due to negative product mix changes. Rolled out in most major markets in March, April and May, Oticon Opn S helped drive higher growth in the last part of the reporting period after a slow start to the year before the launch. We saw a significantly higher-than-normal level of returned products based on legacy silver-zinc rechargeable technology, as customers – while still in their trial period – chose to swap their products for the new Opn S and its new, strong lithium-ion rechargeable technology. This negatively impacted our growth in several premium markets, but this is a one-off effect that will come to an end in August. In April and May, we also launched new products in our other brands, most notably the first products by Philips Hearing Solutions. All products are seeing good traction in a market that is highly competitive, particularly in the premium segment. Over the coming weeks, we will introduce new, state-of-the-art Super Power and Ultra Power instruments for adults and children based on our latest platforms and also roll out our video-based remote care solution globally.
- Our hearing aid retail business saw growth of 9% in local currencies of which 7 percentage points were attributable to acquisitions, which were mainly made last year in the US and France. Organic growth contributed 2 percentage points despite a negative one-off impact of more than 1 percentage point from the new hearing healthcare reform in France, which took effect at the beginning of the year. The underlying organic growth rate of 3% was in line with our expectations. Organic growth was driven by several European markets as well as Australia, whereas organic growth in the US was flat.
- In Hearing Implants, growth was 17% in local currencies driven by 35% growth in our cochlear implants business, all of which was organic growth. Our bone-anchored hearing systems business saw modest organic growth of 4%, but is now well positioned for significant growth acceleration in the second half-year driven by the new, ground-breaking Ponto 4 sound processor launched in June.
- Diagnostics once again delivered market share gains with growth of 8% in local currencies of which 7 percentage points are attributable to organic growth following strong growth in North America and Asia.
- Sennheiser Communications saw strong underlying growth of 12% driven particularly by wireless products. Reported growth was 11%, but product mix changes and increasing R&D and distribution costs diluted profitability, and the contribution to the Group's EBIT decreased by 38% to DKK 28 million compared to the very strong first half of 2018.

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- Due to continued operational efficiencies and growth in our hearing aid retail business, we grew our gross profit margin by 0.9 percentage point compared to the first half of 2018. We saw a significant increase in the Group's capacity costs in the first half-year due to our increased R&D efforts in 2018 and higher distribution costs, mainly driven by our hearing aid retail business, including costs relating to a large retail acquisition made in the first half of 2018. R&D costs increased by 12% and distribution costs by 16%. Operating profit (EBIT) for the Group amounted to DKK 1,113 million, a decrease of 9% compared to reported EBIT in the comparative period last year, and the corresponding EBIT margin was 15.1% compared to 18.1% in the same period last year. Adjusted for the effect of the French reform, IFRS 16 and exchange rates, underlying EBIT was DKK 1,205 million corresponding to an EBIT margin of 16.2%. Positively impacted by the new accounting standard, IFRS 16 Leases, cash flow from operating activities (CFFO) increased by 5% to DKK 1,047 million. Adjusted for this effect, CFFO decreased by 17%, primarily due to the lower EBIT.
- We expect to see significant acceleration of organic growth for the Group in the second half-year, as we will see the full effect of our many recent product launches combined with returns of legacy rechargeable products coming to an end in August. We expect higher organic growth in our hearing aid retail business, strong growth in Hearing Implants and Diagnostics and no further impact of the reform in France. Also, total capacity costs will be in line with capacity costs in the first half of 2019, which will help drive material growth in profitability in the second half-year.
- We maintain our expectation to generate organic sales growth above market level in 2019, accelerating through the year as a reflection of the timing of our product launches. Based on exchange rates as of 13 August 2019 and including the impact of exchange rate hedging, we continue to expect a positive exchange rate effect of 1% on revenue in 2019. Due to developments in the first half-year, including an adverse product mix development, a significantly higher-than-normal level of returns of legacy rechargeable products and a more competitive environment than originally expected, we adjust our outlook for reported operating profit (EBIT) for 2019 to DKK 2,650-2,850 million (previously DKK 2,650-2,950 million). We still expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion. Due to the level of acquisition opportunities that we see and generally attractive access to funding, we now aim for a gearing multiple of 1.7-2.2 (previously 1.5-2.0) measured as net interest-bearing debt (NIBD) relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16).

"I'm very happy to see that we grew our revenue by 8% and that our many new products evidently accelerated growth in the last part of the reporting period. As expected, our decision to invest heavily in R&D and acquisitions has resulted in a growing cost base and – in addition to the product mix seen in Hearing Devices – this has had a dilutive effect on our profit, but we expect to see a very different picture in the second half-year. Hearing Implants and Diagnostics have delivered strong growth, which is very encouraging. With Oticon Opn S, the coming Super Power and Ultra Power products from Oticon and many new product launches such as the first-ever product family from Philips Hearing Solutions, we are extremely competitive with best-in-class and industry-leading audiology for the benefit of hearing care providers and users all over the world," says Søren Nielsen, President & CEO of Demant.

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Demant will host a conference call on 14 August 2019 at 14:00 CET. To attend this call, please use one of the following dial-ins: +45 3544 5577 (DK), +44 3333 000 804 (UK) or +1 6319 131 422 (US). The pin code is 99690426#. A presentation for the call will be uploaded to www.demant.com shortly before the call.

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Key figures and financial ratios

	H1 2019	H1 2018	Change H1/H1	Full year 2018
INCOME STATEMENT, DKK MILLION				
Revenue	7,350	6,777	8%	13,937
Gross profit	5,701	5,201	10%	10,784
Gross profit – adjusted*	5,701	5,211	9%	10,825
R&D costs	552	492	12%	1,009
EBITDA	1,582	1,441	10%	2,978
Amortisation and depreciation etc.	469	215	118%	446
Operating profit (EBIT)	1,113	1,226	-9%	2,532
Operating profit (EBIT) – adjusted*	1,113	1,272	-13%	2,652
Net financial items	-119	-72	65%	-164
Profit before tax	994	1,154	-14%	2,368
Profit for the period	767	894	-14%	1,830
BALANCE SHEET, DKK MILLION				
Net interest-bearing debt (NIBD)	5,654	5,061	12%	5,835
Net interest-bearing debt and lease liabilities	7,613			
Assets	20,759	17,224	21%	17,935
Equity	7,596	6,943	9%	7,059
OTHER KEY FIGURES, DKK MILLION				
Investment in property, plant and equipment, net	251	198	27%	409
Cash flow from operating activities (CFFO)	1,047	996	5%	1,683
Cash flow from operating activities (CFFO) – adjusted*	1,047	1,051	0%	1,765
Free cash flow	702	946	-26%	1,185
Average number of employees	15,044	13,934	8%	14,250
FINANCIAL RATIOS				
Gross profit margin	77.6%	76.7%		77.4%
Gross profit margin – adjusted*	77.6%	76.9%		77.7%
EBITDA margin	21.5%	21.3%		21.4%
Profit margin (EBIT margin)	15.1%	18.1%		18.2%
Profit margin (EBIT margin) – adjusted*	15.1%	18.8%		19.0%
Return on equity	21.0%	24.4%		25.7%
Equity ratio	36.6%	40.3%		39.4%
Gearing (NIBD/EBITDA), rolling 12 months	2.0	1.7		2.0
Gearing including effects from leases, rolling 12 months**	2.3			
Earnings per share (EPS), DKK***	3.12	3.55	-12%	7.32
Cash flow per share (CFPS), DKK***	4.28	3.97	8%	6.76
Free cash flow per share, DKK***	2.87	3.77	-24%	4.76
Dividend per share, DKK***	0	0	-	0
Equity value per share, DKK***	31.1	27.6	13%	28.3
Price earnings (P/E)	32.7	36.2	-10%	25.3
Share price, DKK***	204.10	256.80	-21%	184.9
Market cap. adjusted for treasury shares, DKK million	49,783	63,887	-22%	45,308
Average number of shares outstanding, million***	244.40	251.15	-3%	249.14

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities. On computation of the return on equity, average equity is calculated, duly considering share buy-backs.

** Figures are adjusted for costs related to the 2016-2018 restructuring programme.*

*** The effect of IFRS 16 on H1 2019 has been added to the EBITDA in H2 2018 in the rolling 12 months used for calculating the gearing multiple for H1 2019.*

**** Per share of nominally DKK 0.20.*

Financial review

Unless otherwise indicated, the commentary below on our financial results is based on *reported* figures, i.e. 2018 figures include costs related to the 2016-2018 restructuring programme. The table below shows figures for the first half of 2018 adjusted for these restructuring costs, which amounted to DKK 46 million, resulting in an adjusted EBIT of DKK 1,272 million.

Income statement

(DKK million)	H1 2019	H1 2018	Growth	Restr. costs H1 2018	Adjusted H1 2018	Growth
Revenue	7,350	6,777	8%	0	6,777	8%
Production costs	-1,649	-1,576	5%	-10	-1,566	5%
Gross profit	**5,701**	**5,201**	**10%**	**-10**	**5,211**	**9%**
Gross profit margin	77.6%	76.7%			76.9%	
R&D costs	-552	-492	12%	-12	-480	15%
Distribution costs	-3,661	-3,157	16%	-12	-3,145	16%
Administrative expenses	-415	-380	9%	-12	-368	13%
Share of profit after tax, associates and JVs	40	54	-26%	0	54	-26%
Operating profit (EBIT)	**1,113**	**1,226**	**-9%**	**-46**	**1,272**	**-13%**
Operating profit margin (EBIT margin)	15.1%	18.1%			18.8%	

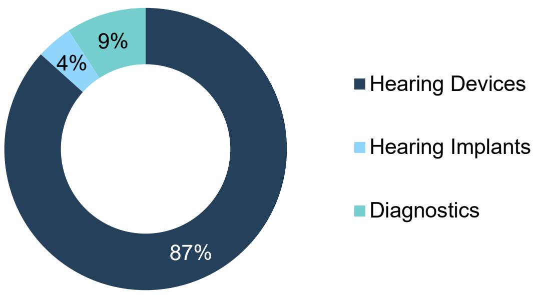
Revenue

In the first half-year, Group revenue amounted to DKK 7,350 million, corresponding to a growth rate of 7% in local currencies compared to the first half of 2018. Organic growth contributed 5 percentage points and acquisitions 2 percentage points.

Exchange rate effects added 1 percentage point to growth in the reporting period, resulting in reported growth of 8%.

Revenue by business activity

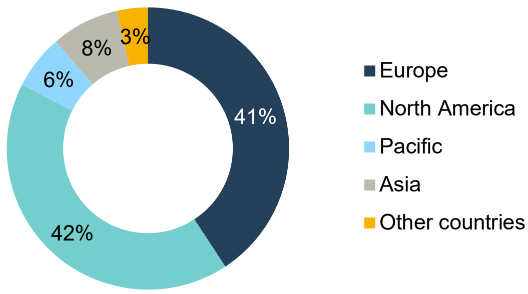
			Change		
(DKK million)	H1 2019	H1 2018	DKK	LCY	Org.
Hearing Devices	6,373	5,917	8%	7%	4%
- Wholesale			6%	6%	6%
- Retail			11%	9%	2%
Hearing Implants	304	257	18%	17%	17%
Diagnostics	673	603	12%	8%	7%
Total	**7,350**	**6,777**	**8%**	**7%**	**5%**



In terms of geography, we saw solid growth in local currencies in all regions, particularly in export markets and in Asia where organic growth was strong. In North America, growth in local currencies was mostly driven by acquisitions in our hearing aid retail business.

Revenue by geographic region

			Change		
(DKK million)	H1 2019	H1 2018	DKK	LCY	Org.
Europe	2,996	2,810	7%	6%	5%
North America	3,063	2,778	10%	7%	2%
Pacific	459	447	3%	5%	4%
Asia	574	521	10%	12%	12%
Other countries	258	221	17%	19%	19%
Total	**7,350**	**6,777**	**8%**	**7%**	**5%**



Financial review

Gross profit

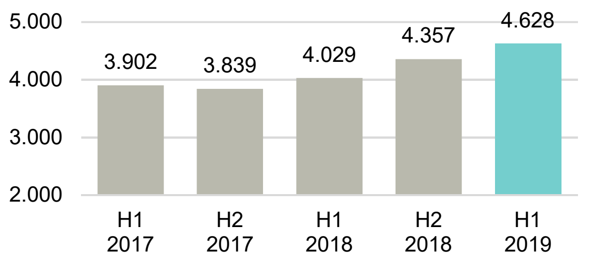
In the reporting period, gross profit increased by 10% to DKK 5,701 million, resulting in a gross profit margin of 77.6%, or an increase of 0.9 percentage point on the same period last year. This margin expansion was driven by production efficiencies and a larger share of total revenue attributable to our retail activities, which more than offset the negative ASP development in our hearing aid wholesale business.

Capacity costs

			Change	
(DKK million)	**H1 2019**	**H1 2018**	**DKK**	**LCY**
R&D costs	552	492	12%	12%
Distribution costs	3,661	3,157	16%	13%
Adm. expenses	415	380	9%	8%
Total	**4,628**	**4,029**	**15%**	**13%**

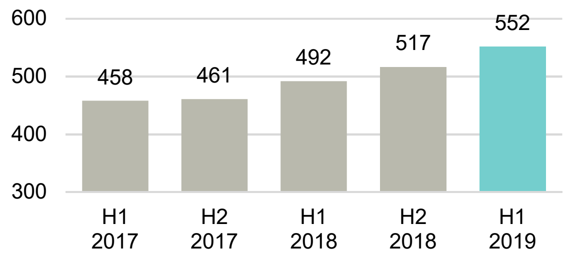
Total capacity costs for the period increased by 15% to DKK 4,628 million of which 2 percentage points are attributable to exchange rate effects. The significant increase of 13% in local currencies is first and foremost the result of increasing distribution costs in Hearing Devices. This was mainly related to our hearing aid retail business due to a combination of organic growth and acquisitions made primarily in the first half of 2018. We also saw an increase in hearing aid wholesale driven by costs related to launch activities.

Capacity costs – DKK million



R&D costs increased in all business activities after we stepped up our R&D efforts in 2018, particularly in software competencies where we expanded our software development centre in Poland. We also saw increasing costs related to new connectivity solutions, such as solutions based on the coming Audio Streaming for Hearing Aids (ASHA) specification for Android™ devices, which we expect to launch in the foreseeable future, and the new Bluetooth standard, the development of which is being driven by the European Hearing Instrument Manufacturers Association (EHIMA). Administrative expenses were driven by an increased activity level. In the second half-year, total capacity costs are expected to be in line with capacity costs in the first half-year, and year-over-year growth rates will thus decrease significantly in the last six months of the year compared to the first six months.

R&D costs – DKK million

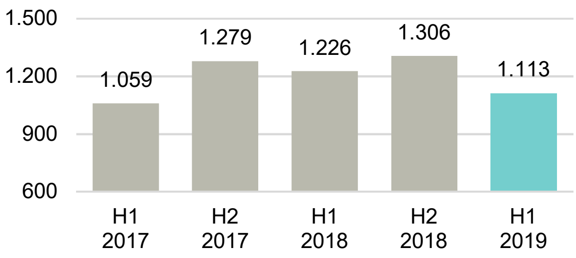


Operating profit

The Group's total operating profit (EBIT) amounted to DKK 1,113 million in the reporting period, which is a decrease of 9% on last year. The EBIT margin decreased by 3.0 percentage points to 15.1%. The lower EBIT is first and foremost the result of a slow start to the year in our hearing aid wholesale business – particularly in terms of sales in the premium segment – prior to the roll-out in March, April and May of our new flagship hearing aid, Oticon Opn S. We also saw a significantly higher-than-normal level of returns of legacy rechargeable products, as customers – while still in their trial period – chose to swap their products for the new Opn S. Combined with the increased R&D costs, this had a negative effect on profit. Furthermore, profit in our hearing aid retail business was diluted by higher distribution costs and by a negative one-off effect related to the hearing healthcare reform in France. EBIT in Hearing Implants remained roughly unchanged compared to last year aided by the strong revenue growth, but diluted by increased R&D and distribution costs. Thanks to strong growth, Diagnostics contributed positively to EBIT growth. The share of profit after tax from associates and joint ventures decreased by 26% to DKK 40 million, primarily due to a lower contribution from our share of profit in Sennheiser Communications.

Financial review

Operating profit (EBIT) – DKK million



Adjusting for the negative one-off of DKK 50 million related to the reform in France, a DKK 9 million positive impact from the implementation of IFRS 16 and a negative exchange rate impact of DKK 51 million, underlying EBIT amounted to DKK 1,205 million or a margin of 16.2%. This compares to DKK 1,271 million, or a margin of 18.4%, in the first half of last year when adjusting for restructuring costs of DKK 46 million and an exchange rate impact of DKK 1 million.

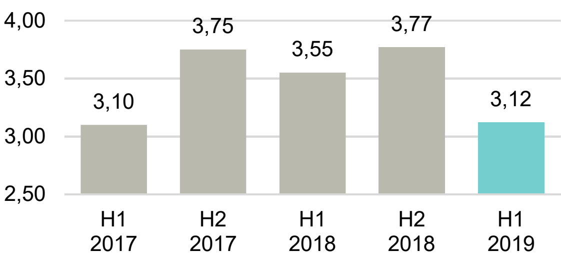
Financial items

Reported net financial items amounted to DKK -119 million, or an increase of DKK 47 million on last year of which DKK 22 million relates to the implementation of IFRS 16. We also saw an increase in interest expenses due to an increase in the level of net interest-bearing debt and slightly higher credit card and bank fees than in the first half-year of 2018.

Profit for the period

Reported profit before tax amounted to DKK 994 million, or a decrease of 14% on last year. Tax amounted to DKK 227 million, resulting in a slight increase in the effective tax rate to 22.8% from 22.5% last year. Reported net profit for the period was DKK 767 million, or a decrease of 14% on the comparative period. The resulting reported earnings per share (EPS) was DKK 3.12, or 12% lower than EPS of DKK 3.55 in the same period last year.

Earnings per share – DKK

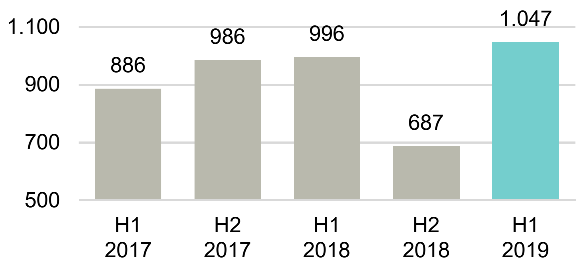


Cash flow statement

(DKK million)	H1 2019	H1 2018	Change
Operating profit – adjusted	1,113	1,272	-13%
CFFO – adjusted	1,047	1,051	0%
Cash flow from restr. costs	0	-55	-100%
CFFO	1,047	996	5%
CFFI	-345	-50	590%
Free cash flow	702	946	-26%
Acquisition and divestment of enterprises, participating interests and activities	-318	-785	-59%
Share buy-backs	-264	-902	-71%
Other financing activities	254	549	-54%
Cash flow for the period	**374**	**-192**	**-295%**

In the first half-year, cash flow from operating activities (CFFO), which was positively impacted by the implementation of IFRS 16, grew by 5% to DKK 1,047 million. Adjusted for this effect, CFFO decreased by 17%. Please refer to Note 2 for more details on the impacts of the new accounting standard.

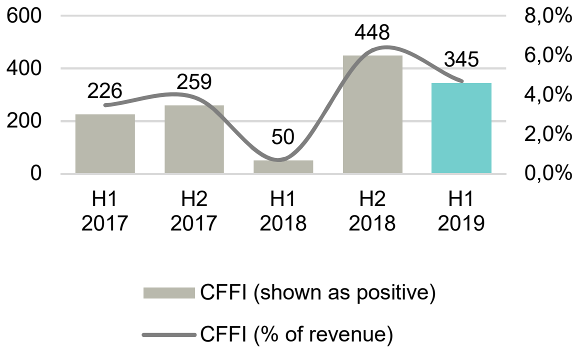
Cash flow from operating activities (CFFO) – DKK million



Cash flow from investing activities excluding acquisitions (CFFI) amounted to DKK -345 million, which is a significant increase on last year where the settlement of loans issued to acquired entities materially reduced CFFI to DKK -50 million. As a result, the free cash flow before acquisitions and divestments decreased by 26% to DKK 702 million.

Financial review

Cash flow from investing activities excluding acquisitions – DKK million



Cash flow from acquisitions and divestments decreased by 59% to DKK -318 million. We see several attractive acquisition opportunities for all parts of our business, and for the full year, we now expect the level of acquisitions to be slightly above the level seen in 2018, although we note the uncertainty related to the completion of such acquisitions. For some of these acquisitions, we expect to take full ownership of assets in which we have previously held a non-controlling interest. Share buy-backs amounted to DKK 264 million and net cash flow for the period was DKK 374 million.

Balance sheet

(DKK million)	H1 2019	FY 2018	Change
Lease assets	1,938	0	
Other non-current assets	12,395	11,930	4%
Inventories	1,777	1,641	8%
Trade receivables	3,047	2,763	10%
Cash	614	630	-3%
Other current assets	988	971	2%
Total assets	**20,759**	**17,935**	**16%**
Equity	7,596	7,059	8%
Lease liabilities	1,959	0	
Other non-current liabilities	2,380	3,390	-30%
Trade payables	546	499	9%
Other current liabilities	8,278	6,987	18%
Total equity and liabilities	**20,759**	**17,935**	**16%**

Total assets amounted to DKK 20,759 million at 30 June 2019, or an increase of 16% compared to the end of last year. This development was mainly driven by the implementation of IFRS 16 (please refer to opening balances shown in *Note 2*), but we also saw an increase in goodwill from acquisitions. Excluding the effect of IFRS 16, net interest-bearing debt (NIBD) increased by 12% to DKK 5,654 million. Based on EBITDA for the 12 months ending on 30 June 2019, excluding depreciation relating to leases, the resulting net gearing multiple (NIBD/EBITDA) was 2.0 and thus within our original target range of 1.5-2.0 (now 1.7-2.2 as described below). Our net gearing multiple, including the effect of IFRS 16, was 2.3 and also within the targeted range of 1.8-2.3.

Total equity increased by 8% to DKK 7,596 million of which DKK 12 million is attributable to non-controlling interests and DKK 7,584 million to shareholders of Demant A/S. The increase was primarily driven by the Group's profit for the period, although it was partly offset by share buy-backs, which amounted to DKK 264 million based on the buy-back of 1,303,140 shares at an average price of DKK 202.23. With the shareholders' decision at the annual general meeting on 19 March 2019 to cancel 7,080,940 treasury shares, the total number of treasury shares held by the Company at 30 June 2019 was 1,370,343, corresponding to 0.6% of the total number of shares outstanding. The Company has not bought back additional shares after the reporting period.

Employees

At the end of the first half-year, Demant had 15,386 employees compared to 14,744 at the beginning of the year and 14,346 at the end of the first half of 2018.

Hedging activities

The material forward exchange contracts in place at 30 June 2019 to hedge against the Group's exposure to movements in exchange rates are shown in the table below.

Material forward exchange contracts as of 30 June 2019

Currency	Hedging period	Average hedging rate
USD	9 months	640
JPY	10 months	5.93
AUD	4 months	460
GBP	9 months	837
CAD	9 months	482
PLN	10 months	170

Events after the balance sheet date

There have been no events that materially change the assessment of this Interim Report 2019 after the balance sheet date and up to today.

Financial review

Outlook 2019

Our growth expectations for the wholesale part of the hearing healthcare market this year remain unchanged as outlined below:

- The hearing aid wholesale market will see a unit growth rate of 4-6% and a low single-digit percentage fall in the average selling price. In terms of value, we estimate that the market will grow by 2-4%.
- The hearing implant market will see a value growth rate of 10-15%.
- The diagnostic equipment market will see a value growth rate of 3-5%.
- The total hearing healthcare market will see a value growth rate of 5%.

We maintain our expectation to generate organic sales growth above market level in 2019, accelerating through the year as a reflection of the timing of our product launches. Based on exchange rates as of 13 August 2019 and including the impact of exchange rate hedging, we continue to expect a positive exchange rate effect of 1% on revenue in 2019.

Due to developments in the first half-year, including an adverse product mix development, a significantly higher-than-normal level of returns of legacy rechargeable products and a more competitive environment than originally expected, we adjust our outlook for reported operating profit (EBIT) in 2019 to DKK 2,650-2,850 million (previously DKK 2,650-2,950 million).

We still expect to deliver substantial growth in our cash flow from operating activities (CFFO) and to buy back shares worth a minimum of DKK 1.2 billion. Due to the level of acquisition opportunities that we see and generally attractive access to funding, we now aim for a gearing multiple of 1.7-2.2 (previously 1.5-2.0) measured as net interest-bearing debt (NIBD) relative to EBITDA before depreciation related to leased assets (i.e. adjusted for the impact of IFRS 16).

Management commentary

Hearing Devices

Market trends

When adjusting for high growth in the NHS in the UK due to stock building in preparation for Brexit, we estimate that the global hearing aid market saw growth rates in the first half of 2019 at the upper end of our general expectation of 4-6% unit growth per year. According to statistics from the Hearing Industries Association (HIA), unit sales in the US increased by 3.8% in the first half-year, with growth in the commercial part of the US market of only 2.7% and growth in Veterans Affairs (VA) of 8.5%. As required, following the passing of the FDA Reauthorization Act of 2017 on 18 August 2017, the US Food and Drug Administration (FDA) will be introducing draft legislation to establish a new over-the-counter (OTC) category of hearing aids no later than in August 2020. Based on indications disclosed in May, we expect the draft legislation to be introduced around November 2019 with final legislation to follow around the middle of 2020. As a member of HIA, we monitor and analyse developments closely and are in active dialogue with the FDA. We maintain our view that any impact of the new OTC category will be limited.

Unit growth in Europe was very strong in the first half-year. This was in large part driven by substantial orders placed by the NHS as they built stock in preparation for Brexit and by strong unit growth in Germany, Italy as well as in several other countries. In France, we also saw strong growth albeit with significant fluctuations as a new hearing healthcare reform took effect on 1 January 2019, entailing a number of different elements. These include increased reimbursement for hearing aid users, eligibility for renewal every four years, a mandatory trial period of 30 days, a mandatory warranty period of four years and an ambition to increase the number of trained audiologists in France to meet demand. As previously announced, the regulatory changes resulted in a significant, negative one-off impact in the first half-year of approx. DKK 50 million on EBIT in our Hearing Devices business activity, particularly in our hearing aid retail business, but we are generally positive about the potential impact of the reform over the coming years.

Looking beyond the US and Europe, we saw slightly negative unit growth in Australia but solid growth in Japan. We estimate that China has continued its double-digit growth.

There are no reliable industry statistics available on the development of prices in the global hearing aid wholesale market, but we believe that the value growth rate in the reporting period was consistent with our mid- to long-term estimate of 2-4%, and most likely at the upper end of this range, when adjusting for the extraordinary growth in the NHS as described above. As part of this, we continue to estimate a slightly negative price development driven by channel and geography mix shifts and a competitive business environment. ASPs on the hearing aid retail market vary significantly across markets because of differences in reimbursement schemes, customer preferences and different product mixes, but we lack reliable market statistics.

Wholesale

In the first half of 2019, our hearing aid wholesale business generated growth of 6% in local currencies of which 6 percentage points can be attributed to organic growth and less than 1 percentage point to acquisitive growth. After a slow start to the year, particularly in terms of sales in the premium segment, growth accelerated following the roll-out of new platforms in all brands and in most major markets starting at the end of March and continuing into April and May. However, we have seen a significantly higher-than-normal level of returned products based on legacy silver-zinc rechargeable technology, as customers – while still in their trial period – have chosen to swap their products for the new Opn S due to the fact that it offers a new, strong rechargeable solution based on lithium-ion technology. This negatively impacted net sales of Opn S, particularly in markets with a high share of premium products.

We saw very strong and broad-based unit growth of 12%. This can be attributed to strong growth in sales to the NHS, large retail chains and customers in Asia, particularly China, as well as to strong growth in sales to independent hearing care professionals of mid-priced products introduced last year. Weak sales in the premium segment at the beginning of the year coupled with the significantly higher-than-normal product returns drove a negative development in the ASP of slightly more than 5% in the reporting period. However, towards the end of the period, we saw an improving ASP trend driven by our broad range of recent product launches across all brands, and we expect this trend to continue in the second half-year. This will also be supported by the returns of legacy rechargeable products coming to an end in August.

Management commentary

With its industry-leading audiology, dual-radio connectivity and lithium-ion rechargeable battery, Oticon Opn S has seen encouraging uptake since its launch despite a highly competitive environment, particularly in the premium segment. Sales of the rechargeable version of the new products have been strong, particularly towards the end of the reporting period after rechargeability was made available at more price points in May. Over the coming weeks, we will further expand our portfolio of products based on the Velox S platform when Oticon introduces new, state-of-the-art Super Power and Ultra Power instruments for adults and children. These will include the world's most powerful hearing aid, which will deliver the highest gain and output in the industry and thus help us better address important market segments. Additionally, we will roll out our remote care solution for iPhone®, iPad® and Android™ devices globally, which will make it possible to have real-time, video-based consultations and remote fine-tuning between hearing care professionals and end-users.

In the reporting period, we also launched the new Philips HearLink product family under our Philips Hearing Solutions brand. It represents a unique combination of industry-leading hearing technology and a well-known end-user brand. The products have been very well received and will help us address new customer segments globally and thus also help us gain further market share over the coming years.

Our Bernafon and Sonic brands also rolled out new product families, but due to the timing late in the reporting period, the effect on growth was limited. Both brands will also soon roll out new Super Power and Ultra Power instruments.

In terms of geographies, the North America region saw modest organic growth driven by solid unit growth and negative ASP growth. This was driven by a slow start to the year in terms of premium sales, particularly in the US and to a lesser extent in Canada. A significantly higher-than-normal level of returned legacy rechargeable products also impacted net sales of premium products, but growth accelerated in the last part of the reporting period. Sales to the VA saw strong growth compared to the first half last year aided by increasing sales of rechargeable products. In May, we started selling Philips Hearing Solutions products to a very large customer in the US as a replacement for Bernafon products, and after an initial ramp-up period, growth is now looking strong for the second half-year.

We saw strong organic growth in Europe driven by several major markets, particularly the UK where we have seen significant stock-building by the NHS in preparation for Brexit, but also Germany and Italy have seen strong organic growth.

Also Asia saw strong organic growth due to high performance in China and Japan. We saw flat organic growth in the Pacific region, but strong growth in the Other countries region contributed to overall growth thanks to certain tender wins.

Retail

In the first half-year, our hearing aid retail business grew by 9% in local currencies, with 7 percentage points attributable to acquisitive growth, mainly the result of acquisitions made in 2018 in the US and in France, and 2 percentage points to organic growth. Organic growth for the period was negatively impacted by more than 1 percentage point due to the one-off effect of the new hearing healthcare reform in France, so underlying organic growth was 3%.

In North America, our retail business saw significant growth as a result of acquisitions made mainly in the US in 2018, whereas organic growth in the US was flat. We have seen improvements in marketing activities in the US, but we are still working on further improving management processes and lead generation. We are on track with our plan to complete the brand harmonisation of our US-based retail network by the end of the year, which helps us improve marketing efficiency and execute on our plan to implement our *one operating model*.

Our European retail business grew solidly in the first half-year driven by a mix of acquisitive and organic growth. In France, we saw a material contribution from acquisitions, whereas organic growth was negative due to the introduction of the new hearing healthcare reform whose introduction of a mandatory 30-day trial period effectively postponed the recognition of a significant portion of revenue in January and to a lesser extent in February. Organic growth has since then normalised, although so far at a slightly lower level than seen in recent years. Most other markets in Europe contributed to organic growth, particularly the UK and Poland.

Our retail activities in Australia delivered solid organic growth thanks to the successful adjustment of our business model to accommodate changes to our business practices required by the Australian authorities over the last couple of years and also thanks to improved market conditions.

Hearing Implants

Hearing Implants grew by 17% in local currencies in the first half-year, all of which was organic growth. The primary driver of this growth was our cochlear implants (CI) business where we grew by 35%, which is significantly above the estimated market growth rate, thanks to continued success for our Neuro system. We continue to gain further traction with existing customers and to establish relationships with new clinics, which will help support growth over the coming years. We saw particularly strong growth in Germany, in Brazil and in various export markets, but growth was generally broad-based. Our plans to obtain regulatory approval of the Neuro system in the US market are progressing as expected, and we still expect to submit our application for pre-market approval in 2019, most likely towards the end of the year.

Our bone-anchored hearing systems (BAHS) business saw modest organic growth of 4% and – as is the case with the CI business – Germany, Brazil and export markets were the key growth drivers. Due to its launch late in the period, the new, ground-breaking Ponto 4 sound processor had no impact on growth in the first half-year, but will significantly accelerate growth in the second half-year. Ponto 4 features the smallest design on the market and is based on the Velox S platform, the latest hearing aid platform from Oticon. It thus not only expands the industry-leading audiological concepts offered in our hearing aids to BAHS users around the world, but also offers wireless streaming from smartphones.

Diagnostics

Growth in Diagnostics was 8% in local currencies in the first half-year, with 7 percentage points attributable to organic growth and 1 percentage point to acquisitions. By driving growth across all our brands, we thus continued to expand our leading position despite strong comparative figures. In terms of product categories, audiometers as well as auditory brainstem response (ABR) and impedance equipment drove solid growth in instrument sales. Revenue from services and disposables saw strong growth and also grew as a share of overall revenue. This has been a trend for several years and is of key importance in our constant endeavours to build close relationships with our customers. To better reflect the growing importance of non-instrument sales, the descriptive name of the business activity has been changed to Diagnostics (previously Diagnostic Instruments).

Geographically, growth was most pronounced in North America, where we saw continued success for e3 Diagnostics, and in Asia.

Personal Communication

Primarily driven by very strong growth generated by wireless products, Sennheiser Communications, our 50/50 joint venture with Sennheiser KG, delivered growth of 12% in local currencies, if we adjust for inventory effects. Despite strong comparative figures, reported growth was 11%, but mix changes and exchange rate effects had a negative impact on the gross margin. Coupled with increasing R&D and distribution costs, this diluted profitability compared to last year, and the Group’s share of profit after tax thus decreased by 38% to DKK 28 million.

Preparations for the announced separation of the joint venture, which will take effect on 1 January 2020, are progressing as planned, and we are working diligently on ensuring a seamless and smooth transition for employees, customers, suppliers and partners.

Management statement

We have today discussed and approved this Interim Report 2019 for Demant A/S.

Interim Report 2019 has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. Interim Report 2019 has not been audited or reviewed by our auditors.

In our opinion, Interim Report 2019 gives a true and fair view of the Group's assets, liabilities and financial position at 30 June 2019 as well as of the results of our activities and cash flows for the first six months of 2019.

We also believe that the financial review and management commentary contain a fair review of the development in the Group's business and financial position, the results for the period and the Group's financial position as a whole as well as a description of the principal risks and uncertainties facing Demant A/S.

Smørum, 14 August 2019

Executive Board:

Søren Nielsen
President & CEO

René Schneider
CFO

Board of Directors:

Niels B. Christiansen
Chairman

Niels Jacobsen
Deputy Chairman

Thomas Duer

Peter Foss

Casper Jensen

Benedikte Leroy

Jørgen Møller Nielsen

Lars Rasmussen

Income statement

(DKK million)	H1 2019	H1 2018	Full year 2018
Revenue	7,350	6,777	13,937
Production costs	-1,649	-1,576	-3,153
Gross profit	**5,701**	**5,201**	**10,784**
R&D costs	-552	-492	-1,009
Distribution costs	-3,661	-3,157	-6,616
Administrative expenses	-415	-380	-761
Share of profit after tax, associates and joint ventures	40	54	134
Operating profit (EBIT)	**1,113**	**1,226**	**2,532**
Financial income	21	21	49
Financial expenses	-140	-93	-203
Profit before tax	**994**	**1,154**	**2,368**
Tax on profit for the period	-227	-260	-538
Profit for the period	**767**	**894**	**1,830**
Profit for the year attributable to:			
Demant A/S' shareholders	763	891	1,823
Non-controlling interests	4	3	7
	767	**894**	**1,830**
Earnings per share (EPS), DKK	3.12	3.55	7,32
Diluted earnings per share (DEPS), DKK	3.12	3.55	7,32

Statement of comprehensive income

(DKK million)	H1 2019	H1 2018	Full year 2018
Profit for the period	**767**	**894**	**1,830**
Other comprehensive income:			
Items that have been or may subsequently be reclassified to the income statement:			
Foreign currency translation adjustment, subsidiaries	32	1	46
Value adjustment of hedging instruments:			
Value adjustment for the period	-41	-45	-62
Value adjustment transferred to revenue	45	-51	-21
Tax on items that have been or may subsequently be reclassified to the income statement	-1	21	11
Items that have been or may subsequently be reclassified to the income statement	**35**	**-74**	**-26**
Items that will not subsequently be reclassified to the income statement:			
Actuarial gains/(losses) on defined benefit plans	-	-	-17
Tax on items that will not subsequently be reclassified to the income statement	-	-	1
Items that will not subsequently be reclassified to the income statement	**-**	**-**	**-16**
Other comprehensive income	**35**	**-74**	**-42**
Comprehensive income	**802**	**820**	**1,788**
Comprehensive income attributable to:			
Demant A/S' shareholders	798	817	1,781
Non-controlling interests	4	3	7
	802	**820**	**1,788**

Balance sheet – assets

(DKK million)	30 June 2019	30 June 2018	31 Dec. 2018
Goodwill	7,519	7,065	7,211
Patents and licences	27	39	35
Other intangible assets	484	465	439
Prepayments and assets under development	184	75	181
Intangible assets	**8,214**	**7,644**	**7,866**
Land and buildings	856	859	859
Plant and machinery	231	219	221
Other plant, fixtures and operating equipment	351	306	326
Leasehold improvements	375	313	341
Prepayments and assets under construction	103	71	76
Property, plant and equipment	**1,916**	**1,768**	**1,823**
Leased assets	1,938	-	-
Investments in associates and joint ventures	920	876	983
Receivables from associates and joint ventures	154	254	167
Other investments	16	11	14
Other receivables	609	487	564
Deferred tax assets	566	513	513
Other non-current assets	**4,203**	**2,141**	**2,241**
Non-current assets	**14,333**	**11,553**	**11,930**
Inventories	1,777	1,480	1,641
Trade receivables	3,047	2,684	2,763
Receivables from associates and joint ventures	163	63	170
Income tax	100	86	129
Other receivables	439	338	380
Unrealised gains on financial contracts	14	7	12
Prepaid expenses	272	250	280
Cash	614	763	630
Current assets	**6,426**	**5,671**	**6,005**
Assets	**20,759**	**17,224**	**17,935**

Balance sheet – equity and liabilities

(DKK million)	**30 June 2019**	**30 June 2018**	**31 Dec. 2018**
Share capital	49	50	50
Other reserves	7,535	6,885	7,000
Equity attributable to Demant A/S' shareholders	**7,584**	**6,935**	**7,050**
Equity attributable to non-controlling interests	12	8	9
Equity	**7,596**	**6,943**	**7,059**
Interest-bearing debt	1,252	1,602	2,164
Lease liabilities	1,536	-	-
Deferred tax liabilities	232	110	232
Provisions	231	211	231
Other liabilities	180	228	194
Deferred income	485	493	569
Non-current liabilities	**3,916**	**2,644**	**3,390**
Interest-bearing debt	5,986	4,828	4,964
Lease liabilities	423	-	-
Trade payables	546	539	499
Income tax	206	244	57
Provisions	15	33	22
Other liabilities	1,473	1,377	1,395
Unrealised losses on financial contracts	29	40	32
Deferred income	569	576	517
Current liabilities	**9,247**	**7,637**	**7,486**
Liabilities	**13,163**	**10,281**	**10,876**
Equity and liabilities	**20,759**	**17,224**	**17,935**

Cash flow statement

(DKK million)	H1 2019	H1 2018	Full year 2018
Operating profit (EBIT)	1,113	1,226	2,532
Non-cash items etc.	472	178	370
Change in receivables etc.	-347	-160	-264
Change in inventories	-144	-133	-294
Change in trade payables and other liabilities etc.	63	-26	-37
Change in provisions	5	58	8
Dividends received	118	78	87
Cash flow from operating profit	**1,280**	**1,221**	**2,402**
Financial income etc. received	14	16	28
Financial expenses etc. paid	-139	-91	-200
Realised foreign currency translation adjustments	-1	-2	-1
Income tax paid	-107	-148	-546
Cash flow from operating activities (CFFO)	**1,047**	**996**	**1,683**
Acquisition of enterprises, participating interests and activities	-318	-785	-940
Investments in and disposal of intangible assets	-84	-69	-189
Investments in property, plant and equipment	-255	-206	-429
Disposal of property, plant and equipment	4	8	20
Investments in other non-current assets	-163	-163	-397
Disposal of other non-current assets	153	380	497
Cash flow from investing activities (CFFI)	**-663**	**-835**	**-1,438**
Repayments of borrowings	-55	-207	-320
Proceeds from borrowings	387	172	189
Change in short-term bank facilities	142	587	1,258
Repayment of lease liabilities	-217	-	-
Dividends to non-controlling interests	-3	-3	-4
Share buy-backs	-264	-902	-1,751
Cash flow from financing activities (CFFF)	**-10**	**-353**	**-628**
Cash flow for the period, net	**374**	**-192**	**-383**
Cash and cash equivalents at the beginning of the period	248	651	651
Foreign currency translation adjustment of cash and cash equivalents	-8	-11	-20
Cash and cash equivalents at the end of the period	**614**	**448**	**248**
Breakdown of cash and cash equivalents at the end of the period:			
Cash	614	763	630
Overdraft	-	-315	-382
Cash and cash equivalents at the end of the period	**614**	**448**	**248**

Acquisition of enterprises, participating interests and activities in H1 2019 includes loans of DKK 32 million (DKK 291 million in H1 2018) classified as other non-current assets, which have been settled as part of acquisitions without cash payments.

Statement of changes in equity 2019

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	Demant A/S' shareholders' share	Non-controlling interests' share	Equity
Equity at 1.1.2019	**50**	**-88**	**-13**	**7,101**	**7,050**	**9**	**7,059**
Comprehensive income, period:							
Profit for the period	-	-	-	763	763	4	767
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	32	-	-	32	-	32
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	-41	-	-41	-	-41
Value adjustment transferred to revenue	-	-	45	-	45	-	45
Tax on other comprehensive income	-	-	-1	-	-1	-	-1
Other comprehensive income	**-**	**32**	**3**	**-**	**35**	**-**	**35**
Comprehensive income, period	**-**	**32**	**3**	**763**	**798**	**4**	**802**
Share buy-backs	-	-	-	-264	-264	-	-264
Capital reduction through cancellation of treasury shares	-1	-	-	-1	-	-	-
Other changes in equity	-	-	-	-	-	-1	-1
Equity at 30.06.2019	**49**	**-56**	**-10**	**7,601**	**7,584**	**12**	**7,596**

Statement of changes in equity 2018

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	Demant A/S' shareholders' share	Non-controlling interests' share	Equity
Equity at 31.12.2017	**52**	**-127**	**52**	**7,450**	**7,427**	**9**	**7,433**
Effect of changes in accounting policy				-407	-407		-407
Equity at 1.1.2018	**52**	**-127**	**52**	**7,043**	**7,020**	**6**	**7,026**
Comprehensive income, period:							
Profit for the period	-	-	-	891	891	3	894
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	1	-	-	1	-	1
Value adjustment of hedging instruments:							
Value adjustment, period	-	-	-45	-	-45	-	-45
Value adjustment transferred to revenue	-	-	-51	-	-51	-	-51
Tax on other comprehensive income	-	-	21	-	21	-	21
Other comprehensive income	**-**	**1**	**-75**	**-**	**-74**	**-**	**-74**
Comprehensive income, period	**-**	**1**	**-75**	**891**	**817**	**3**	**820**
Share buy-backs	-	-	-	-902	-902	-	-902
Capital reduction through cancellation of treasury shares	-2	-	-	2	-	-	-
Other changes in equity	-	-	-	-	-	-1	-1
Equity at 30.06.2018	**50**	**-126**	**-23**	**7,034**	**6,935**	**8**	**6,943**

Note 1 – Acquisition of enterprises and activities

(DKK million)	Fair value on acquisition North America	Oceania	Europe/ Asia	H1 2019	H1 2018
Intangible assets	2	-	13	15	9
Property, plant and equipment	2	-	8	10	20
Lease assets	3	-	18	21	-
Other non-current assets	39	-	1	40	-
Inventories	1	-	1	2	-
Current receivables	18	-	7	25	31
Cash and bank debt	4	-	24	28	8
Non-current liabilities	-4	-	-19	-23	-3
Current liabilities	-6	-	-11	-17	-84
Acquired net assets	**59**	**-**	**42**	**101**	**-19**
Goodwill	160	3	107	270	691
Acquisition cost	**219**	**3**	**149**	**371**	**672**
Carrying amount of non-controlling interests on obtaining control	-50	-	-	-50	-140
Receivables from acquired entities prior to acquisition	-	-	-6	-6	-
Fair value adjustment of non-controlling interests on obtaining control	-	-	-	-	-2
Contingent considerations and deferred payments	-8	-1	-10	-19	-48
Acquired cash and bank debt	-4	-	-24	-28	-8
Cash acquisition cost	**157**	**2**	**109**	**268**	**474**

The Group's acquisitions in the first half-year of 2019 consist of a number of retail and wholesale acquisitions, mainly in Europe and North America. In respect of all acquisitions made in 2019, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

At the time of acquisition, non-controlling interests' shares of acquisitions were measured at their proportionate shares of the total fair value of the acquired entities, including goodwill. On obtaining a controlling interest through step acquisitions, previously held non-controlling interests are at the time of obtaining control included at fair value with fair value adjustments in the income statement.

In the first half-year, a few adjustments were made to the preliminary recognition of acquisitions made in 2018. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 0 million (DKK 1 million in the first half of 2018). In relation to acquisitions with final recognition in 2012-2018, adjustments were made in the reporting period in respect of estimated contingent considerations. Such adjustments are recognised in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK 0 million in the reporting period (DKK 2 million in the first half of 2018), and adjustments of contingent considerations amounting to DKK 1 million were made in the income statement in the reporting period (DKK 1 million in the first half of 2018) and are recognised under distribution costs.

Note 1 – Acquisition of enterprises and activities

Of the total acquisition costs in the reporting period, the fair values of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 19 million (DKK 48 million in the first half of 2018). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 19 million (DKK 55 million in the first half of 2018) for acquisitions. Contingent considerations increased by DKK 0 million in respect of exchange rate adjustments and decreased by DKK 32 million in respect of payments for acquisitions and by DKK 1 million in respect of payments for associates. As of 30 June 2019, contingent considerations totalled DKK 155 million (DKK 210 million as of 30 June 2018).

The acquired assets include contractual receivables amounting to DKK 12 million (DKK 36 million in the first half of 2018) of which DKK 0 million (DKK 8 million in the first half of 2018) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 270 million (DKK 691 million in the first half of 2018), DKK 111 million (DKK 670 million in the first half of 2018) can be amortised for tax purposes.

The above fair values of acquisitions made in the first half of 2019 and in the first half of 2018 are not considered final until 12 months after takeover.

Revenue and profit generated by the acquired enterprises in the reporting period amount to DKK 34 million (DKK 40 million in the first half of 2018) and DKK 1 million (DKK 2 million in the first half of 2018), respectively. Had such revenue and profit been consolidated on 1 January 2019, we estimate that pro forma revenue and profit would have been DKK 7,369 million (DKK 6,892 million in the first half of 2018) and DKK 768 million (DKK 899 million in the first half of 2018), respectively. Without taking synergies from our core business into account, we believe that these pro forma figures reflect the level of earnings after our acquisition of the enterprises.

As part of our ordinary activities, we have made acquisitions in the period between the balance sheet date and publication of this Interim Report 2019. We are in the process of calculating their fair values. Acquisition costs are expected to relate primarily to goodwill.

Note 2 – Accounting policies and estimates

This Interim Report 2019 is presented in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and further Danish disclosure requirements in respect of interim reports for listed companies. We have not prepared a separate interim report for the Parent. The report is presented in Danish kroner (DKK), which is the functional currency of the Parent.

With the exception of changes as described below, the accounting policies used for this Interim Report 2019 are the same as the accounting policies used for our Annual Report 2018 to which we refer for a full description. The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU, effective for the accounting period beginning on 1 January 2019. The amendments, revised standards and interpretations have not had a significant effect, but IFRS 16 Leases has had a significant impact on the financial statements for the first six months of 2019, although the impact relates predominantly to the transition effect.

As described in the Annual Report 2018, repayments relating to loans issued to acquired entities prior to acquisition have been reclassified, and comparative figures for the first half year of 2018 have been corrected compared to the Interim Report 2018. These repayments were previously offset against the reported cash acquisition cost, but are now part of investing activities (non-current assets) in the cash flow statement. This has resulted in a decrease in the net investments recognised in the first half of 2019 of DKK 32 million (DKK 291 million in the first half of 2018) and a corresponding increase in the cash flow from acquisitions.

Issued in January 2017, IFRS 16 Leases requires lessees to recognise nearly all leases in the balance sheet. Management has assessed the impact of the standard and concluded that it has a material impact on the recognition of non-current assets and financial debt in the balance sheet. The standard also impacts the classification of expenses in the income statement, the classification of cash flows in the cash flow statement as well as the related key figures. As stated in the Annual Report 2018, Management has analysed the impact of IFRS 16 and concluded that the new standard will impact the balance sheet. The transition has impacted the balance sheet by DKK 2,029 million as of the effective date of the standard.

The Group has applied the modified retrospective method without restating comparative figures, which are presented in accordance with requirements in IAS 17 and IFRIC 4, by measuring the asset as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

Furthermore, the Group has decided on using the following practical expedients permitted by the standard:

- A single discount rate is applied to portfolios of leases with reasonable similar characteristics.
- Reassessment of whether a contract is or contains a lease at the date of initial application is not made.
- Hindsight in determining the lease term where the contract contains options to extend or terminate the lease is used.
- Leases with a remaining lease term of less than 12 months are treated as short-term leases.

The lease liabilities are measured at the present value of future payments. If the interest rate implicit in the lease agreement cannot be determined, the lease payments are discounted using the Group's incremental borrowing rate at 1 January 2019, adjusted for the functional currency and length of the lease term.

The Group has various offices, retail stores, cars and equipment. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.

(DKK million)	**2019**
Operating lease commitments as disclosed as of 31 December 2018	**1,460**
Discounted lease commitments as of 31 December 2018	1,377
Short-term leases recognised as expenses	-3
Low-value leases recognised as expenses	0
Adjustments relating to different treatment of extension and termination options	664
Lease liabilities recognised as of 1 January 2019	**2,038**

Note 2 – Accounting policies and estimates

(DKK million)	31 Dec. 2018	IFRS 16 impact	1 Jan. 2019
Balance sheet			
Assets:			
Leased assets	-	2,029	2,029
Other non-current assets	2,241	-	4,270
Non-current assets	11,930	2,029	13,959
Current assets	6,005	-	6,005
Assets	**17,935**	**2,029**	**19,964**
Equity and liabilities:			
Equity	**7,059**	**-**	**7,059**
Lease liabilities	-	1,600	1,600
Non-current liabilities	**3,390**	**1,600**	**4,990**
Lease liabilities	-	438	438
Other liabilities	1,395	-9	1,392
Current liabilities	**7,486**	**429**	**7,921**
Liabilities	**10,876**	**2,029**	**12,905**
Equity and liabilities	**17,935**	**2,029**	**19,964**

(DKK million)	H1 2019 (reported)	IFRS 16 impact	H1 2019 (prior rules)
Cash flow			
Cash flow from operating profit	1,280	239	1,041
Financial expenses	-140	-22	-118
Cash flow from operating activities (CFFO)	**1,047**	**217**	**830**
Cash flow from investing activities (CFFI)	**-663**	**-**	**-663**
Repayments on lease liabilities	-217	-217	-
Cash flow from financing activities (CFFF)	**-10**	**-217**	**207**
Cash flow for the period	**374**	**-**	**374**
Free cash flow	**702**	**217**	**485**

In the first half of 2019, the impact on EBITDA was DKK 239 million, the impact on EBIT was DKK 9 million and the impact on financial items was DKK -22 million.

In the reporting period, earnings per share decreased by DKK 0.06 as a result of the adoption of IFRS 16.

Note 2 – Accounting policies and estimates

Description of new accounting policies

Lease assets

Lease assets and liabilities are recognised in the balance sheet at the commencement date of the contract, if it is or contains a lease. Lease assets are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the lease liability adjusted for any lease payments made at or before the commencement date. Lease assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

Lease liabilities are measured at the present value of future payments. If the interest rate cannot be determined in the agreement, the lease payments are discounted using the Group's incremental borrowing rate adjusted for the functional currency and length of the lease term. The lease liability is remeasured if or when the future payment or lease term changes. Any net remeasurement of the lease liability is recognised as an adjustment to the lease asset. If the carrying amount of the lease asset is reduced to zero, the adjustment will be recognised in the income statement.

Lease term

The lease term is the period during which the lease contract is enforceable. For lease contracts where the original expiry date has passed, typically property leases, but where the contract continues without a determined expiry date, the lease term is set for an estimated period during which the lease contract is expected to be enforceable. This estimate is based on Management's judgement and takes into consideration the location of the lease, capitalised leasehold improvements and the historical experience with similar leases for the specific area.

Cash flow

Payments for the principal portion of the lease liabilities are presented as cash flow from financing activities. Interest expenses related to such liabilities, short-term lease payments, payments for leases of low-value assets and variable lease payments are presented as cash flow from operating activities.