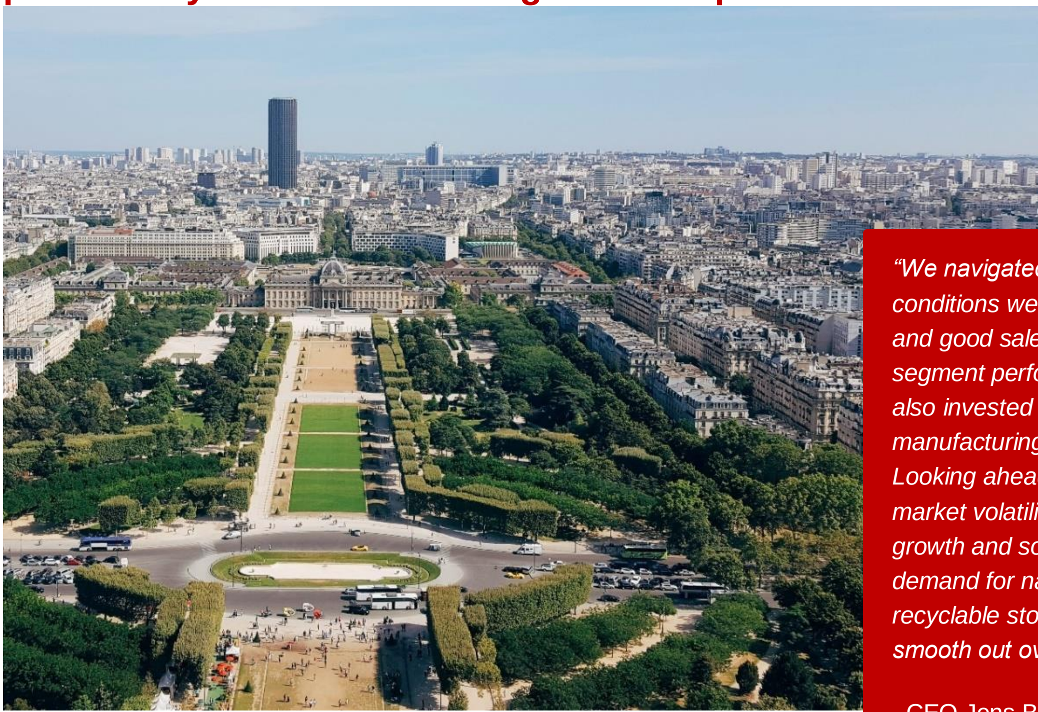
Annual Report for 2019
for ROCKWOOL International A/S
Release no. 01 - 2020
to Nasdaq Copenhagen

5 February 2020

Sales growth of 2.2 percent in a volatile market, achieving strong profitability with an EBIT margin of 13.5 percent



"We navigated last year's mixed market conditions well, achieving strong profitability and good sales growth, with the Systems segment performing especially well. We also invested in new and upgraded manufacturing and research facilities. Looking ahead, we anticipate continued market volatility, with low-single digit sales growth and solid profitability. The growing demand for naturally fire-resistant, recyclable stone wool products should help smooth out overall volatility".

CEO Jens Birgersson

Highlights

- Sales in 2019 reached EUR 2,757 million, a growth of 2.2 percent in local currencies. The positive currency impact was one percentage point.
- In Q4 2019, sales decreased 0.6 percent in local currencies, reaching EUR 715 million.
- EBIT in 2019 ended at EUR 372 million, an increase of nine percent, with a 13.5 percent EBIT margin, up 0.7 percentage points from 2018.
- EBIT in Q4 2019 reached EUR 94 million, an increase of 13 percent, with an EBIT margin of 13.2 percent, up 1.5 percentage points from Q4 2018.
- Net profit for the year reached EUR 285 million, an improvement of EUR 20 million compared to last year.
- Investments for the year totalled EUR 400 million, primarily from capacity expansions.
- Free cash flow ended the year at EUR 2 million against EUR 196 million for 2018.
- Annualised return on invested capital reached 21.7 percent compared to 22.8 percent in 2018, due to higher investments.
- The proposed dividend per share is DKK 32.00, up from DKK 29.90 last year.
- A share buy-back programme up to an amount of EUR 80 million, commencing on 6 February 2020.

Outlook 2020

- Low single-digit sales growth in local currencies.
- EBIT margin around 12 percent, comparable to 2019 when adjusting for the additional depreciation and the start-up costs in Norway and Germany.
- Investment level around EUR 400 million excluding acquisitions.

For further details please refer to the Annual Report 2019.

Conference call

ROCKWOOL Group will host an earnings call on 6 February 2020 at 11.00 CET. To attend the conference call dial +45 35445577, +44 3333000804 or +1 6319131422. Passcode 43564907#. The conference call will be transmitted live on www.rockwoolgroup.com

Annual Report
2019

Resilient by nature

Overview

ROCKWOOL Group at a glance

We release the natural power of stone to enrich modern living

5 Brands:

ROCKWOOL
Fire safe stone wool insulation

Rockfon
Fire resistant acoustic ceiling tiles and systems

Grodan
Stone wool growing media and technology

Rockpanel
Fire resistant façade cladding, roof detailing, soffits and fascia

Lapinus
Storm water management, vibration and sound dampening

46
Manufacturing facilities

39
Countries where we are present

68
Nationalities worldwide

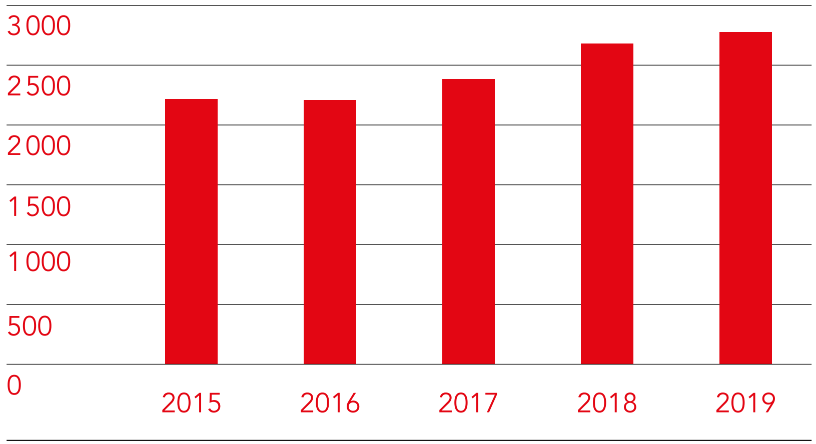
37%
Women in white-collar positions

11 700
Highly-skilled individuals

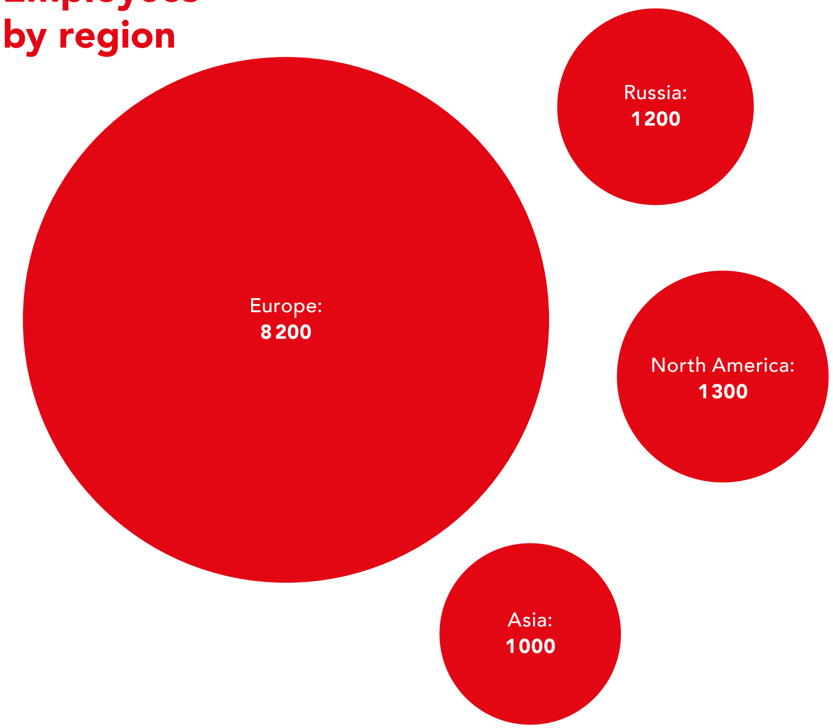
Sales growth
2.2%
In local currencies

EBIT
372 EURm
Up 9% compared to last year

Net sales
(EURm)



Employees by region



World leader with local insight

We create sustainable solutions to protect life, assets, and the environment today and tomorrow.

- Manufacturing facilities
- Sales offices

Austria	Mexico
Belarus	Norway
Belgium	Philippines
Bulgaria	Poland
Canada	Romania
China	Russian Federation
Croatia	Singapore
Czech Republic	Slovakia
Denmark	Spain
Germany	Sweden
Estonia	Switzerland
Finland	Thailand
France	The Netherlands
Hungary	Turkey
India	Ukraine
Italy	United Arab Emirates
Korea	United Kingdom
Latvia	United States of America
Lithuania	Vietnam
Malaysia	

Five-year overview

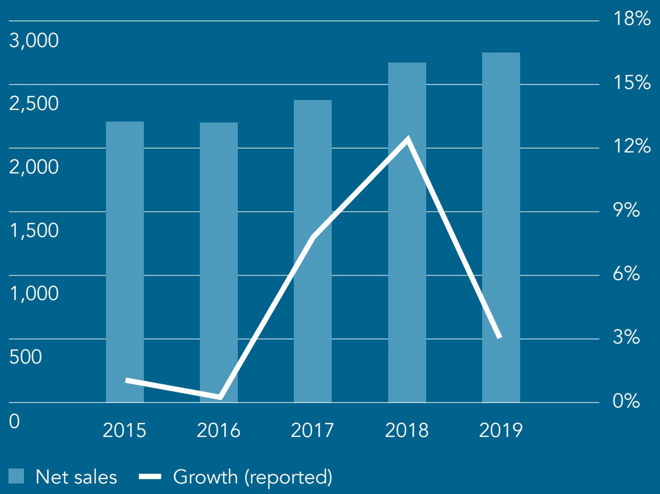
	2019 (DKKm)	2019 EURm	2018 EURm	2017 EURm	2016 EURm	2015 EURm
Income statement items						
Net sales	20,705	2,757	2,671	2,374	2,202	2,208
EBITDA	4,090	548	507	417	389	*322
Depreciation, amortisation and write-downs	1,311	176	166	159	160	187
EBIT	2,779	372	341	258	229	*135
Financial items	-39	-5	-7	-11	-7	-4
Profit before tax	2,740	367	335	275	225	133
Profit for the year	2,125	285	265	214	166	91
Balance sheet items						
Non-current assets	13,635	1,825	1,468	1,383	1,409	1,446
Current assets	6,493	869	963	781	591	559
Total assets	20,128	2,694	2,431	2,164	1,999	2,005
Equity	15,825	2,118	1,877	1,684	1,536	1,367
Non-current liabilities	1,195	160	121	122	128	119
Current liabilities	3,108	416	433	358	336	519
Net interest-bearing cash / (debt)	1,583	212	375	241	116	-93
Net working capital	1,846	247	198	190	175	162
Invested capital	14,105	1,889	1,542	1,452	1,433	1,467
Gross investment in plant, property and equipment	2,936	393	220	123	92	167
Cash flow						
Cash flow from operating activities	3,001	402	408	332	326	297
Investments and acquisitions	2,984	400	212	165	89	201
Free cash flow	12	2	196	167	237	97
Others						
R&D costs	306	41	38	32	32	32
Number of patents granted	235	235	268	201	280	165
Number of full-time employees (year-end)	11,691	11,691	11,511	11,046	10,414	10,601
Ratios						
EBITDA margin	19.9%	19.9%	19.0%	17.6%	17.7%	*14.6%
EBIT margin	13.5%	13.5%	12.8%	10.8%	10.4%	*6.1%
Payout ratio	33.3%	33.3%	33.3%	33.3%	33.3%	37.1%
ROIC	21.7%	21.7%	22.8%	17.9%	15.8%	*9.1%
Return on equity	14.3%	14.3%	14.9%	13.3%	11.5%	6.8%
Equity ratio	78.5%	78.5%	77.1%	77.5%	76.8%	68.2%
Leverage ratio	-0.39	-0.39	-0.74	-0.58	-0.29	0.28
Financial gearing	-0.10	-0.10	-0.20	-0.14	-0.08	0.07

* Adjusted with redundancy costs of EUR 15 million from the Business Transformation Programme and write-downs in Asia of EUR 21 million, EBITDA for 2015 was EUR 337 million with an EBITDA margin of 15.3%, EBIT for 2015 was EUR 172 million with an EBIT margin of 7.8% and ROIC amounted to 11.6%.

For definitions of key figures, ratios and exchange rates see p. 114.

Highlights 2019

Net sales & sales growth
(EURm)



Sales growth

2.2%

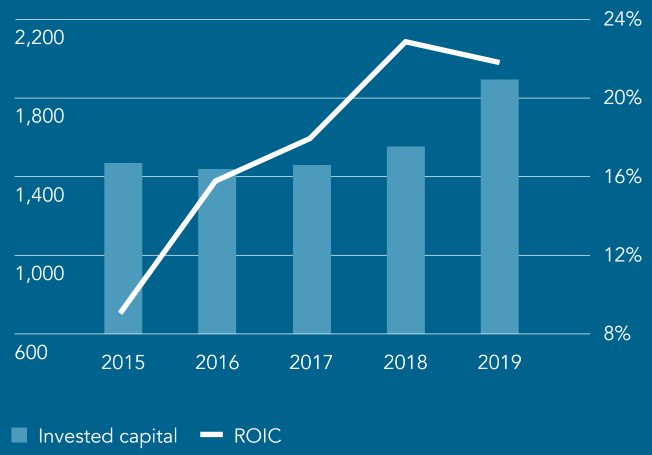
in local currencies

ROIC

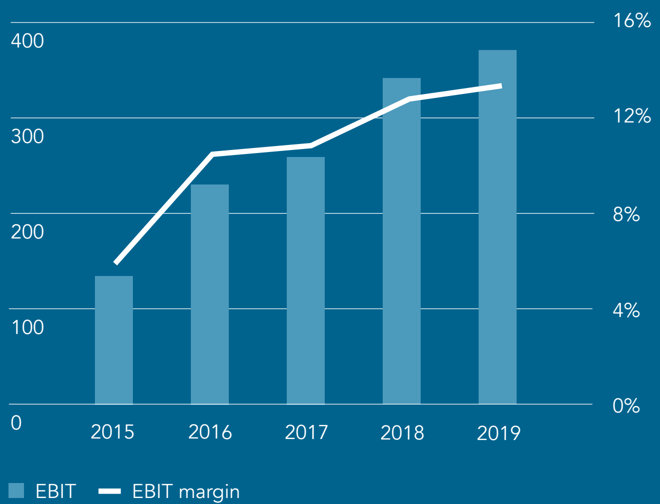
21.7%

Down from 22.8% last year

ROIC & Invested capital
(EURm)



EBIT & EBIT margin
(EURm)



EBIT

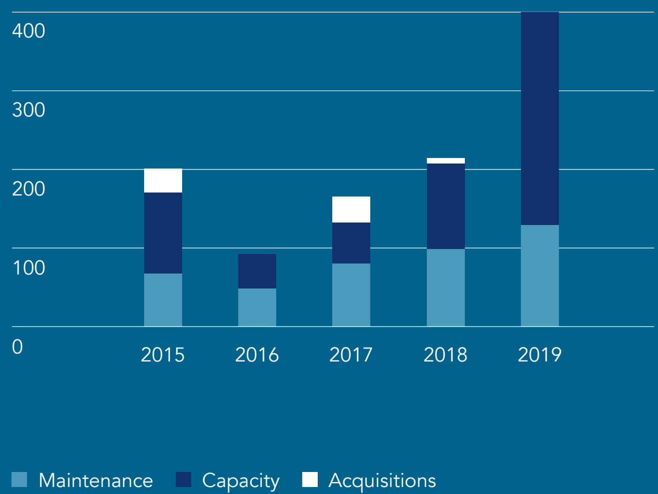
372 EURm

Up 9% compared to last year

Investments in new capacity

271 EURm

Investments
(EURm)



Good results, challenging conditions

Dear stakeholders,
Two-thousand nineteen was a good year for ROCKWOOL Group but also challenging in some respects. Overall, the year was characterised by mixed market conditions, volatility, and uncertainties about the macro political/economic direction of world affairs. We navigated the volatility well, anticipating evolving conditions early on while continuously adapting to minimise disruption, safeguard productivity, maximise opportunities, and enhance earnings levels.

The proof is in the numbers. We are financially strong and are continuing to invest in even more advanced production facilities, new technologies, strategic partnerships, and better services to customers like our new business-to-business e-commerce platform.

"For the fifth year in a row, our customer satisfaction scores increased – for 2019, up 14 percent over the previous year".

Solid financial performance
Despite the overall mixed market conditions but helped by a growing demand for natural, recyclable building materials, we retained high productivity levels in 2019. We adapted in good time to changes in the marketplace, including adjusting capacity to match business demands.

That resilience and flexibility, together with our regular price increases, allowed us to maintain strong profitability despite slower sales growth. Net sales increased by 2.2 percent in local currencies, while EBIT margin reached 13.5 percent, up 0.7 percentage points compared to 2018. Profit for the year grew eight percent, reaching a total of EUR 285 million. We remain net debt free with a net positive cash position of EUR 269 million.

For the fifth year in a row, our customer satisfaction scores increased – for 2019, up 14 percent over the previous year. We continue to work hard every day to deliver quality products and services to meet evolving customer demands.

With an eye on the long-term, we invested in new and upgraded manufacturing facilities, including the Romania factory, which came online at the end of 2019. The expanded capacity in Poland will come online in early 2020, while the expansion in Germany is on track for start-up in Q2 2020.

At the factory in Wales, UK, we completed logistics upgrades and debottlenecking initiatives that will enable greater capacity throughput. Construction on the new factory in West Virginia, USA, continues with an expected start of operations in early 2021. Last year, we implemented multiple initiatives to improve our overall operational efficiency, the result of which was to increase capacity output equivalent to more than two new production lines.

Transparency and innovation
We started a new quarterly call for analysts this year, with a focus on environment, social and corporate governance (ESG) issues. During the first two calls, which focused on energy efficiency and circularity, we provided details on our overall efforts to maximise the benefits of our products while reducing the impact of our operations. The feedback on the calls is positive, and we will continue evolving our approach to reporting on ESG matters as we progress.

One important development that will help reduce the carbon intensity of our production is the large-scale electric melting technology pilot project we are trialling in Moss, Norway. Once operational, expected in H2 2020, this innovative new technology is expected to reduce the factory's carbon emissions by 80 percent and waste going to landfill by up to 95 percent. We look forward to applying the learnings from this development project across other areas of the business as part of our overall strategy to reduce our carbon footprint.

During the year we opened our highly energy-efficient new laboratory next to the headquarters building, which will enable us to test and develop new products and processes using industry-leading equipment and technology. We also accelerated the rollout of Rockflow, a specially engineered stone wool product that helps urban areas combat flooding caused by sudden heavy rain storms. Rockflow is a cost-effective way for cities to protect residents and valuable infrastructure from the increasing likelihood of urban flooding (see pp. 28-29).

Energy efficiency is the future

The strategic direction of our company is driven largely by two megatrends – urbanisation and climate change. Every year brings a greater focus on how we handle the challenges and opportunities related to each. We know that a vital component of both megatrends is the energy efficiency of buildings. Cities account for around 70 percent of the world's energy use and CO_2 emissions, most of which comes from buildings.

We also know that deep building renovations would achieve much of the energy efficiency gains needed to meet the Paris climate goals. Of course, knowing it isn't enough. Action is required from all parties – government, business, citizens – through ambitious legislation, partnerships, innovation, and the everyday decisions individual citizens make.

The release of the EU Commission's Green Deal framework in December is an encouraging development, the focus being the commitment to achieve a climate-neutral EU by 2050. This goes hand-in-hand with commitments from the European Investment Bank to provide up to 75 percent co-financing on building renovation projects, a particularly strong incentive for private capital to invest.

The business case for cities to renovate is a strong one. Together with C40 and leading cities like Copenhagen, Milan and New York, ROCKWOOL has developed a tool to help cities quantify the environmental, economic, and social benefits of large-scale deep renovation. This big picture view is already helping city leaders make the case for investing in renovation. The results from the three pilot cities are encouraging, and we look forward to developing the tool further and taking it to more cities.

Stronger together

Crucial in the fight against climate change, circularity is particularly relevant in the construction industry, which consumes more than 40 percent of all global resources annually and produces one-third of the world's waste. Taking advantage of stone wool's natural durability and recyclability, ROCKWOOL's business model has many circular attributes, including products made from natural material mixed with upcycled materials from other industries.

To further develop our circular business model, we entered an important new partnership in 2019 with the Ellen MacArthur Foundation Circular Economy 100, which is leading efforts to gradually shift the prevailing economic model toward one that consumes and wastes less. We're also accelerating our collaborations across the construction sector to increase the number of countries where we offer reclaimed waste services.

Safety

Sadly, we had a fatality in February when a sub-contractor fell through a floor opening where he was working at the Romanian factory construction site. An investigation of the incident revealed that we need stricter oversight of work at heights in our facilities. It also showed that the worker did not follow several safety protocols for working at heights. Meeting our target for zero fatalities requires ensuring safe behaviour and work conditions must be a full-time job for all of us. On the positive side, we significantly reduced lost time incidents, which is an important indicator of increased focus on safety in the workplace.

The year ahead

As we start the new decade, we anticipate continued volatility affecting several key markets as well as the overall construction sector, where we foresee flat growth in new residential and modest growth for non-residential activities. Steady progress in other markets and increased demand for naturally fire-resistant, recyclable stone wool products should help smooth out overall volatility. We will implement reasonable price increases, mainly to cover inflation and to support new investments in technology and digitalisation.

Financially, we forecast low single-digit sales growth in local currencies for 2020, with an EBIT margin of around 12 percent and investments excluding acquisitions of around EUR 400 million. As ever, we will remain agile to adapt to market opportunities and uncertainties.

During the coming year, we will adjust the company's capital structure via a share buy-back programme, totalling up to EUR 80 million.

We want to thank our hard-working, highly-committed employees for their contribution to the Group's success as well as our customers, whose loyalty we will work hard to earn throughout the year.

Henrik Brandt
Chairman

Jens Birgersson
CEO

The ROCKWOOL purpose and strategy

→ The ROCKWOOL business strategy is driven by a passion for creating solutions that connect global trends with profitable business opportunities by creating superior solutions to protect life, assets, and the environment, and to create comfortable, healthy, and attractive spaces. In other words, by enriching modern living.

At the pinnacle of ROCKWOOL's strategy is our corporate purpose: to release the natural power of stone to enrich modern living. This reflects our purpose's unifying nature, conveying that stone is our core raw material and the bedrock on which our business is based.

And while the stone we use may be millions of years old, what we do with it is cutting-edge. Every day, ROCKWOOL's creative and entrepreneurial employees are developing and applying new technologies and innovations to release the potential of stone to enrich modern living.

As we look to the future, stone wool and the products we make with it will play an increasingly significant role in addressing two of the megatrends influencing virtually every aspect of modern society – urbanisation and climate change.

Every week, about 1.5 million people move to urban environments. By 2030, there will be an estimated 43 megacities around the globe with more than 10 million inhabitants. And by 2050, the earth's population is expected to be close to 10 billion, nearly 70 percent of whom will live in cities.

The combination of more people living in more densely populated urban areas and the worsening consequences of climate change will increase the demand for modern housing and energy. At the same time, the world must feed its growing population using fewer resources, while also managing the effects of more frequent extreme weather events, particularly in urban environments.

The ROCKWOOL business strategy is driven by a passion for creating solutions that connect these global trends with profitable business opportunities by creating superior solutions to protect life, assets, and the environment, and to create comfortable, healthy, and attractive spaces. In other words, by enriching modern living.

Our aspiration is to grow faster than the market overall by offering superior products and services, strengthening our brand, building long-term customer relations, and driving an operationally effective business across all segments and geographies where we are active.

As our business is inherently capital intensive, we focus on exploiting our natural strengths to balance risks, which includes a differentiated approach across selected geographies.

In North America, for example, we are expanding our production capacity to capture significant growth opportunities within all major business areas.

In Europe, we will grow faster than the market by launching new products and services, while improving our customer-facing activities and the productivity of our production platform. We will expand capacity where needed to meet steadily growing demand in and near core markets and enhance our geographic coverage and customer service level.

In Asia, the approach is different, in that we will develop and grow our business selectively where there is a clear demand for our premium quality offerings.

At ROCKWOOL, everything we do is based on releasing the natural power of stone to enrich modern living. Profitably offering solutions to address the challenges created by enduring global megatrends will help ensure our successful future growth. ●

Megatrends

80%

The proportion of global GDP (~EUR 75 trillion) generated in cities.

Urbanisation
Billions of people – especially in Asia and Africa – will be seeking opportunities in cities over the coming decades, impacting global economics, demographics and society.

2/3

Proportion of countries without mandatory building energy codes.

Climate change
Cities account for around 70 percent of the world's energy use and CO_2 emissions. A total of three billion m^2 of buildings built in 2018 had no mandatory energy performance requirements.

1000 years

How long it takes to grow 2-3 centimetres of fertile top soil.

Resource scarcity
One-third of the world's top soil is moderately to highly degraded. If current rates of degradation continue, it could be gone in 60 years. To satisfy future global food needs, alternatives to traditional farming are needed.

230 billion m^2

Estimated new construction added through 2060, equal to one Paris every week.

Circularity
The construction sector consumes more than 40 percent of global resources annually and produces one-third of global waste. Shifting to a circular economic model would have a positive impact on the environment.

The 7 strengths of stone

There is something truly remarkable about the natural power of stone.

What do we mean when we say our purpose "is to release the natural power of stone to enrich modern living"? So far, we have identified 7 strengths that are inherent in the properties of stone wool that give it extraordinary versatility. Seven reasons why we believe the world's most abundant resource can be engineered to create uniquely useful and exciting solutions for our customers.

And by applying these 7 strengths to everything we do, we passionately believe that we can address some of the biggest challenges facing our world. We're sure that there are even more strengths of stone to be discovered. And when we discover them, we'll turn those strengths into new products that improve the quality of life of everyone who experiences them. That's why these 7 strengths lie at the heart of every ROCKWOOL product. ●

Fire-resilience

Withstand temperatures above 1000°C

Thermal properties

Save energy by maintaining optimum indoor temperature and climate

Acoustic capabilities

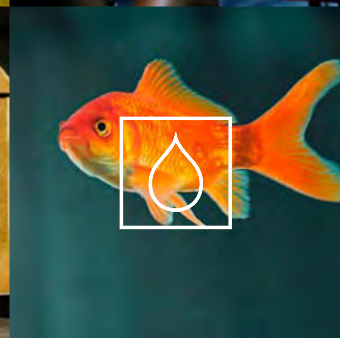
Block, absorb or enhance sounds

Robustness

Increased performance and greater stability with lower costs

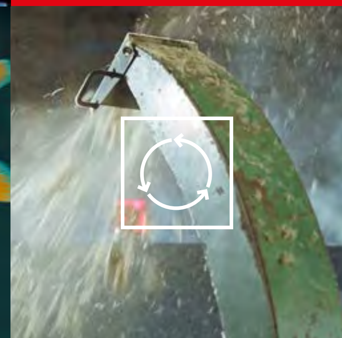
Aesthetics

Match performance with aesthetics



Water properties

Engineered to repel or absorb water



Circularity

Reusable and recyclable material

Our business model

What does ROCKWOOL Group do?

We transform volcanic rock into stone wool, a versatile material with many natural strengths that make it ideal for use in a range of applications in buildings, transportation, horticulture and water management.

Volcanic rock is mixed with lime stone and can contain up to 75 percent recycled material before being heated to more than **1500°C.**

The molten rock is spun into wool. A binder, special oil or wetting agent are added depending on the application of the end product.

A final heat treatment cures the binder, giving the stone wool **dimensional stability**, before final processing and production into a **wide range of products.**

Our business is defined by:

- Low-risk transactional sales
- Local business
- Capital intensive production
- Conservative financial strategy

90% of sales does not cross customs borders

24 500 direct customers

39 countries where we have a presence

46 manufacturing facilities

100+ countries with sales activity

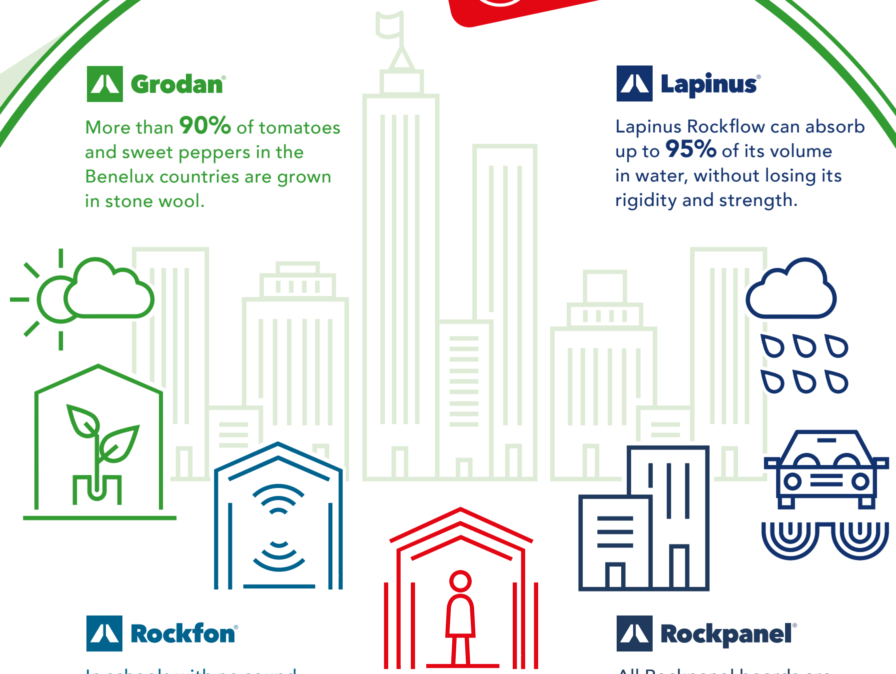
~300 km Average shipping distance for insulation in Europe

Our products can contain **up to 75%** recycled material

Our impact on society

We see enormous opportunity to leverage the natural power of stone to create products that accelerate progress towards a **safer, healthier, low-carbon future.**

Stone wool is recyclable



Grodan
More than **90%** of tomatoes and sweet peppers in the Benelux countries are grown in stone wool.

Lapinus
Lapinus Rockflow can absorb up to **95%** of its volume in water, without losing its rigidity and strength.

Rockfon
In schools with no sound absorption, up to **70%** of the consonants spoken by teachers cannot be heard by the children.

ROCKWOOL
Proper insulation alone can reduce heating needs by **70%**.

Rockpanel
All Rockpanel boards are as **durable as stone,** easy to cut, and resistant to the effects of moisture, temperature, fire and the weather.

Market review, outlook 2020

In 2019, we experienced mixed market conditions particularly in the insulation business. Key markets such as France, the United Kingdom, Russia and North America remained buoyant for ROCKWOOL, while Germany, eastern Europe and Asia slowed. Overall, global growth decelerated to the slowest pace since the Eurozone crisis with trade tensions and other geopolitical uncertainties negatively affecting the business climate for ROCKWOOL.

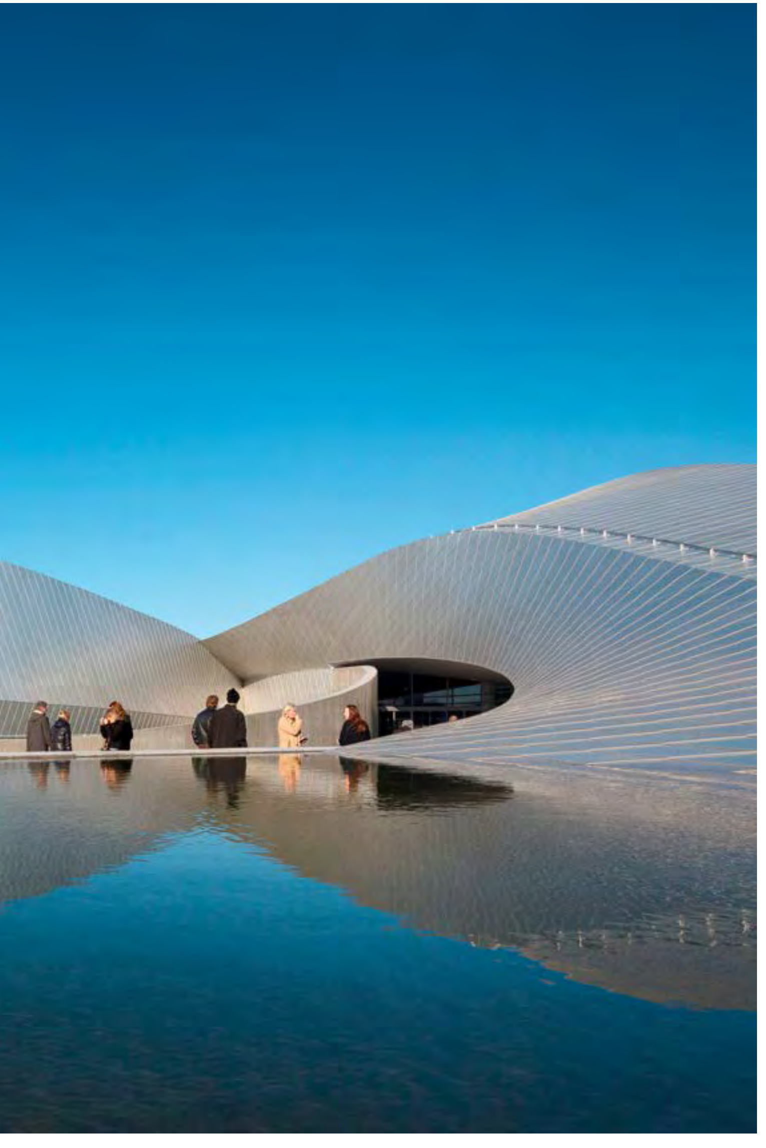
A growing demand for stone wool insulation nonetheless supported good growth for ROCKWOOL Group across other key markets. This has been most apparent in the United Kingdom, where regulation and increasing awareness of fire safety has driven demand and in France where the focus on energy efficiency to support climate initiatives to reduce CO_2 emissions have spurred the renovation and thereby insulation of buildings.

Most central and northern European markets performed well, while main eastern European markets, after a record high demand previously, were down – with the noteworthy exception of Russia, which continued to develop positively throughout 2019.

In North America, we saw a steady development in sales, driven by a growing demand for non-combustible building insulation and horticultural growing solutions.

China and many southeast Asian markets declined or grew at a slower pace. However, continued urbanisation and expected tightening of building regulations will be substantial growth drivers for ROCKWOOL in these markets going forward.

Overall, construction growth in 2019 was largely positive in most key regions, but the level of growth has been losing speed, and the construction business in several countries is expected to show slightly negative or slow growth in 2020.



Future growth drivers for Insulation segment

Insulation demand has outperformed construction output per annum in the last 15 years, and we believe that sales of our stone wool products should grow on average at least one percentage point faster in our core markets than the market overall. Energy efficiency requirements and other regulation have been driving this development. We anticipate these factors will continue to push demand for insulation, as social and government commitments to reduce emissions to sustainable levels are converted to policies, regulations and funding support programmes.

Governments and cities are increasingly putting in place regulations intended to help accomplish the global goals for reducing greenhouse gas emissions agreed to at the 2015 COP21 in Paris. Insulation demand should benefit from such regulation for both new buildings and renovation projects.

The increased focus on climate change has elevated awareness as well as consumer and customer attention on sustainability and circularity of building materials. Since our products are made from basalt stone and recycled materials and because our stone wool is recyclable, we are in a good position to benefit from this trend.

Meanwhile, continuing urbanisation both in emerging and developed markets represents a big opportunity for ROCKWOOL.

Cities account for around 70 percent of the world's energy use and CO_2 emissions, and therefore play a big role in the efforts to fight climate change. The use of insulation and other ROCKWOOL products in the construction and retrofitting of buildings is in this context an important means to that end.

As the global economic expansion slows, renovation offers cities a way to create multiple benefits, including jobs and energy savings for residents (pp. 36-37) while also delivering on climate promises.

Protecting residents against noise pollution they experience in densely populated cities is another growth opportunity. Whether it's between walls of attached buildings or rooms within buildings, acoustic comfort contributes to human health and wellbeing.

ROCKWOOL is also pleased to see that fire safety is receiving greater attention among regulators and architects. The continued tightening of building regulation across the globe is a growth driver for ROCKWOOL products. The fire-resistant properties of stone wool insulation help prevent fires from spreading, which is especially important in urban and other population-dense areas. As society puts greater focus on circularity, the fact that our stone wool is a natural product and can be recycled is another advantage in the market.

The strength of stone wool in Systems segment

All businesses in the Systems segment performed well during 2019, which lifted growth for the year to double-digits and improved the EBIT margin.

Our acoustic tile business under the Rockfon brand, which offers superior acoustic performance, continued pursuing growth opportunities in the European and North American markets. During the year we entered into a legal settlement related to Rockfon in North America, positively affecting results by around EUR 10 million.

The introduction of a new range of high-quality façade panels supported a satisfactory growth for Rockpanel in the main markets in Benelux. Successful market penetration in more markets in Europe contributed to the good performance.

Lapinus stone wool offerings designed for reducing vibrations, noise and dust continued to gain support. While the friction-related business slowed down, the innovative water management solution under the Rockflow product line contributed to positive development for the year.

Outlook 2020

Sales growth

Low single-digit

in local currencies

EBIT margin around

12%

Investments excl. acquisitions around

400

EURm

The benefits of our Grodan products supporting sustainable growing methods gained further traction during the year with growth in all markets. We see a greater awareness and interest in pesticide-free growing environments and experienced healthy growth in all markets including Russia and North America.

Outlook 2020

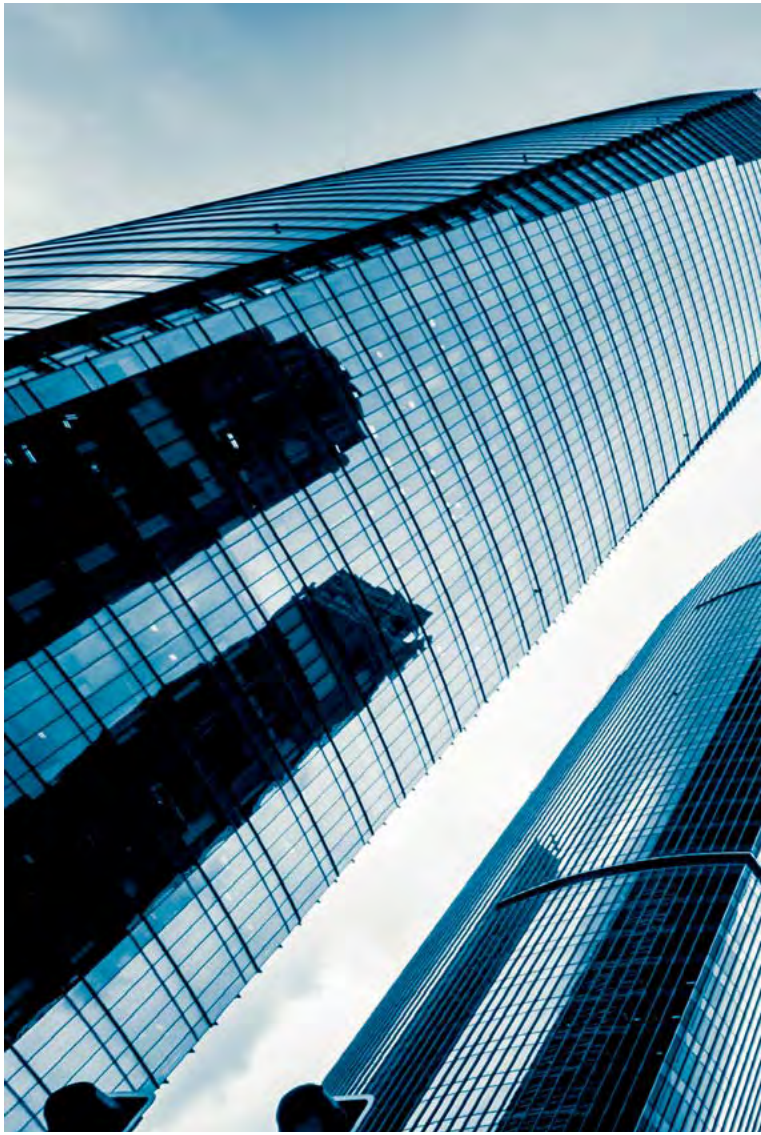
At the start of a new decade, we are preparing ourselves for another year of volatility especially around the large market in Germany and the non-residential segment in eastern Europe and Asia. Continued governmental incentives in France for energy efficiency is vital for the 2020 growth plan as is the conversion to stone wool solutions in the UK market.

Overall, we see the same level of uncertainties affecting the construction markets as in the second half of 2019, which is confirmed by a less optimistic forecast from Euroconstruct, with a flat new housing market and a modest growth limited to non-residential activities.

If trade tensions were to ease, it could contribute to a recovery of growth in Asia and part of the European industrial sector, especially Germany.

The release of the European Commission's Green Deal framework in December is an encouraging development aimed at achieving a climate-neutral EU by 2050. Together with the European Investment Bank's co-financing commitments (up to 75 percent on building renovation projects), EU member states are expected to announce more detailed energy efficiency plans, which over time could help accelerate the renovation of building stocks and increase the demand for insulation.

Stone wool production capacity in Europe has increased, both from our own opening of new stone wool manufacturing lines as well as from other stone wool producers. While we are confident about long-term



demand for stone wool products, we recognise that the additional availability of stone wool in the coming year could increase competition in certain market segments and geographies.

We forecast low single-digit sales growth in local currencies for 2020, with growth opportunities for France, the United Kingdom and North America as well as Systems segment, though still with some uncertainties for markets in Germany, eastern Europe and Asia.

The focus for our operational excellence programme will be on productivity. At the same time, we have several new manufacturing lines, which will improve productivity and optimise our logistics footprint.

With a significant number of new production lines coming online, the level of depreciation will increase for 2020. We estimate the increased depreciation will affect EBIT margin by around one percentage point.

Inflation on input costs was reduced during the second half of 2019, and we forecast a similar picture for the coming year.

All in all, we predict an EBIT margin of around 12 percent, which is comparable to 2019, when adjusting for additional depreciation and start-up costs in Germany and costs in connection with the melter conversion in Norway.

Investment level excluding acquisitions will remain high during 2020 at around EUR 400 million. The main investments include capacity expansion in Germany, which will come online during the second quarter and the new factory in the United States, planned to open in early 2021. We will also invest in new capacity for the Systems segment, digital tools, factory automation, and increase investments to support our commitments towards our SDG sustainability goals.

Case study

ROCKWOOL

A big building with a small footprint

Despite covering an area the size of 20 football fields, the Lagoh Shopping Centre and leisure complex in sunny Seville, Spain, won't be sweating the energy bills.

From design to construction, the energy efficiency, sustainability and circularity of the building were top priorities for owners, Lar España. It received a "Very Good" BREEAM rating in the design phase and expects the same result now that it is complete.

Among its credentials, the building operates on 100 percent certified renewable energy and was built with all natural or recyclable materials. This includes ROCKWOOL stone wool insulation and Rockpanel cladding that line the facades as well as 50,000 m^2 of double-density insulation panels under its green roof.

This insulation wrapper prevents the spread of fire, sharply lowers energy consumption and keeps the sounds of traffic from the nearby highways out of the building and from travelling between the shopping and leisure areas and cinemas. For moviegoers, Rockfon acoustic tiles help keep the sounds of the movies from blending together as noise.

"We set out to build a world-class shopping centre for Seville that would also meet the highest standards for sustainability, circularity and energy efficiency", says José Antonio García Agüera, Head of Retail Development, Lar España. "ROCKWOOL's stone wool products help us achieve all of those while also optimising the fire safety and comfort of the building for the nearly 14 million guests we expect to visit Lagoh each year".

ROCKWOOL®

Business update
Insulation segment

Overall, we saw a satisfactory demand for our thermally efficient and fire-safe stone wool insulation and a clear need for constructing new energy efficient buildings and renovating the existing building stock to mitigate climate change and achieve the UN climate-related goals.

In 2019, ROCKWOOL Building Insulation showed modest growth compared to 2018. We saw mixed market conditions across countries and our different insulation applications.

On one hand, we saw solid growth in South West Europe driven by demand for energy efficiency improvements supported by regulatory schemes. France is a good example, where powerful policies are driving energy efficiency and increasing the role of energy renovation. In the United Kindowm, we also saw an increasingly strong public demand for non-combustible insulation. At the same time, we saw declining or negative growth rates for instance in Germany, due to low economic activity and a tight labour market, and in Eastern Europe and Asia, where the uncertainty in the commercial marketplace was affected in particular by the project business.

The construction markets in North America and Russia continued to grow, but geopolitical uncertainties and trade tensions led to slower growth rates in Asia in 2019 compared to what we have seen in recent years.

Within Technical Insulation we saw higher uncertainty in the process industry, particularly in Europe and Asia, leading to a less favourable development in this business area, while again in 2019 we saw significant growth in the sandwich panel market, where the conversion to non-combustible insulation continues.

Proper insulation alone can reduce heating needs by

70%

Insulation solutions

ROCKWOOL offers fire-resilient, thermally-efficient, highly durable, and recyclable stone wool insulation.

Case study

ROCKWOOL

A gem in the heart of Moscow

It may resemble a futuristic spacecraft, but the stunning VTB Arena has taken great care to preserve its ties to history. The reconstructed and refurbished home of FC Dynamo Moscow, one of Russia's most storied football clubs, is built on top of the original 1928 stadium's perimeter wall, with a statue of legendary goalkeeper, Lev Yashin, gracing the main entrance.

The stadium, part of the spectacular project referred to as VTB Arena Park, is much more than a world-class football stadium. The 300,000 m² project also includes the Dynamo hockey rink—next door and under the same roof as the football—as well as a park, shopping and entertainment centre, office and apartment buildings, five-star hotel, and an underground parking garage with 1,600 spaces.

The project's size and prestige—it has received several design awards—required that only the best materials could be considered, with fire safety, energy efficiency, thermal insulation and noise reduction high on the list of the owners' priorities.

As a primary supplier, ROCKWOOL is proud to have a variety of its stone wool products installed across all VTB Arena Park spaces. This includes more than 130,000 m² of several types of stone wool insulation in the floors, walls and roof. In addition, 70,000 m² of stone wool technical insulation cover heating pipes and ductwork, ensuring the building's utility infrastructure is fire-safe and doesn't leak precious heat energy used to keep visitors warm in Russia's cold winters.

"If you look at the diversity of the spaces in this complex, combined with the millions of people expected to use them each year, helping the owners achieve a high level of fire safety, energy efficiency and comfort is quite rewarding, especially for such an important project like this", says Marina Potoker, Managing Director, ROCKWOOL Russia.

Rockfon®

Business update
Systems segment

We provide customers with indoor acoustic solutions for ceilings and walls. Our ceiling systems combine stone wool acoustic tiles with suspension grid systems and accessories that are a fast and simple way to create beautiful, comfortable spaces. Our stone wool-based products are easy to install, durable and significantly improve indoor acoustic comfort.

Rockfon grew revenue during the year in Europe and North America. Growth was driven by broader product differentiation, including new colours and designs for our grids and tiles as well as greater outreach to specifiers and high service levels to distributors and contractors. To maintain momentum, we are expanding our production capacity by adding a high-volume, high-speed production line at our existing facility in Cigacice, Poland.

The development of the U.S.-based production line has progressed, supporting a shorter and faster supply chain and helping facilitate growth above the market rate. The high-performance stone wool portfolio, combined with offerings in metal and wood ceilings, continues to gain recognition in the architect and design community.

Overall, we are encouraged by the growing interest in our acoustic ceiling tiles and sound absorbing solutions. To respond to customer requests, we have also strengthened the digital marketing and product design competencies within our organisation.

Noise was the top complaint among

24%

of American diners surveyed by Zagat

Ceiling solutions

Rockfon ceiling solutions improve acoustic performance and indoor climates, while resisting humidity and inhibiting mould growth.

Case study

Rockfon®

In Brussels, a symbol of circularity

As remarkable as they will be when they're completed in 2023, the most impressive feature of the new World Trade Centre buildings in Brussels might be how they are built.

Circularity and sustainability were dual aims of the Belgian government when it commissioned the renovation of the nearly 50-year old towers in the heart of Brussels. This called for the reuse or recycling of as much of the existing building and materials as possible and where new materials were needed, they should be recyclable.

The result will be impressive: Of all the materials that will be used to build the new towers, 63 percent will come from the old buildings themselves. And of the total material not used, 95 percent will be recycled.

The new buildings will be exemplars of circular design, energy efficiency, fire safety and good acoustics. These characteristics will be key to the buildings' multi-purpose use, including office space for 3,900 government employees, hotel rooms and apartments as well as public spaces on the ground floor.

Even before ROCKWOOL can help the building deliver on these performance traits with its stone wool products, it has a key role in achieving the customer's circularity goals by removing 35,000 m^2 of existing Rockfon acoustic ceiling tiles and 70 tons of ROCKWOOL stone wool building insulation. All of it will be recycled at ROCKWOOL's factory in Roermond, the Netherlands, where it will be used to make new stone wool products.

Grodan®

Business update
Systems segment

We are the global leader in the supply of innovative, sustainable stone wool growing media solutions for the professional horticulture industry. Based on Precision Growing principles, these solutions are used to cultivate a variety of crops. Compared to soil-based methods, our solutions produce higher yields per square metre, require far less water and fertiliser and create the possibility to use little or no pesticides. We also offer customer-specific advice and tailor-made analytic tools, facilitating the sustainable production of healthy, safe, and fresh food produce.

Two-thousand nineteen was a good year for Grodan, with demand growing for our products in all markets. The new production facility in Elabuga, Russia, which opened in 2018 scaled up in 2019 per plan and helped us meet this demand.

Meanwhile, our greenhouse management software, e-Gro, is catching on in the market and has received some prestigious recognition, including a "Best Concept" award at the GreenTech Innovation conference in the Netherlands. Furthermore, new crops, like lettuce, were added to our portfolio of crop-specific growing media.

Compared to soil, growers get

15-40%

greater yield per m² in stone wool

Precision Growing

Precision Growing is a highly efficient form of growing focused on using minimum input materials to generate maximum output.

Case study

The internet of peppers

Business is good for Antoni de Bruin. The Dutchman recently doubled the size of his sweet pepper company, ACB Agro, in Klazienaveen, the Netherlands, from three to six hectares. And with the help of a suite of Grodan technology, he's now expanding into consulting for other growers.

Like his parents before him, de Bruin grows his sweet peppers in Grodan stone wool instead of soil or other growing media, finding it easier to manage with better quality produce, higher yields and a lower environmental impact. The big difference between the generations is the younger de Bruin's use of technology.

Antoni started using Grodan's GroSens water and nutrient metres a few years ago to precisely manage the irrigation of his pepper crop. More recently he's moved his whole operation on to Grodan's greenhouse management software platform, e-Gro.

With one dashboard, e-Gro lets Antoni see a complete picture of his peppers, from root zone irrigation information to greenhouse climate data, harvest and crop data and more. All of this in real-time from anywhere he can connect to the internet. "I can check how my crops are doing from my phone or computer, and even change settings if I need to", says de Bruin.

This freedom has allowed him to develop another business, consulting to other growers in Germany and Canada. "I learn a lot about my own business from getting out and meeting with other growers and I couldn't do both without Grodan's technology. Growing and consulting reinforce each other and I believe that my customers appreciate the combination".

Rockpanel®

Business update
Systems segment

We manufacture board material mostly used in ventilated constructions, for façade cladding, roof detailing, soffits and fascia. Our cladding and other boards are robust and flexible, and fit perfectly with modern architectural trends such as organic shapes and sustainability, while also providing cost efficiency and short installation times.

In early 2019, Rockpanel launched a fire safety awareness campaign across Europe, designed to increase the appreciation of the important role that non-combustible products, like the ones offered by Rockpanel, play in the marketplace.

A shortage of labour to refurbish at-risk buildings and insufficiently ambitious national regulations on the use of non-combustibles in some markets are limiting factors. Fortunately, we see more stakeholders getting involved in this transition, which we expect to gain momentum.

Rockpanel also intensified its focus on online marketing and digitalisation in 2019, resulting in strong growth in incoming leads. As a result, we also expanded our sales department to follow up on these opportunities and serve customers better.

After successful entry into Sweden in 2019, we are looking for more opportunities to expand. We also launched our new concealed fixing system in our high-end segment, Rockpanel Premium, which are products that offer customers all the design and technical possibilities of Rockpanel in one product.

All Rockpanel boards are as durable as stone, easy to cut, and resistant to the effects of moisture, temperature and the weather

Design freedom

Whether shape, colour, engraving or even bending the boards, design freedom is at the heart of Rockpanel facades.

Case study

Rockpanel®

From down-and-out to dashing

Named one of London's "best places to live" for the last five years by the Sunday Times, the Bermondsey neighbourhood is a fine example of the city's transformation in recent years.

Once a rundown part of the city, residential and commercial buildings with poor energy efficiency and insufficient fire safety performance are being renovated or demolished and replaced, making the neighbourhood more attractive for residents and safer against the risk of fire.

The Eyot House apartment building in the Bermondsey Spa area is a good example of this transformation. The Hyde Group, a housing association leading much of the neighbourhood's well-publicised rejuvenation, asked Rockpanel to completely replace the external façade of the seven-story building for safety and design reasons.

Per the United Kingdom's 2018 fire safety regulations, developed in the wake of the Grenfell Tower tragedy, all buildings over 18 metres tall must have exterior cladding systems made of non-combustible materials.

Importantly, all residents could stay in their homes during the renovation of the building, limiting discomfort and disruption to their lives and helping the owner avoid relocation costs.

"Rockpanel was specified as the only non-aluminium, fire safe A2-rated product able to meet our design brief, being light, flexible and a great aesthetic choice in terms of colour and surface finish", says Daniel Assander, designer and contract administrator of the project from Martin Arnold consultancy.

Lapinus®

Business update
Systems segment

We develop and supply versatile and innovative, fire-safe stone wool-based products used in a wide range of applications, such as friction and water management, train tracks, coatings, gaskets and fences. With more than a quarter-century track record, we help global industries improve quality of life by developing solutions that address noise and dust reduction, vibration control, and storm water management.

The market for precision-engineered stone wool products remained strong in 2019. Our noise-reduction fences and vibration control mats in train tracks continued building on their strong position in existing and new markets.

In 2019, the Rockflow product line for urban storm water management was formally launched, with multiple projects already installed in Denmark and the Netherlands.

As cities expand their footprints and populations, the risk of urban flooding caused by more frequent and severe rain storms is growing. Rockflow can be an important tool for cities to help protect people and infrastructure from urban flooding caused by storms.

The market for Lapinus car brake pad products was soft in 2019, tracking the global trends in the automotive industry.

Lapinus Rockflow can absorb up to

95%

of its volume in water, without losing its rigidity and strength

Precision engineering

Lapinus precision-engineered stone wool solutions contribute to reducing vibration, noise, dust and to better water management.

Case study

Lapinus®

Rain, rain, come this way

The newly renovated Langelands Plads square doesn't look like a critical piece of Copenhagen's anti-flooding defences. And that's the intention.

The square, located in Frederiksberg on the border with Copenhagen municipality, is one of 300 so-called "dual use" projects Copenhagen has prioritised over the next 20 years to adapt existing parks, playgrounds and other spaces so that they also help protect against flooding caused by extreme rains. It's a key part of what the city refers to as its Cloudburst Management Plan.

Expanding sewers is one part of the plan, but the main focus is on projects like Langelands Plads that create spaces to help keep excess storm water from reaching sewers in the first place while also improving quality of life for residents – and in the long-term, bolstering property values and city tax revenues.

How? Underneath the surface of Langelands Plads and surrounding roads is 400 m^3 of Rockflow, a buffer of specially engineered stone wool, with connections to a system of pipes, drains and gullies that lead the water to the sewer.

Heavy rains are quickly absorbed and gradually discharged over the following 24-hours into the sewer system (or soil in some cases). The stone wool in a Rockflow system can absorb 95 percent of its volume in water. (Note: stone wool made for insulation purposes does the opposite, it repels water.)

"Before, we talked about once-in-a-hundred-years rain events, but those can happen three times a year now", says Ole Larsen, Director of CALL Copenhagen, an organisation advising the city of Copenhagen and others in Denmark on climate adaptation and green growth. "Rockflow gives us better opportunities to build a sustainable city that is climate ready", he says.

Cities, nature and an exciting platform to celebrate both

"Sustainability is at the heart of our business, with all our products contributing positively toward achieving UN Sustainable Development Goals. As a sustainable sport, sailing is a perfect fit for the ROCKWOOL brand. We're proud to bring a Danish team to SailGP and believe the competition will help inspire a new generation of sailing enthusiasts".

Jens Birgersson, CEO, ROCKWOOL

On 28 February 2020, SailGP, the world's fastest sailing competition kicks off in Sydney harbour, featuring a team from Denmark, proudly presented by ROCKWOOL.

Entering its second season, SailGP is a sailing race like no other. The fan-centric, inshore race events take place in iconic harbours around the world, including Sydney, San Francisco, New York, Cowes, UK and Copenhagen with more to be announced.

The Denmark SailGP team will join six other national teams competing in identical F50 catamarans. These lightweight, ultrafast vessels are engineered for intense racing and will reach speeds above 50 knots (nearly 100 km/h) in competition for the sport's largest monetary prize, USD 1 million.

An optimistic view

Long before they got to the top of the racing world, many of these sailors learned the ropes and rigging in a bathtub-shaped dinghy called an Optimist.

2020 Season Events

- **Sydney**, AU 28-29 February
- **San Francisco**, USA 2-3 May
- **New York**, USA 12-14 June
- **Cowes**, UK 14-15 August
- **Copenhagen**, DK 11-12 September
- More events to be announced

Denmark SailGP team led by helmsman, Nicolai Sehested (centre), includes (L-R) Hans-Christian Rosendahl (grinder), Lars-Peter Rosendahl (grinder), Tom Johnson (wing trimmer), Rasmus Køstner (flight controller), Martin Kirkerterp (grinder).

If you think about a young sailor looking out at the vast, unpredictable expanse that is our planet's oceans, the name seems appropriate. Well, we too are optimistic. Not just about the Danish team's chances. About our world, about society's ability to rise to meet our biggest challenges—and our company's role in overcoming them.

Because unlike the young sailor, society already has much of the knowledge and solutions for success, we just need to use them. Through our stone wool products and commitments to the United Nations Sustainable Development Goals, we are helping to reduce energy consumption and emissions in buildings, improve indoor health and well-being, enable cities to fight urban flooding and professional horticulturists to grow food more productively and efficiently.

Our involvement with Denmark SailGP team gives us an excellent platform to build awareness around the importance of sustainability and the connection among urban living, outdoor recreation and the important role of stone wool in enriching modern living. ●

"The addition of the Danish team adds a lot of excitement. Denmark has achieved remarkable success in Olympic sailing and will now compete at the top level in high tech, foiling, wing-sailed catamarans. It's a great development for Danish sailing".

Russell Coutts, CEO of SailGP, five-time America's Cup winner, Olympic gold medalist

Sustainability

Across the full range of our products and operations, ROCKWOOL is dedicated to sustainability. We strive to increase our positive impact in society and on people's lives by maximising the use and benefits of using our products while minimising our operational footprint. We also recognise that operating with integrity and as a responsible business is equally important and underpins everything we do.

The United Nations Sustainable Development Goals (SDGs) help steer ROCKWOOL's ambitions. The Group is committed to 10 of the 17 SDGs, pursuing those goals where we can have the greatest impact and where they are most aligned with our business competencies.

We have developed impact metrics to track our contributions to the SDGs, which includes setting non-financial goals reflecting key material issues within the company's operations that help drive improvements in our environmental and safety performance.

We will continue to report on progress toward achieving our 2030 goals as well as several intermediate goals for 2022 in the 2019 Sustainability Report.

In other words, ROCKWOOL is committed to delivering excellent long-term investment performance alongside environmental stewardship, ensuring that business decisions have a positive impact going beyond financial performance. →

Climate change and energy efficiency

Our products help save energy and combat climate change on a large scale and we will continue to work to increase positive climate impact even more, through new product innovation.

We are committed to reducing the carbon intensity of our production and have set a goal to reduce carbon intensity by 20 percent by 2030 compared to 2015.

In addition to capital investments, we focus on leadership, training, knowledge-sharing and awareness programmes to create a culture of continuous improvement in energy efficiency that will facilitate reaching our CO_2 goal.

Part of our decarbonisation commitment is to use, where feasible, less carbon-intensive fuels in ROCKWOOL production facilities. In May 2019, we announced a project to install electric melter technology at our production facility in Moss, Norway. The innovation project, a EUR 34 million investment, is in partnership with Enova, a public company owned by Norway's Ministry of Climate and Environment.

Once it begins operations in H2 2020, CO_2 emissions from the Moss facility are expected to decline 80 percent. It will be the largest electric melting furnace in the Group thus far and is expected to provide valuable learnings and experience for ROCKWOOL as we continue efforts to decarbonise operations.

In 2019, ROCKWOOL signed on as a supporter for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We live up to these recommendations by disclosing climate-related risks, opportunities, targets and emissions to CDP and have initiated quarterly ESG calls with investment analysts to facilitate dialogue about those risks and opportunities, among other things.

We also have a goal to improve energy efficiency in our non-renovated office buildings by 75 percent by 2030, compared to 2015. This is an ambitious but necessary goal that we are on our way to achieving. The deep renovation of our office in Gladbeck, Germany, designed to improve energy efficiency by more than 80 percent, is one example of an investment approved to support this goal and shows how our products can significantly improve energy efficiency of older buildings.

Renovation is our preferred approach to reaching our energy efficiency targets. Deep renovation of our offices will reduce the use of resources and carbon emissions associated with demolition and new build. In some instances, the economic payback of a deep renovation may not be attractive, but we might choose to pursue it anyway because of the many other benefits it creates, such as creating healthier and safer work environments or achieving broader sustainability goals.

Environmental management

We continuously aim to minimise the impacts of our processes on people and the environment. When we are building new production facilities or expanding existing ones, we use state-of-the-art abatement technology.

We conduct internal audits, and as part of our ISO certifications we are externally audited to improve the safety, health and environmental performance and awareness across the Group.

By the end of 2019, 80 percent of our stone wool production facilities had at least one external certification within safety, health, environment or energy management and several were certified across all areas.

Water and waste

We have a goal to reduce waste from operations going to landfill by 85 percent by 2030 compared to 2015. In 2019, four new recycling plants were installed at our Asian and Russian factories. These investments are driving a significant reduction in the waste sent to landfill.

The new electric melter in Moss, Norway will also have a significant effect on this target with an estimated reduction of up to 95 percent in waste to landfill for this site.

We are implementing more systematic water management at all factories. In 2019, work continued with water mapping and installation of additional water metres. This will help drive progress on our Group Sustainability goal in 2030 to reduce water consumption per tonne of product by 20 percent compared to 2015.

Reclaimed waste

ROCKWOOL has a goal to offer recycling services for our products in 30 countries by 2030. We are also tracking our performance against an interim goal to have product recycling services in 15 countries by 2022.

In 2018, we took a significant step forward, as we deployed product recycling programmes in five additional countries, bringing the total number of countries with a product recycling service programme to 10. In 2019, we began preparations to expand recycling services in additional countries.

Stakeholder engagement

ROCKWOOL's factories are essential to the Group's success, as is maintaining constructive, positive relations in the communities around our facilities. This applies for greenfield and existing facilities. Our factories create local employment and investment in the host communities, and we always work to create and maintain positive relations with community members, their representatives, and other stakeholders.

Health and Safety

As an international industrial company, there is an inherent level of safety risk for all our employees, whether at production sites, in our offices or while traveling. We take the management of this risk seriously and continuously work to create safe and healthy work places and conditions for all employees and people working with us across the world.

We have a goal of zero fatalities for people working with and for us and have an ambition to incrementally reduce the Lost Time Incident (LTI) rate by 10 percent every year. In 2019, we reduced our LTI rate by 17 percent.

Sadly, in February, we experienced a fatal accident at the construction site for a new production facility in Romania. An employee from a local sub-contractor died in a fall from height. Following this accident, we increased supervision of subcontractors by direct personnel from ROCKWOOL, focusing on the daily contractor management process and sharing the findings with all production facilities.

This is the second consecutive year we had a fatality following an accidental fall. In 2019, we put extra efforts into increasing awareness of our standards for working at heights and roof protection. All production facilities have created action plans for ensuring implementation of the standards, and an increased focus will be placed on working at heights during safety audits.

In March 2020, ROCKWOOL Group will publish its Group Sustainability Report with detailed information on the Group's sustainability performance.

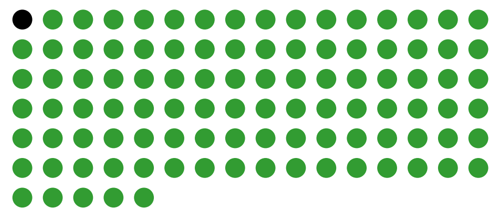
Please go to www.rockwoolgroup.com/sustainability for more information. ●

→

Sustainable operations

While we make the most significant positive impact on sustainable development through the use of our products, it is just as important for us to achieve this while operating in a responsible and sustainable way.

We have five operational goals across energy, climate, water, waste and safety to track our performance and keep us accountable to our customers, colleagues and communities. Our sixth goal, on reclaimed waste, is to set up recycling services in even more countries. Together, these six goals have been designed to drive progress on the SDGs by reducing the negative impact from operations on material issues.



During the lifetime of its use, the building insulation we sold in 2019 will save more than

100 times

the carbon emitted and energy consumed in its production*

* including upstream emissions from extraction and transportation of raw materials

Safety, health and wellbeing

→ **Our goal:**
Reduce Lost Time Incident (LTI) frequency rate by 10% and ensure 0 fatalities annually.

10%

Reduce Lost Time Incident (LTI) frequency rate, annually

Water consumption

→ **Our goal:**
Reduce water consumption intensity within our manufacturing facilities by 20% by 2030.

20%

Reduction of water consumption by 2030

Reclaimed waste

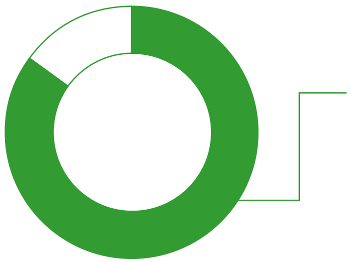
→ **Our goal:**
Increase the number of countries to 30 where we offer recycling services for our products by 2030.

5 → 30

The number of countries from five to 30

Landfill waste

→ **Our goal:**
Reduce landfill waste from our manufacturing facilities by 85% by 2030.



85%

by 2030

CO_2 emissions

→ **Our goal:**
Reduce CO_2 intensity from our manufacturing facilities by 20% by 2030.

↓ **CO_2**

20% by 2030

Energy efficiency

→ **Our goal:**
Increase energy efficiency within own (non-renovated) offices by 75% by 2030.

↑ **75%**

by 2030

Bending the curve on carbon emissions

The global imperative to act on climate change has never been more important. Cities are on the front lines – both as a source and as a key solution to a substantial part of the climate challenge.

Although urban areas occupy only about three percent of the world's land surface, their carbon footprint is enormous and continues to grow as more people move to cities. Cities account for around 70 percent of the world's energy use and CO_2 emissions, most of it from buildings.[1] Reducing and decarbonising the energy consumption of new and existing buildings is therefore critical for tackling the climate challenge.

The role of energy efficiency

With growing populations and rising incomes, global primary energy use will likely double in this century.[2] Effective management of the built environment is thus becoming increasingly important in reducing CO_2 emissions.

For cities, it's an opportunity to lead a rapid transition toward more energy-efficient and climate-friendly buildings and make a major contribution to achieving the Paris Agreement's climate goals.

There are solutions readily available – the most important of which is energy renovation. Optimising the energy efficiency of existing buildings could provide up to 55 percent of GHG emission reductions needed to put cities on a 1.5°C pathway through 2030.[3]

Three different cities, one common solution

While there is huge potential across all urban environments to drastically improve energy efficiency, the specific challenges facing individual cities can vary substantially. Take New York City, Copenhagen and Milan. Each is very different in terms of size, building stock and the main challenges related to urbanisation.

What they have in common is they each see energy renovation of their building stock as a major part of the climate solution. And, municipal leaders in these cities realise that in addition to energy and climate benefits, there are also multiple social and economic benefits to building renovation – they just need help calculating them.

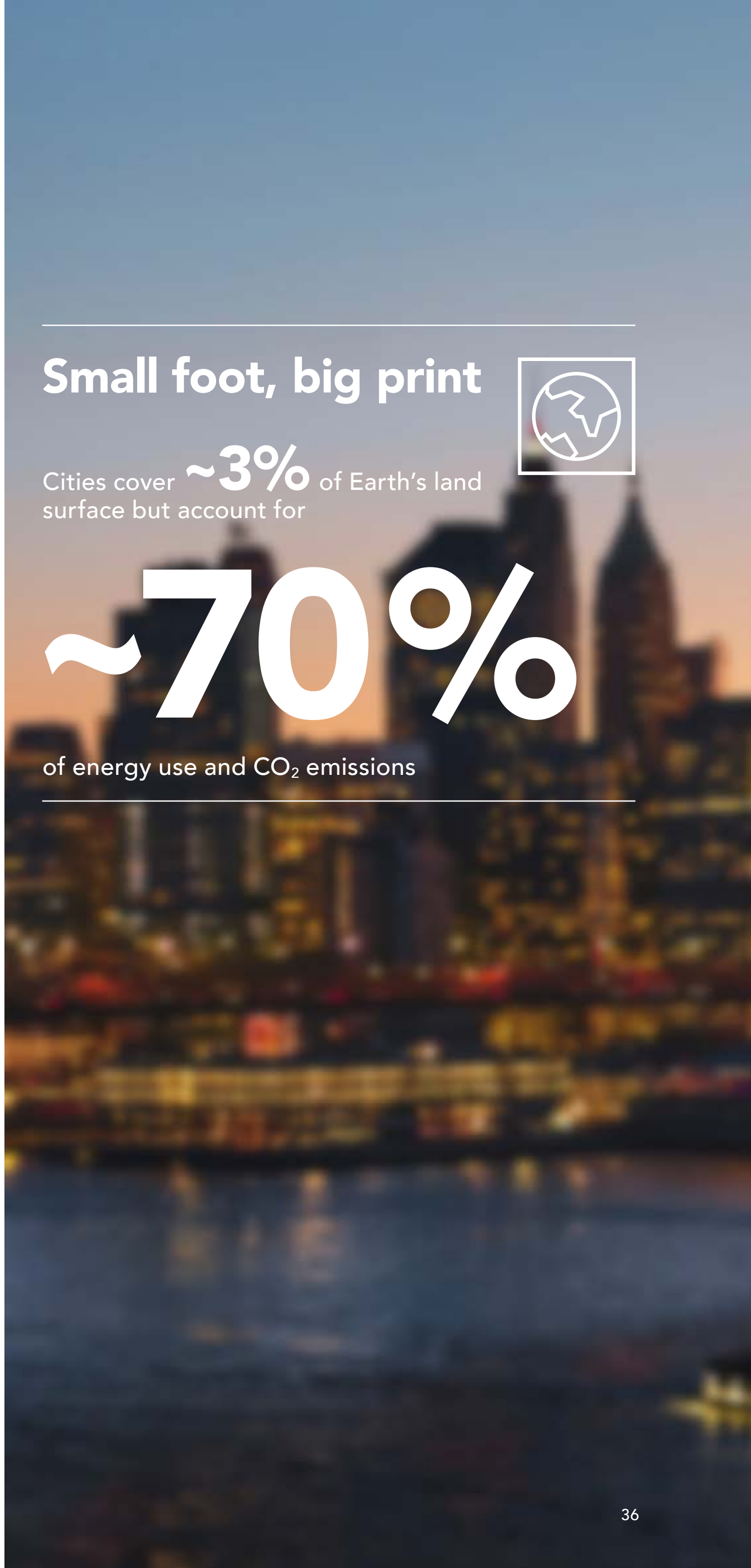
Counting the benefits of renovation

That's where we come in. ROCKWOOL and the C40 have developed a toolkit that enables cities to calculate the environmental, social and economic benefits of energy renovation – and to show that renovating for energy efficiency is highly cost-effective.

With this tool, urban stakeholders can make a stronger case for energy renovation, facilitate a better dialogue with partners to unlock funding, and more rapidly scale up energy renovation actions.

Particularly when preparing city-led renovation programmes, the additional positive benefits can be instrumental in gaining buy-in from multiple public and private stakeholders.

Our hope is that the toolkit will contribute to accelerating building renovation rates in C40 cities and elsewhere – to the benefit of local populations as well as the global environment. ●



What if we renovated entire cities?

Milan, New York and Copenhagen. Three iconic and very different cities that share a common goal: *reducing their environmental impact while continuing to be attractive places to live, work and play.*

All three cities tested the ROCKWOOL/C40 renovation toolkit to investigate what deep renovation could accomplish in terms of economic, social and environmental benefits. The data from these pilots was then extrapolated to estimate what the impacts would be at a larger scale.

These early results are encouraging. And the 'what if' scenarios of large scale investments indicate the potential economic, social and environmental impacts of energy renovation in these cities are substantial.

To learn more about the pilots conducted in these cities and the results, the full report will be available in March via this link: www.c40knowledgehub.org/s/article/The-Multiple-Benefits-of-Deep-Retrofits-A-toolkit-for-cities.

New York pilot

Renovation of 23 schools

1 000+

Jobs created

↓ 42%

GHG emissions

↓ 42%

Energy costs per year

What if?

Renovation of 700 schools

up to 50 000

Jobs created

318 000 tCO_2

GHG emissions avoided per year

USD 100m

Energy cost savings per year

[1] www.c40.org/why_cities [2] ROCKWOOL, Putting renovation on the agenda [3] www.c40.org/researches/mckinsey-center-for-business-and-environment

Business integrity

Our Code of Conduct serves as our most important instrument to communicate and provide guidance on ROCKWOOL Group's way of doing business with integrity. The Code of Conduct includes Group policies related to anti-corruption, gifts and hospitality, conflict of interest, competition law, data privacy, human rights and labour rights, health and safety, and environment.

As part of the enrolment package, new employees are asked to complete the Code of Conduct e-learning to focus attention from the outset on the importance of the Code of Conduct.

Beginning 2019, approximately 6,000 targeted employees concluded the new Code of Conduct e-learning. The focus of the e-learning was on ethical behaviour in the workplace, anti-corruption (including our new gift and hospitality policy), conflict of interest and how to report concerns. The e-learning programme was well-received by employees and will be repeated in 2020/21.

Also in 2019, as part of the Code of Conduct awareness programme, face-to-face training in competition law was organised by local ROCKWOOL companies in local languages. The awareness training complemented the competition law e-learning concluded in 2018.

Tackling corruption

ROCKWOOL Group has zero tolerance towards any kind of fraud, corruption, bribery and facilitation payments. The anti-corruption policy also applies to suppliers, agents and other third-parties. In 2019 a new policy on the use of agents was adopted. The focus was on compliance in relation to U.S. Foreign Corrupt Practices Act and the UK Bribery Act. Use of agents and compliance with the policy will form part of the internal audits.

In 2018, the Group adopted a new policy and manual on gifts and hospitality. It concerns the appropriate use of gifts and hospitality and respecting the required approval levels. In 2019 a new gift and hospitality register was launched. Use of gifts and hospitality over a certain amount requires registration and approval by relevant management level. The register allows monitoring and reporting to the Integrity Committee on the use of gifts and hospitality in the Group.

The 2018 initiative concerning anti-corruption and bribery training in four high-risk countries was completed in Q1 2019. It involved face-to-face training of employees in sales, marketing, procurement, finance, HR, and other departments.

In 2019, we initiated the process of replacing our existing whistleblower system. Increased requirements in relation to data privacy and the use of new technologies warranted the replacement of the existing setup.

Whistleblower system

All employees are encouraged and required to report knowledge or suspicion of non-compliance with the ROCKWOOL Code of Conduct to management, the Group Integrity Officer or through the whistleblower procedure. We do not accept any form of negative employment consequences for employees reporting in good faith actual or suspected non-compliance.

In 2019 a total of 13 cases were reported, compared to 15 in 2018. All reported integrity and whistleblower cases are investigated.

The reported cases involved fraud, bribery, unethical behaviour or were related to SHE (safety, health and environment). Of the 13 cases, nine resulted in corrective actions ranging from dismissal of employees to changes in internal procedures.

In relation to bribery, the two reported cases were attempts to bribe ROCKWOOL employees and were reported by the targeted employees themselves. This indicates that the focus on anti-corruption training has increased awareness. The new whistleblower system will simplify reporting of whistleblower cases for both employees and third parties and allow reporting of cases in local language via the web or mobile app.

The Management and our Group Integrity Officer continue to promote and increase the awareness and knowledge of business ethics and the whistleblower arrangement in ROCKWOOL Group, using tools like the new e-learning course.

The Audit Committee is informed about all integrity and whistleblower cases. To create awareness of unethical behaviour and underline the Group's zero-tolerance policy, a summary of integrity cases is communicated to all employees on Group intranet to make sure that we learn from past mistakes and breaches.

Respecting human rights

In 2019 we continued to scrutinise our internal processes with respect to due diligence of human rights in our supply chain.

Supply chain due diligence

We acknowledge there is a risk connected with the categories and countries we engage with in terms of compliance with international, national and local laws and guidelines relating to employment, environmental and manufacturing practices as well as ethics and bribery, particularly in relation to sustainable sourcing.

ROCKWOOL's Supplier Code of Conduct is designed to mitigate this risk by explaining our expectations to the suppliers. Furthermore, ROCKWOOL Group expects our suppliers to enforce the same guidelines within their supply chain.

Before becoming an approved supplier, new potential ROCKWOOL Group suppliers must register in our online supplier portal and either accept the ROCKWOOL Supplier Code of Conduct or upload their own code of conduct for our review and approval.

During 2019, we evaluated the sustainability risk related to three overall areas: human rights and labour rights; environment; and anti-corruption and bribery across the countries in which we currently operate and the type of materials and services we procure. This has resulted in a risk matrix that we will use for assessing new suppliers as well as to re-assess existing suppliers.

We expect to implement the new risk matrix in the existing population of suppliers within the identified high-risk categories in 2020.

Privacy and data protection

Privacy compliance is essential to gaining and maintaining the trust of our employees, customers and suppliers. A global data privacy organisation with a regional presence ensures support and governance.

To enable our employees to act in accordance with their daily work requirements, our privacy compliance programme includes a privacy policy, a privacy manual and a handbook with guidelines for selected business areas as well as specialised templates and privacy notices. Additional e-learning has been targeted at employees in functions with highest potential risk. ●

Our people

Attracting and retaining talents

Attracting and retaining the right employees with the right skills and mindset continues to be a focus area for ROCKWOOL Group. During 2019, we initiated several projects to further develop our ability to do just that, including updating the recruitment process and tools. Open positions are now posted at the Group website, and in 2020 we will ensure that we have a global on-boarding process that supports the business in promoting the company culture, history and knowledge and further enables internal talent development. In addition, we are now globally aligned on our internal and external Employer Brand positions, including on the messaging we use to attract future employees and retain existing ones.

Engaging our employees

We are continuously striving to improve the engagement level of our employees. In 2019, we implemented a new way of conducting our annual Employee Engagement Survey, which enabled leaders across the Group to gain a better understanding of the engagement status and how to further improve this.

The areas covered in the survey include: satisfaction and motivation, loyalty, immediate manager, senior management, co-operation, working conditions, job content, remuneration, learning and development and safety. New in 2019 was the fact that all employees — office-based as well as production-based — answered the same questionnaire online. The participation ratio across the Group was at an all-time high.

←
#iRockGlobalGoals Idea Challenge 2019:
600 ideas, 8 awards and a lot of positive energy

The areas where we scored high in comparison to the external benchmarks are Loyalty, Reputation and Job content. Immediate manager scores vary substantially, with a big proportion of our employees being satisfied with their immediate manager, while still leaving room for improvement in the lowest quartile of managers.

We can see that across the Group, we are slightly below the external High-Performance Norm benchmarks, though with some very positive and encouraging scores in certain areas of the organisation.

Developing our people

In ROCKWOOL, we offer targeted learning and development opportunities to our employees. In 2019, we nominated the third group of participants in the Operational Excellence Programme, now a well-established Group programme supporting the development of the next generation of ROCKWOOL leaders. During the year, we also introduced changes to our performance management process, adding greater flexibility, including creating opportunities to adapt goals and provide more frequent feedback.

Reigniting The ROCKWOOL Way

As a new decade begins, we have updated and relaunched the same strong values foundation that has brought us to the present to carry us through the years to come. The ROCKWOOL Way is based on our management principles

and our four values: Ambition, Integrity, Responsibility and Efficiency, while safeguarding a balanced management approach that leads to good, sustainable results.

Supporting our employees

We are committed to provide equal opportunities, promote diversity, and work against all forms of discrimination among our employees. Promoting and raising awareness of policies and procedures is important and can be challenging in a global, culturally diverse organisation.

Reflecting the global nature of our company, 11,700 ROCKWOOL employees work in 39 countries.

Women in management

It is our ambition to have a diverse working environment, and we are continuously working to increase diversity in management teams as well as Group functions.

As the industry has traditionally been male dominated, our primary focus has been to increase the number of women in different levels of management. While the gender split across the Group has been relatively stable the last few years with a 18/82 ratio of females to males, the proportion of females is higher at executive and middle management levels.

In 2018, Group Management set a target for 2020 of 25 to 35 percent female leaders in executive and middle management positions. In 2019, 27 percent of leaders in executive and middle management positions were women, the same as in 2018. Further, 29 percent of newly hired middle managers were women, on par with the level in 2017 after a peak year (39 percent) in 2018.

To support increased diversity among our leaders, we are maintaining several Group policies including, for example, a non-tolerance clause on harassment, and a whistleblower channel allowing all employees to anonymously initiate any type of discrimination or harassment case. In 2019, we have also further developed our recruitment process globally to strengthen the opportunities for internal candidates to search and apply for career opportunities across the Group, which supports equal opportunity to be considered for openings.

Additionally, we have a target (also for ROCKWOOL A/S, in Denmark) to have at least one shareholder-elected female member of the Board of Directors by end 2020. In 2019, the ROCKWOOL Board of Directors had only male members elected by the shareholders, as there was no change in the year. ROCKWOOL A/S had one female member of the Board. ●

Risk management

Systems and processes

The Board of Directors is responsible for ensuring that the Group's risk exposure is consistent with the targeted risk profile and evaluates that appropriate awareness and management processes are in place. Managing the risk process is part of the Chief Financial Officer's area of responsibility and includes providing regular updates to the Audit Committee and Board of Directors.

All managing directors of our subsidiaries and Group functional heads must ensure that a risk review within their areas of responsibility is conducted at least once a year; and that risks are discussed, described, scored for severity and likelihood, and quantified in terms such as predicted financial impact.

Appropriate mitigating actions for identified risks are proposed by the company or Group function and studiously evaluated to ensure effective risk management at Group level. The Group has an Enterprise Risk Management (ERM) Committee, consisting of members from business area and Group functions. The committee is responsible for reviewing and updating the internal risk management framework and for implementing related processes.

Deep-dives into the Group's top risks are selected by the Audit Committee and presented by the risk owner for the Risk Committee, Group Management and finally to the Audit Committee and the Board. With these systems and processes, the Group identifies and mitigates, though cannot always eliminate, risks. The objective is to ensure that any residual risks are at an acceptable level.

Risks

IT security

Like all other companies, ROCKWOOL Group is exposed to potential breaches of our IT infrastructure.

With increased digitalisation of business processes, the Group is vulnerable to disruptions of operations and is increasingly engaged in the protection of data and intellectual property.

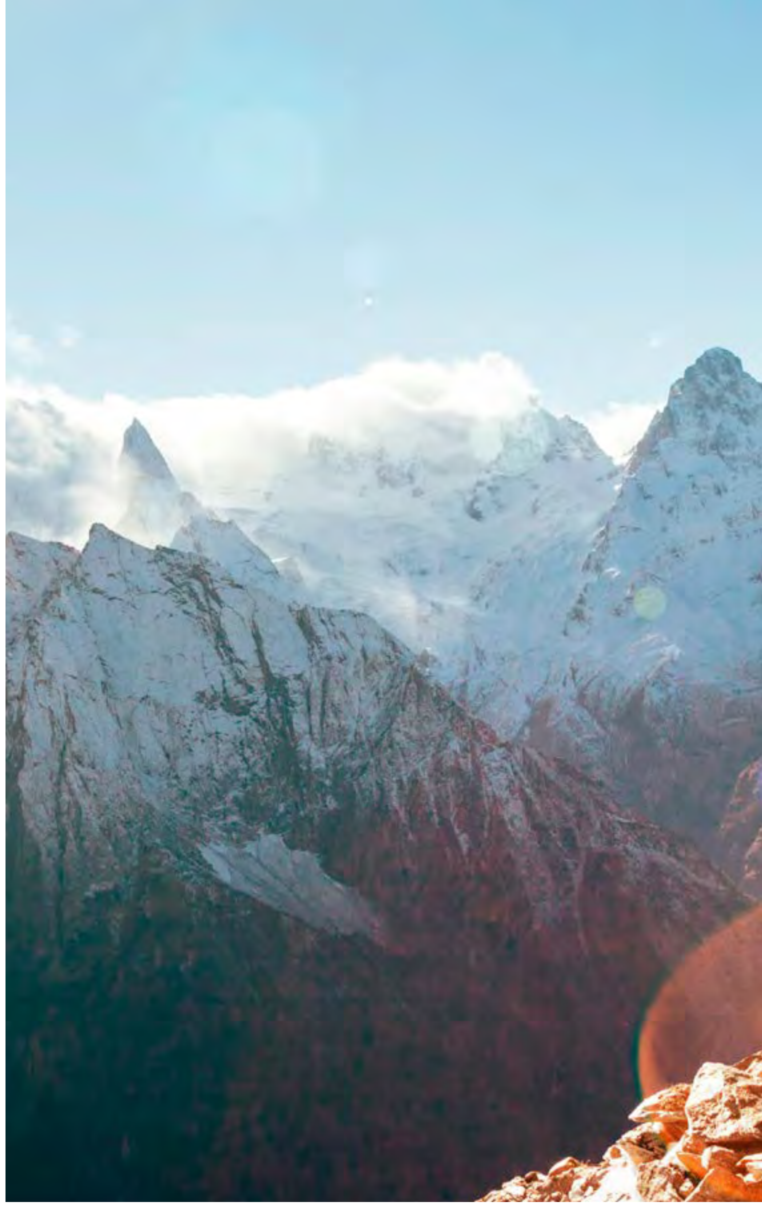
IT security has a high priority within the Group. Key objectives include preventing digital theft of intellectual property; limiting and quickly rectifying operational disruptions; and protecting the rights of external and internal data subjects. Also high on the IT security agenda is the protection of consumers against misinformation or misuse of ROCKWOOL brands.

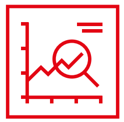
Finally, we strive to safeguard shareholders against value-destroying cyber-attacks on ROCKWOOL brands and products or on ROCKWOOL Group's and its partners' value-delivery systems.

Group IT focuses on mitigating risks based on our own assessments as well as external IT auditors' findings, and dedicated tests of specific IT areas done by external experts. Part of this mitigation includes heightening IT security, testing disaster-recovery plans and improving data flow and network activity monitoring.

Competition law compliance

Guided by our ethical values and Code of Conduct,





Managing risk is a natural part of doing business in the Group.

ROCKWOOL Group competes in a fair manner on prices, quality, customer service, innovative products and more. The Group is committed to complying with national and international competition and antitrust laws.

A variety of measures are continuously provided to relevant employees to equip them with sufficient knowledge to make business decisions in accordance with applicable competition and antitrust laws as well as internal policies.

Our compliance programme includes a competition law compliance manual, interactive training seminars, and internal audits. In 2019, training seminars were arranged worldwide based on training material prepared by Group Legal Affairs. Approximately 1,600 employees participated in this training.

New employees must complete an e-learning programme as part of the onboarding, with a dedicated content, including training and guidance on compliance. Existing employees will be offered new e-learning every second year.

Corruption and bribery
The ERM Committee has mapped the risk of fraud, corruption, and bribery as well as initiated mitigation measures related to high-risk countries. The mapping is based on inputs from local management and previous incidents, combined with public sources related to these risks. Mitigating measures in high-risk countries involve e-learning, face-to-face training, and an increased emphasis on the risk of fraud, corruption, and bribery.

Financial risks
As an international business, ROCKWOOL Group has exposure to typical financial risks related to currency and interest rate fluctuations, liquidity and credit risks. Please refer to note 4.2 for further information on these risks.

Corporate governance

Corporate governance at ROCKWOOL Group regulates the interaction among shareholders, the Board of Directors, and Group Management, with the aim to ensure optimal operational performance while at the same time securing an appropriate level of accountability and transparency of our business practices.

Organisation

The supervision and management of ROCKWOOL Group is divided among the Annual General Meeting (AGM) of shareholders, the Board of Directors (with well-defined committees), and Group Management.

The Annual General Meeting

The Annual General Meeting is the supreme body of the corporate governance structure and elects the Board of Directors as well as independent auditors. The Annual General Meeting approves any changes to the articles of association and to the capital structure, including any issuance of new shares. The company is not aware of shareholder agreements containing pre-emption rights or restrictions on voting rights. There is an agreement among members of the founding Kähler family to meet regularly to discuss their interests in the company, including items at AGMs, but there is no requirement for them to vote jointly.

The Board of Directors

The Board of Directors outlines the overall purpose and strategy of the company and ensures that the business development is on track toward agreed short- and long-term goals. The majority of the members of the Board of Directors are non-executive members in accordance with the Danish Companies Act.

The Board of Directors today consists of nine members. Six are elected by shareholders at the AGMs for a period of one year and may be re-elected. Of these, four members, including the chairman, are deemed independent per the Danish Recommendations on Corporate Governance. Three members are elected by employees, for a period of four years, pursuant to the Danish Companies Act. The next election is in 2022.

The Board of Directors conducts an annual evaluation facilitated by an external consultancy firm. Based on this year's evaluation, the Board concluded that its present composition is appropriate and sufficient for it to perform its tasks. As for the special competences of each Board member, reference is made to the CVs listed on the website, www.rockwoolgroup.com/about-us/people.

Group Management

The CEO, together with his Group Management team, is responsible for the day-to-day management, strategy execution and timely reporting to the Board of Directors. The team currently consists of nine executives, of which the CEO and CFO are the registered directors with the Danish Business Authority.

Board Chairmanship and Committees

Three substructures have been established by the Board of Directors.

The Chairmanship
The Board of Directors has established a Chairmanship consisting of the Chairman and the two Deputy Chairmen. They prepare the Board meetings and undertake several functions of a nomination committee.

Audit Committee
The Board of Directors has appointed an Audit Committee consisting of three members. The majority of its members are independent. The Audit Committee monitors accounting and audit policies plus conditions which, if determined by the Board of Directors or the Audit Committee, should be subject to thorough evaluation. Further, the Audit Committee evaluates internal control and risk systems.

Remuneration Committee
The Board of Directors has appointed a Remuneration Committee consisting of three of its members, the majority of whom are independent.

The Remuneration Committee ensures that ROCKWOOL Group maintains and that the Board of Directors adopts a Remuneration Policy concerning the remuneration of the company's Board of Directors and Registered Directors.

The remuneration policy and any material change thereto shall be submitted to the shareholders for approval at least every four years. A revised Remuneration Policy, which replaces the existing policy and guidelines for incentive-based remuneration, will be submitted for approval at the 2020 Annual General Meeting.

The Remuneration Committee:

- Evaluates and makes recommendations for the remuneration of the Board of Directors, which are subject to approval by the shareholders at the AGM.
- Is authorised by the Board of Directors to approve remuneration for Registered Directors and the rest of Group Management.
- Ensures that the company maintains Group-level variable pay schemes that support the business' success and value creation, short- and long-term.
- Prepares an annual Remuneration Report outlining the remuneration paid to the Board of Directors and Registered Directors.

As of the AGM in 2021, the Remuneration Report will be subject to a non-binding advisory vote from the shareholders.

Internal control

Control environment

ROCKWOOL Group considers strong internal control to be an essential management tool. The control environment in ROCKWOOL Group is based on clear guidelines and accountability and a continuous effort to maintain an appropriate control environment with due consideration of materiality and risk.

The entire structure of the Group is designed based on the Group's commercial activities with a clear segregation of management responsibilities.

All Group policies are approved by Group Management and assigned to one Group Management member overseeing implementation throughout the line organisation. Policies and manuals have been adopted within all essential areas of operation, legal compliance and financial reporting.

Control activities

Minimum requirements of internal controls are stipulated in ROCKWOOL Group Standards, based on the risks identified. The control activities include procedures for authorisation, approval, reconciliation and separation of functions. The control system includes both manual and automated controls.

The local management teams are responsible for ensuring that the control environment in each local entity is sufficient to meet local and Group requirements.

Information and communication

ROCKWOOL Group has established standardised information and reporting systems to identify, collect and communicate relevant information and reports on an ongoing basis and on all levels to facilitate an effective, reliable workflow. In addition, an in-depth business review is performed each quarter with participation of relevant members of Group Management.

The Group's position on risk management and changes in the reporting requirements is regularly communicated at financial meetings for the local finance directors, through the Group intranet and dialogue.

Monitoring

The internal control systems in relation to the presentation of financial statements are monitored at various levels e.g. monthly reports to Group Management on segments and markets and by regular control visits to the local entities. In addition, the Group's Integrity Committee consisting of the CEO, CFO, a member of Group Management, the Group General Counsel and Group Integrity Officer, monitor integrity compliance and launch appropriate new initiatives to constantly improve compliance. The Integrity Committee furthermore reports on integrity issues to the Audit Committee.

Recommendations

As a Danish listed company, we are guided by the recommendations issued by the Danish Committee on Corporate Governance. The company is generally in compliance with such recommendations but has, in four cases, chosen to differ as described below. The variations are generally due to company-specific views on the recommendations to optimise value for its shareholders.

The company complies with recommendation 3.1.5. The company's Board of Directors will, however, not exclude that a situation can arise, where the Board of Directors may wish to constitute itself with a former member of the company's management as Chairman or Deputy Chairman.

ROCKWOOL Group publishes its statutory report on Corporate Governance for the financial year 2019 cf. the Danish Financial Statements Act §107b on the company's website, including a detailed description of the Board of Directors' consideration regarding all the recommendations. The statutory report on Corporate Governance can be found at www.rockwoolgroup.com/about-us/corporate-governance/.

Exceptions

To a broad extent, the company is following the Committee on Corporate Governance's recommendations, except for the following four sub-recommendations, where the company has assessed that its present set-up is more appropriate:

3.1.3

Recommendation
The Committee recommends that the selection and nomination of candidates for the Board of Directors be carried out through a thoroughly transparent process approved by the overall Board of Directors.

Explanation
The Board of Directors has authorised the Chairmanship to nominate qualified candidates to the Board of Directors. The Board of Directors will then evaluate the candidates before it recommends them for election at the Annual General Meeting.

3.3.2

Recommendation
The Committee recommends that the management report includes information about the number of shares, options, warrants and similar in the company, and other Group companies, owned by each member of the Board of Directors, as well as changes in the portfolio of the member of the securities mentioned that have occurred during the financial year.

Explanation
The company considers the portfolio of shares, options warrants and similar in the company of each member of the Board of Directors to be a private matter, and it is the company's judgement that disclosure of such information will not add additional value for shareholders and other stakeholders. Board member remuneration does not include share-based elements.

3.4.6

Recommendation
The Committee recommends that the Board of Directors establish a nomination committee.

Explanation
The Board of Directors has not established a nomination committee. Instead, the Chairmanship performs duties recommended concerning the candidates for the Board of Directors.

The Board of Directors selects candidates to the positions as CEO and other Registered Directors based on their qualifications.

4.2.3

Recommendation
The Committee recommends that the company prepares a remuneration report that includes information on the total remuneration received by each member of the Board of Directors and the executive board from the company and other companies in the Group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.

Explanation
The remuneration of each member of the Group Management is seen to be a private matter and it is the company's judgement that disclosure of the remuneration paid to each individual member of Group Management will not add additional value for shareholders and other stakeholders.

The remuneration of the members of the Board of Directors and committees is available on p. 48 and our website.

Responsible tax

We acknowledge that tax is an important part of society and an equally important part of responsible corporate citizenship. Tax matters and risks as well as our tax policy are governed by the Board of Directors and discussed on a regular basis with the Audit Committee.

Tax matters are operationally managed and monitored by the CFO and the Group Tax department in close relationship with the financial management of ROCKWOOL Group subsidiaries.

The aim of our tax policy is to reflect and support our business by ensuring a sustainable tax rate, mitigating tax risks and complying with rules and regulations in the jurisdictions in which we operate.

In all tax matters, we apply the same values and integrity as in our general Code of Conduct by making sure that our primary focus is the ordinary operation of the Group. We only adopt tax positions that are defendable under full disclosure.

We are committed to being a responsible tax payer and avoid aggressive tax planning. We have a clear and transparent corporate structure with no contrived entities or structures.

There are many transactions among ROCKWOOL Group companies, and the transfer pricing policy for these transactions is driven by the activities undertaken and the value created in each part of our businesses. The key component in our profit allocation is our transfer pricing setup and methods in which we are committed to the principle of paying tax where value is created.

We acknowledge that international tax matters are increasingly complex and we are committed to assigning the necessary resources to ensure compliance with relevant tax laws and regulations.

ROCKWOOL Group is at the same time committed to being as transparent about its tax matters as can reasonably be expected and we pursue an open dialogue and relationship with tax authorities as a proactive approach to handle uncertainties.

For example, we have applied for bilateral advance pricing agreements between Denmark and four key countries and once these are established our ambition is to expand this to other key markets.

An advance pricing agreement is an up-front agreement between the tax authorities in two or more countries, covering the pricing methodologies for five tax years, thereby determining the level of taxable income for the countries in question. In addition to an open dialogue with tax authorities, we also participate and engage in tax matters through industry associations and other external bodies.

From time to time, ROCKWOOL Group is allocated different types of tax incentives. Tax incentives are government measures that are intended to influence business decision-making or to encourage businesses to invest by reducing the amount of tax they have to pay. Several of the territories in which we operate offer incentives of various kinds and we seek to use these incentives where they are aligned with our business and operational objectives. ●

Remuneration report

Remuneration of the Board of Directors and Group Management is based on the principles in our Remuneration Policy for the Board of Directors, Group Management and Senior Executives of ROCKWOOL International A/S and the separate General Guidelines for Incentive-Based Remuneration of Group Management of ROCKWOOL International A/S both approved at the Annual General Meeting on 6 April 2016. The guidelines are designed to ensure that remuneration for the target group is aligned to the company strategy and goals. In 2019, no revisions were made to the remuneration structures for executives.

Remuneration of the Board of Directors

Board members receive a fixed annual base fee as approved at the Annual General Meeting each year. Members of the Board of Directors are not offered pension arrangements or any type of incentive-based remuneration.

An increase in the fees for the Board of Directors was approved at the Annual General Meeting in April 2019. The purpose of the increase was to align the remuneration of the board members with other Danish LargeCap companies. The previous update of the Board fees was approved at the Annual General Meeting in 2016.

Annual Board fees (DKK)	2019
Chairman	1,080,000
Deputy Chairmen	720,000
Other members	360,000
Supplement for Audit Committee Chairman	300,000
Supplement for Audit Committee members	180,000
Supplement for Remuneration Committee members	90,000

Remuneration of Group Management

The remuneration package of Group Management includes base salary; variable pay in the form of short-term incentive schemes (annual bonus) and long-term incentive schemes (stock options or restricted share units); pension and other benefits, such as company car, free phone and internet.

The short-term variable part of the total remuneration (annual cash bonus) is dependent on achievement of financial targets for the Group as well as the relevant business area for Group Management members with profit and loss responsibility.

The long-term variable part of the total remuneration (stock options/restricted share units) is dependent on continuous service to the company.

The variable annual bonus can give up to maximum 40 percent of the base salary for all Group Management members. The long-term incentive programme is set to 20 percent of the base salary for Group Management, 30 percent for the CEO. Both vehicles are subject to a clawback in cases where an incentive payout was made based on data which proved to be materially inaccurate.

Share-based payments

On 8 April 2019, the Restricted Share Units (RSUs) granted in April 2016 vested. At the time of vesting, the share price was DKK 1,566.

In 2019, a Restricted Share Unit allocation with a total fair value of EUR 2.3 million was granted after approval by the Board of Directors in accordance with the General Guidelines for Incentive-Based Remuneration of Group Management of ROCKWOOL International A/S. Similar to previous years, the RSUs were allocated to a group of 68 employees in leading positions including Group Management and are subject to a vesting period of three years. After the vesting period the shares are transferred to the participants, subject to continued employment with the ROCKWOOL Group in the vesting period.

Value of RSU grant in 2019

(EUR)	At grant date* Value per share	At grant date* Total value (EURm)	At year-end Value per share	At year-end Total value (EURm)
Group Management	213	1.0	212	1.0
Registered Directors	213	0.5	212	0.5

*) The value at grant date is equal to the share price of the ROCKWOOL B share at the date of grant adjusted for expected dividend.

Other terms and conditions

The terms and conditions in the employment contracts for Group Management are considered common practice for Danish listed companies with regards to terms of pension, insurances, notice and non-competition. The non-Danish Group Management members' terms and conditions are considered common practice for executives in the relevant countries.

The aggregate notice period and severance pay for the Registered Directors do not exceed 24 months. No early retirement or other special pension schemes are in place for the Registered Directors. ●

Aggregate remuneration — Group Management*

EURm	2019	Change to last year	2018	Change to last year	2017
Salaries	4.4	2%	4.3	4%	4.2
Annual bonus	1.5	7%	1.4	17%	1.2
Annual granted RSUs (value at year-end)	1.0	11%	0.9	-30%	1.2
Pension	0.6	0%	0.6	8%	0.6
Social security and other benefits	0.3	-9%	0.4	-15%	0.4
Total remuneration	**7.8**	**3%**	**7.6**	**-1%**	**7.6**

* For an overview of Group Management members please refer to p. 55.

Aggregate remuneration — Registered Directors**

EURm	2019	Change to last year	2018	Change to last year	2017
Salaries	1.9	5%	1.8	6%	1.7
Annual bonus	0.7	6%	0.7	31%	0.5
Annual granted RSUs (value at year-end)	0.5	12%	0.4	-28%	0.6
Pension	0.2	5%	0.2	7%	0.2
Social security and other benefits	0	-2%	0	-1%	0
Total remuneration	**3.3**	**6%**	**3.1**	**4%**	**3.0**

** Registered Directors in ROCKWOOL International A/S are the CEO and CFO.

The year in pictures

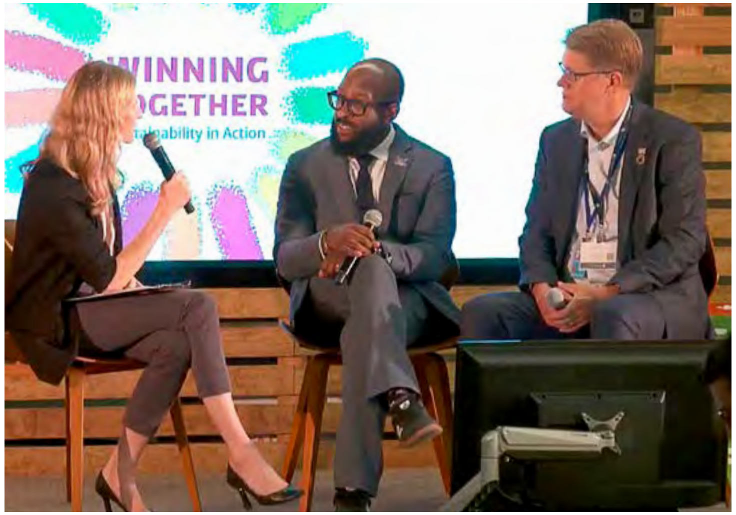
ROCKWOOL sponsors Denmark's entry into SailGP 2020
(L-R: Sir Russell Coutts, Jonas Høgh-Christensen, Nicolai Sehested, Jens Birgersson)

Norway's PM visits **next generation factory in Moss, Norway**

Grodan team launches **e-Gro**, software platform for growers

Talking sustainability at New York Climate Week

CEO Jens Birgersson with Mark Chambers, Director, Mayor's Office of Sustainability, New York.



Solid progress:
New factory in Ranson, West Virginia

Winning the "Business Climate Prize" at the ZERO Conference in Norway

Celebrating the expansion of our factory in Malkinia, Poland

Launch of the award-winning
7 Strengths of Stone video series

Newest factory and members of the ROCKWOOL family in, Ploiesti, Romania

Board of Directors

Board of Directors (from L to R): Søren Kähler, René Binder Rasmussen, Connie Enghus Theisen, Carsten Bjerg, Henrik Brandt, Christian Westerberg, Andreas Ronken, Thomas Kähler, Jørgen Tang-Jensen.

Henrik Brandt
Chairman
Elected to the Board: 2017

Other positions related to the company
Member of the Chairmanship, Chairman of the Remuneration Committee.

Positions in other Danish companies
Chairman of the Boards of Toms Gruppen A/S, Intervare A/S (nemlig.com A/S), Danish Bake Holding ApS ("Ole & Steen") and Fritz Hansen A/S.
Vice Chairman of the Board of Scandinavian Tobacco Group A/S*. Member of the Board of Gerda and Victor B. Strands Fond.

Other positions
Member of the Board of Ferd Holding AS, Norway.

Henrik Brandt participated in all Board and Remuneration Committee meetings during 2019.

Carsten Bjerg
First Deputy Chairman
Elected to the Board: 2011

Other positions related to the company
Member of the Chairmanship, Chairman of the Audit Committee, Member of the Remuneration Committee.

Positions in other Danish companies
Chairman of the Boards of Hydrema Holding ApS, Arminox Investment A/S (and one fully owned subsidiary), Bjerringbro-Silkeborg Håndbold A/S, Bogballe Investment A/S (and one fully owned subsidiary), Ellegaard Investment I ApS (and one fully owned subsidiary), CapHold Guldager ApS (and one fully owned subsidiary), Robco Engineering Investment A/S (and one fully owned subsidiary), and PCH Investment A/S.

Member of the Boards of Vestas Wind Systems A/S*, Agrometer Investment A/S (and three fully owned subsidiaries), TCM Group A/S* (and one fully owned subsidiary).

Carsten Bjerg participated in all Board, Audit and Remuneration Committee meetings during 2019.

Søren Kähler
Second Deputy Chairman
Elected to the Board: 2013

Other positions related to the company
Member of the Chairmanship, Member of the Remuneration Committee, Member of the Audit Committee, Member of the Board of the ROCKWOOL Foundation, Member of the Kähler Family Meeting.

Positions in other Danish companies
Chairman of the Board of A/S Saltbækvig.

Other positions
Member of the Board of the Foundation Sagnlandet Lejre.

Søren Kähler participated in all Board, Audit and Remuneration Committee meetings during 2019.

Thomas Kähler
Senior Vice President, Head of Systems Division, ROCKWOOL International A/S
Elected to the Board: 2008

Other positions related to the company
Member of Group Management, and Senior Vice President, Head of Systems Division, Member of the Kähler Family Meeting.

Other positions
Member of the Advisory Board of Kraka, Denmark.

Thomas Kähler participated in all Board meetings during 2019.

Andreas Ronken
CEO of Alfred Ritter GmbH & Co. KG
Elected to the Board: 2016

Other positions
Member of Advisory Board of Melitta Group GmbH & KG, Minden, Germany.

Andreas Ronken participated in all but one Board meeting during 2019.

Jørgen Tang-Jensen
Elected to the Board: 2017

Other positions related to the company
Member of the Audit Committee.

Positions in other Danish companies
Member of the Boards of Coloplast A/S*, VKR Holding A/S, VILLUM FONDEN and Maj Invest Holding A/S (and two fully owned subsidiaries).

Jørgen Tang-Jensen participated in all but one Board and Audit Committee meetings during 2019.

René Binder Rasmussen
District Manager, ROCKWOOL Nordics
Elected to the Board: 2018

René Binder Rasmussen participated in all Board meetings during 2019.

Connie Enghus Theisen
Director Stakeholder Engagement, ROCKWOOL International A/S
Elected to the Board: 2006

Other positions
Member of the Advisory Committee of AktivPLUS, Germany.

Connie Enghus Theisen participated in all Board meetings during 2019.

Christian Westerberg
Design Manager, ROCKWOOL International A/S
Elected to the Board: 2018

Other positions related to the company
Member of the Board of the ROCKWOOL Foundation.

Christian Westerberg participated in all Board meetings during 2019.

* Listed companies

For further information about independence and competencies of the board members, please refer to www.rockwoolgroup.com.

Group Management

Group Management (from L to R): Jens Birgersson, Henrik Frank Nielsen, Volker Christmann, Kim Junge Andersen, Camilla Grönholm, Gilles Maria, Mirella Vitale, Thomas Kähler, Bjørn Rici Andersen.

Jens Birgersson
President and Chief Executive Officer (CEO)

Member of the Registered Directors (in Danish: Direktionen).

Member of Group Management: 2015

Other positions
Chairman of the Board of Randers Reb International A/S, Denmark and member of the Board of dormakaba Group, Switzerland.

Kim Junge Andersen
Senior Vice President, Chief Financial Officer (CFO)

Member of the Registered Directors (in Danish: Direktionen).

Member of Group Management: 2016

Other positions
Member of the Board of FORCE Technology, Denmark.

Bjørn Rici Andersen
Senior Vice President, Group Operations & Technology

Member of Group Management: 2018

Volker Christmann
Senior Vice President, Head of Insulation Central Europe

Member of Group Management: 2015

Other positions related to the company
Member of the Board of the ROCKWOOL Foundation.

Other positions
Vice President, FMI Fachverband Mineralwolleindustrie e.V., Germany (association of mineral wool industry). Member of the Board of FIW Forschungsinstitut für Wärmeschutz, Germany (research institute for thermal protection). Vice President of BUVEG Bundesverband energieeffiziente Gebäudehülle e.V., Germany (federal association of energy-efficient building envelope). Member of the Board of H+H International A/S, Denmark.

Camilla Grönholm
Senior Vice President, Group Human Resources

Member of Group Management: 2012

Thomas Kähler
Senior Vice President, Head of Systems Division

Member of Group Management: 2015

Other positions related to the company
Member of the Board of Directors and the Kähler Family Meeting.

Other positions
Member of the Advisory Board of Kraka, Denmark.

Gilles Maria
Senior Vice President, Head of Insulation South West Europe and Insulation Asia

Member of Group Management: 2007

Henrik Frank Nielsen
Senior Vice President, Head of Insulation North East Europe & Russia

Member of Group Management: 2007

Other positions
Chairman of the Board of Betterhome ApS, Denmark.

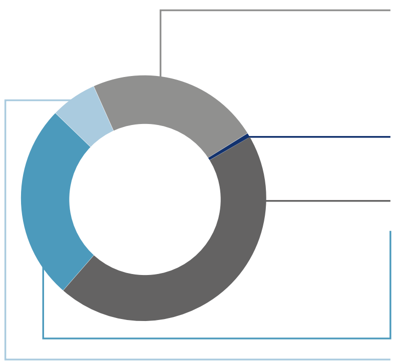
Mirella Vitale
Senior Vice President, Group Marketing, Communications and Public Affairs

Member of Group Management: 2016

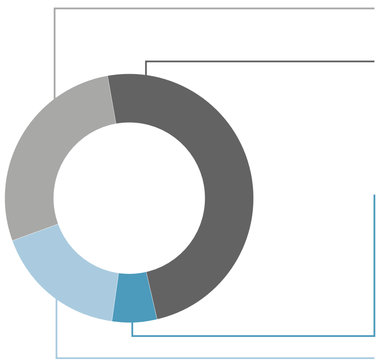
Other positions
Member of the Board, CLEAN.

Shareholder information

Ownership per shareholder category (%)



Votes per shareholder category (%)



ROCKWOOL shares

ROCKWOOL International A/S is listed on NASDAQ Copenhagen in two share classes; ROCKWOOL A and ROCKWOOL B. Each A share carries 10 votes, while each B share carries one vote.

Both the A and B shares are included in the NASDAQ OMX Large Cap and the B share is a part of NASDAQ OMX C25. In addition to NASDAQ Copenhagen, the company's shares are traded on several other equity exchanges, e.g. Bats, Turquoise and CHI-X.

In 2019, the ROCKWOOL B share price decreased by seven percent. The ROCKWOOL A share increased by one percent.

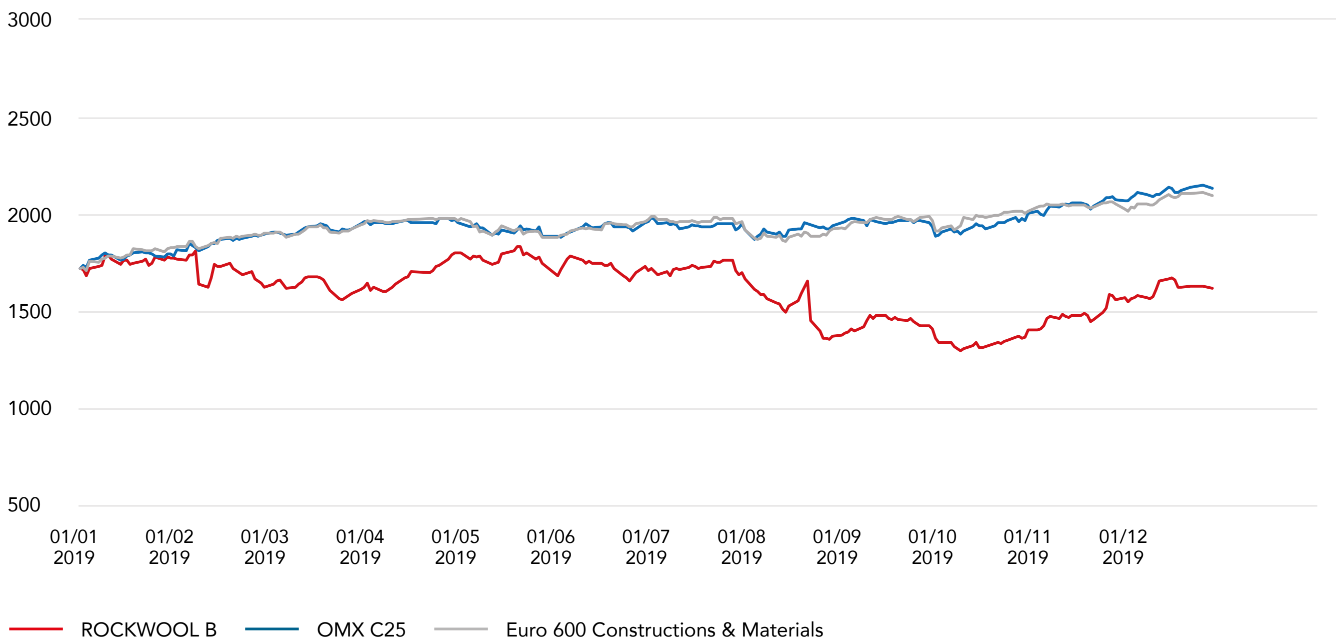
Trading of shares

By the end of 2019, both shares had decreased in price by an average of three percent, compared to the end of 2018. That compares with a 23 percent increase in the benchmark index 'STOXX® Europe 600 Construction & Materials' and a 26 percent increase in the Danish OMX C25 index during 2019.

The official share price at 31 December 2019 was DKK 1,585 (B-share) and 1,439 (A-share). The combined market capitalisation at the end of the year was DKK 33,072 million.

Share price development 2019

(DKK)



Distribution

It is ROCKWOOL International A/S's policy to pay out a stable dividend that is at least one-third of the net profit after tax. The intention is that the net debt should be maximum of one time the EBITDA, with due regard to the company's long-term financing requirements.

After assessing the outlook for the economic cycle, investment plans, and structural business opportunities, and considering the dividend policy, the company can further decide to initiate share buy-backs to adjust the capital structure.

At the Annual General Meeting on 1 April 2020, the Board of Directors will propose a dividend of DKK 32.00 per share for the financial year 2019 (2018: DKK 29.90). This is equal to one-third of the net profit after tax for 2019, and will be paid out in DKK. The dividend payment occurs three banking days after the Annual General Meeting.

Further, the company will on 6 February 2020 initiate a share buy-back programme up to an amount of EUR 80 million, to be completed within the following 12 months, remaining within the authority granted by the Annual General Meeting to purchase up to 10 percent of the shares and assuming that this mandate will be extended at the Annual General Meeting on 1 April 2020. The shares will be purchased in accordance with the Safe Harbour Regulation and will cover both A-shares and B-shares. At the Annual General Meeting in 2021, the Board of Directors will propose that the shares purchased under this programme be cancelled.

	2019	2019	2018	2017	2016	2015
	(EUR)	DKK	DKK	DKK	DKK	DKK
Stock market information						
Earnings per share	13	97	91	73	57	31
Dividend per share	4.3	32.0	29.9	24.1	18.8	11.5
Cash flow per share	18	136	140	114	112	103
Book value per share	96	720	638	569	518	463
Share capital (million)	29	220	220	220	220	220
Price per A share	193	1,439	1,430	1,594	1,192	944
Price per B share	212	1,585	1,697	1,752	1,247	963
Market cap (million)	4,426	33,072	34,168	36,367	26,449	20,580
Number of own shares	72,894	72,894	75,865	206,840	275,855	391,835
Number of A shares of DKK 10 (10 votes)	11,231,627	11,231,627	11,231,627	11,231,627	11,231,627	11,231,627
Number of B shares of DKK 10 (1 vote)	10,743,296	10,743,296	10,743,296	10,743,296	10,743,296	10,743,296

This share buy-back programme is in addition to the company's regular share purchase to cover for the Restricted Share Unit incentive scheme for Group Management and senior executives.

Ownership

The company had 24,520 registered shareholders on 31 December 2019. By the end of 2019, 18 percent of the shares were owned by shareholder deposits located outside Denmark. In terms of voting capital, six percent was located outside Denmark. See p. 56 for an overview of ownership.

Share data at a glance

Share class	**A**	**B**
Index	OMX Large Cap	OMX C25/Large Cap
Sector	Building materials	Building materials
ISIN code	DK0010219070	DK0010219153
Short code	ROCK A	ROCK B
Nominal size	DKK10	DKK10
Number of shares	11,231,627	10,743,296
Voting rights per share	10	1
Share price year-end	DKK 1,439	DKK 1,585
Proposed dividend per share	DKK 32.00	DKK 32.00
Payout ratio of net profit after tax	33%	33%

Financial Calendar 2020

5 February
Annual Report for 2019

1 April
Annual General Meeting

13 May
Report on the first quarter of 2020

20 August
Report on the first half-year of 2020

25 November
Report on the first nine months of 2020

Investor Relations activities

As a listed company, ROCKWOOL International A/S has a defined policy for its activities related to ROCKWOOL shares. The aim is to:

- Ensure that the capital market has an accurate picture of the earnings potential of ROCKWOOL shares by communicating relevant, correct, balanced, and timely information;
- Ensure that the company complies with all relevant rules and regulations as laid out in the NASDAQ Copenhagen Rules for issuers of shares, as well as applicable Danish legislation for publicly-listed companies;
- Ensure fair and transparent rules for the trading of ROCKWOOL shares by the company itself and by persons considered to be 'insiders';
- Communicate ROCKWOOL Group values so the capital market perception is of an honest, accessible, reliable, and responsible company;
- Maintain broad coverage by both domestic and foreign equity analysts;
- Remain committed to being knowledgeable, responsive and proactive in our investor communication to maintain a fair balance between expectations and performance.

Shareholders can communicate with and receive information from ROCKWOOL International A/S through various channels:

- The shareholder portal where one can view shareholdings; register or change whether one wishes to receive the invitation to the Annual General Meeting electronically or by letter; order admission cards to the Annual General Meeting;
- The Annual General Meeting;
- Financial communication, such as investor audio casts, presentations and stock exchange releases;
- Regular environment, social and corporate governance (ESG) conference calls.

Our website provides general information on ROCKWOOL Group, the performance of ROCKWOOL Group shares, news from the company, financial calendar and much more. A free service allows subscribers to receive instant e-mail alerts when the company publishes new information.

Announcements to NASDAQ Copenhagen in 2019 can be found on: www.rockwoolgroup.com/investors/stock-exchange-announcements/.

The Investor Relations team can be contacted at: investor@rockwool.com.

For a list of shareholders holding more than five percent of the share capital or the votes, please refer to p. 129.

Investment banks following the ROCKWOOL shares:

ABG Sundal Collier
Barclays
Carnegie
Danske Equities
Exane BNP Paribas
Handelsbanken
HSBC
Jyske Markets
Morgan Stanley
Nordea
SEB
Sydbank

Analysts' contact details, recommendations and consensus can be found on the investor website: www.rockwoolgroup.com/investors/.

Annual General Meeting

The upcoming Annual General Meeting will take place on 1 April 2020 and is hosted in Roskilde, Denmark. The meeting can be followed live on our website or viewed after the meeting has taken place.

The agenda will be distributed 3-5 weeks prior to the meeting to shareholders who have registered their choice of either electronic or printed communication at our shareholder portal. The agenda will be published on our website.

The agenda will include:

1. The Board of Directors' report on the company's activities during the past financial year;
2. Presentation of the Annual Report 2019 with the auditors' report;
3. Adoption of the Annual Report and discharge of liability for Group Management and the Board of Directors;
4. Approval of Board of Directors' remuneration;
5. Allocation of profits or cover of losses according to the adopted accounts;
6. Election of members to the Board of Directors;
7. Appointment of auditors;
8. Proposals, if any, by the Board of Directors or shareholders.

Shares must be registered by name in order to vote. Shareholders can submit proposals to the Board of Directors for the agenda six weeks prior to the general meeting. ●

Financial performance

Sales growth of 2.2 percent in a volatile market with strong profitability achieving an EBIT margin of 13.5 percent. Especially Systems segment showed strong performance in 2019.

Group performance

In 2019, ROCKWOOL Group was faced with continued mixed market conditions across countries and businesses. Overall, positive market conditions were seen in the construction sector although global growth flattened. Both residential and non-residential segments in the construction market were affected, especially in the German and Eastern European markets. In contrast, infrastructure and renovation markets showed stronger growth supported by energy efficiency initiatives that increased demand for our non-combustible insulation products.

Net sales reached EUR 2,757 million, a growth of 2.2 percent in local currencies, which is in line with the latest announced expectation. Foreign exchange rates had a positive impact of 1.0 percentage point on net sales, primarily due to the U.S. dollar and Russian rouble, resulting in sales growth of 3.2 percent in reported figures for 2019.

The year started with higher sales growth within the Insulation segment in Western Europe and in Systems segment, but in the latter part of the year, market conditions in the Insulation segment weakened especially in Germany, Asia and Eastern Europe except Russia.

As sales slowed down after first quarter, we aligned capacity at our factories to match the slower market demand and thereby preserved or even improved productivity at our factories.

Sales price development, product mix and lately input costs on raw materials were favourable in 2019, while inflation on logistic costs remained high. Due to high pressure on the factories last year, 2019 was a year with increased maintenance activities.

Compared to the outlook announced in the Annual Report 2018, sales growth slowed down more than expected, while the earnings level exceeded expectations due to factors explained above.

Regional sales development

Sales in Western Europe reached EUR 1,659 million, an increase of 4.5 percent in local currencies and 4.6 percent in reported figures. We achieved growth in many key markets, where especially the United Kingdom and France performed well due to increased demand for non-combustible insulation products and energy efficiency incentives driving an increase in renovation while net sales in Germany declined from a record high level in 2018.

Sales in Eastern Europe reached EUR 494 million, down 4.9 percent in local currencies and 3.8 percent in reported figures. Russia performed well but sales in most of the other countries in the region decreased due to slow down in the industrial segment and increased competition in several markets in the region.

In the rest of the world, sales reached EUR 604 million, a growth of 2.2 percent in local currencies, while reported growth was 5.6 percent due to positive currency impact from the U.S. dollar. North America performed well, while key markets in Asia declined mainly due to general economic circumstances in the region and thereby fewer projects.

Group profitability

In 2019, sales price increases were introduced in markets where business demands and conditions allowed this. The sales price increases counterbalanced the negative impact from the increase in input and logistic costs including higher costs for warehouses during 2019. In Q4, we saw a positive effect from lower input costs on raw materials.

Net sales development

	Growth	EURm
Net sales 2018		2,671
Growth in local currencies	2.2%	59
Currency translation adjustment	1.0%	27
Net sales 2019	**3.2%**	**2,757**

EBIT development

	Growth	EURm	Margin
EBIT 2018		341	12.8%
Increased earnings from operations	7.6%	25	0.7%
Currency translation adjustment	1.5%	6	-
EBIT 2019	**9.1%**	**372**	**13.5%**

Strong profitability due to pricing acumen and factory performance

Operational efficiency improved as we continued prioritisation of cost savings activities during the year. This entailed a focus on driving efficiency, while still investing in new competencies, digitalisation and growth initiatives, which helped to deliver improved profitability for the Group.

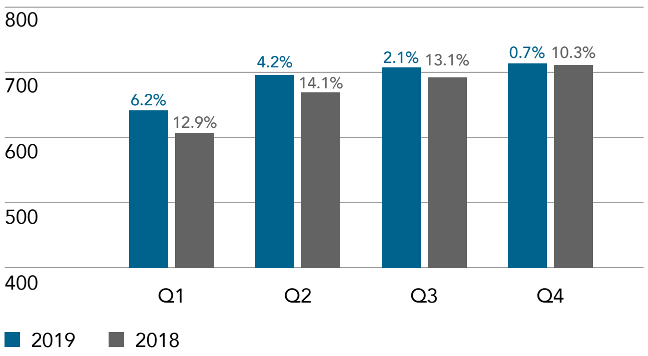
Compared to 2018, Group profitability was negatively impacted by pre-start-up costs for the new factories in Germany, Romania and the United States amounting to around EUR 12 million.

EBITDA increased eight percent to EUR 548 million with an EBITDA margin of 19.9 percent, an improvement compared to 2018 of 0.9 percentage points. EBITDA was positively impacted by a settlement of a legal case in Rockfon North America of EUR 10 million in April 2019 and by the accounting reclassification from the new IFRS 16 lease standard of EUR 18 million. Like-for-like, the EBITDA margin decreased 0.2 percentage points primarily due to the pre-start-up costs.

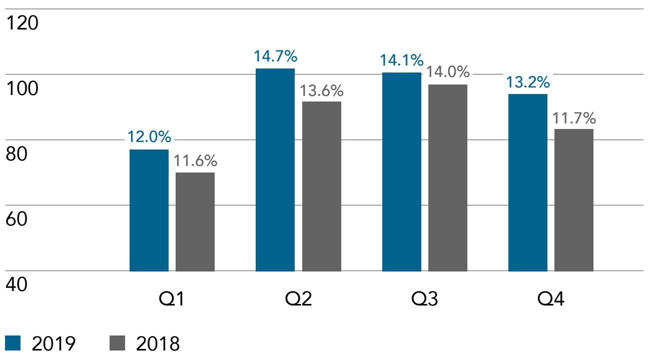
In 2019 depreciation amounted to EUR 176 million, an increase of EUR 10 million compared 2018 due to investments in new capacity and digital solutions and the reclassification of lease costs from IFRS 16.

EBIT improved significantly and reached a high of EUR 372 million, resulting in an EBIT margin of 13.5 percent. This was in line with the trend during the year and at the top of the latest guidance, however with an improved impact from lower inflation on input costs.

Quarterly sales & sales growth (reported)
(EURm)



EBIT & EBIT margin
(EURm)



Compared to the outlook announced in February 2019, EBIT margin ended better due to fewer operational constraints, pricing improvements and the settlement of a legal case in Rockfon North America of EUR 10 million.

Net financial costs amounted to EUR 5 million, a decrease of EUR 2 million compared to 2018. The decrease is mainly related to unrealised currency fluctuations and less impact from changes in fair value of phantom shares. During 2019, the level of borrowing and interest costs stayed low as the Group remained cash positive.

Tax for the year amounted to EUR 82 million compared to EUR 70 million in 2018. The effective tax rate increased to 22.4 percent (2018: 21.0 percent) mainly due to higher withholding taxes on dividends and lower adjustments to tax assets.

Profit after tax for the Group totalled EUR 285 million, an improvement of EUR 20 million and is considered a satisfactory result for the year.

Profit after tax in the parent company totalled EUR 274 million, a decrease of EUR 13 million mainly due to higher tax for the year.

Cash flow and investments

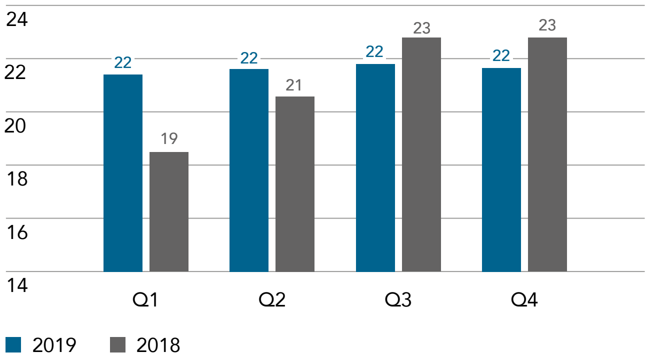
At the end of 2019, the Group had a net cash positive position, amounting to EUR 269 million, down EUR 111 million as higher investments consumed more cash in 2019. In addition, the Group had unused committed credit facilities of EUR 428 million by year-end.

Cash flow from operating activities was EUR 402 million against EUR 408 million in 2018, showing a stable inflow of cash from the operation. The cash flow was positively impacted by higher operating profit while the negative change in net working capital was higher compared to 2018. The tax payments increased significantly due to increased withholding tax payments and an overall improved earnings structure.

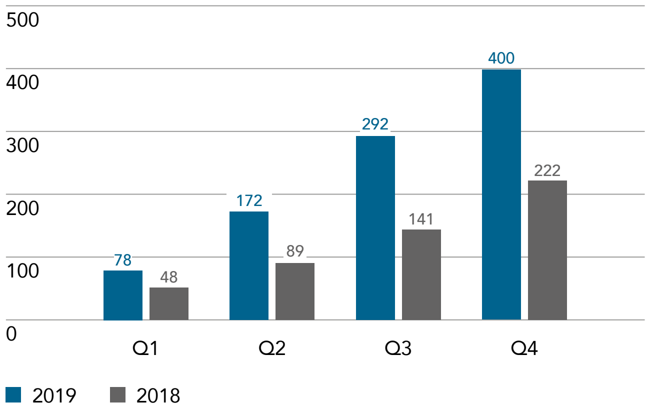
Net working capital over annualised net sales was 9.0 percent, a increase of 1.6 percentage points from 2018 (7.4 percent). Net working capital amounted to EUR 247 million compared to EUR 198 million in 2018. The increase mainly stems from a lower level of payables from reduced production activity over the holiday period and timing in payments, which more than offset the positive impact from inventory and trade receivables.

Capital expenditure reached EUR 400 million in line with our latest expectation, which is an increase of EUR 178 million compared to 2018 excluding acquisitions and the sale of listed securities in Flumroc amounting to EUR 18 million in 2018. 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. The new Romanian factory is now operational and running as expected.

Return on invested capital (ROIC)
(%)



Acc. investments excl. acquisitions
(EURm)



Free cash flow amounted to EUR 2 million, a decrease of EUR 194 million compared to 2018, primarily due to higher investments and higher tax payments.

Cash flow from financing activities ended at negative EUR 120 million, an increased negative impact of EUR 66 million, stemming from increased dividends, a low level of sale of own shares and the new lease instalments from IFRS 16.

Invested capital

Return on invested capital decreased slightly in 2019, mainly due to higher investments and right-of-use assets from the new IFRS 16 lease standard, reaching 21.7 percent compared to 22.8 percent in 2018. Invested capital amounted to EUR 1,889 million compared to EUR 1,542 million in 2018.

At the end of 2019, total assets were EUR 2,694 million, an increase of EUR 263 million compared to 2018.

Equity

Equity of the Group totalled EUR 2,118 million as of 31 December 2019 compared to EUR 1,877 million in 2018, corresponding to an equity ratio of 78 percent. Equity was mainly affected by the profit for the year, dividend and exchange rate adjustments.

The proposed dividend for 2019 is DKK 32.00 per share, up DKK 2.10 per share compared to 2018.

Business segments

Sales in the Insulation segment reached EUR 2,077 million, which is a slight decrease of 0.3 percent in local currencies but an increase of 0.6 percent in reported currencies. The sales decrease came from the building insulation business in Eastern Europe and Asia and was partly offset by an increase in Western Europe and the sandwich panel business.

The Insulation segment's EBIT reached EUR 269 million with an EBIT margin of 11.3 percent, stable compared to 2018 as operational efficiency compensated the pre-start-up costs for the new factories in Germany, Romania and the United States.

The Systems segment's sales amounted to EUR 680 million, which is an increase of 10.5 percent in local currencies and 12.1 percent in reported figures. The growth was driven by all business areas within Systems segment, and especially Grodan performed well.

The Systems segment generated an EBIT of EUR 103 million with an EBIT margin of 15.1 percent, up 2.7 percentage points compared to 2018. Excluding the positive impact from the Rockfon North America legal case settlement, EBIT margin was 13.7 percent, up 1.3 percentage points, with all business units contributing positively. ●

Key figures Insulation segment

EURm	Q4 2019	Q4 2018	FY 2019	FY 2018
External net sales	517	529	2,077	2,065
EBIT	70	63	269	266
EBIT margin	11.5%	10.4%	11.3%	11.5%

Key figures Systems segment

EURm	Q4 2019	Q4 2018	FY 2019	FY 2018
External net sales	198	180	680	606
EBIT	24	20	103	75
EBIT margin	12.0%	11.1%	15.1%	12.4%

Quarterly follow-up

Global sales development

In Q4 2019, ROCKWOOL Group generated sales of EUR 715 million, a decrease of 0.6 percent in local currencies compared to Q4 2018. Foreign exchange rates had a positive impact of 1.3 percentage points, mainly derived from the strengthened Russian rouble, British pound and Canadian dollar. This brings the sales growth to 0.7 percent in reported figures.

Increase in sales prices across the businesses had together with product mix a positive impact on growth during the quarter. The general market development in the Insulation segment was difficult with mixed market conditions across countries and businesses. Systems segment ended the year with record high sales and profit.

Regional sales development

Western Europe saw growth of 0.2 percent in local currencies in Q4 2019 compared to Q4 2018, as net sales in the quarter ended at EUR 422 million. The German market was under pressure with a general slow down in the economy. We continued strong performance in France and the United Kingdom driven by focus on energy efficiency and fire safety.

In Q4 2019, net sales in Eastern Europe decreased to EUR 131 million, a decrease of 8.2 percent in local currencies, while reported figures decreased 5.3 percent compared to Q4 2018. Most countries in the region, except Russia, decreased caused by a lack of large industrial projects.

Sales in North America, Asia and other countries reached EUR 162 million in Q4 2019, equal to a growth of 4.5 percent in local currencies compared to Q4 2018. In reported figures, sales in Q4 2019 grew 7.2 percent. Net sales in North America was moderate in the Insulation segment, while Systems segment performed very well in the quarter.

	2019				2018			
EURm	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Income statement								
Net sales	641	695	706	715	603	667	692	709
Operating income	644	705	707	717	605	667	693	717
Raw material and production material costs	203	238	240	248	198	223	237	251
Delivery costs and indirect costs	92	100	95	94	82	95	98	110
Other external costs	61	52	55	50	57	56	59	60
Personnel costs	168	171	175	183	156	161	161	171
Operating costs	524	561	565	575	493	535	555	592
EBITDA	120	144	142	142	112	132	138	125
Depreciation, amortisation and write-downs	43	42	43	48	42	41	41	42
EBIT	77	102	99	94	70	91	97	83
Income from investments in associated companies	0	0	0	0	0	0	0	1
Financial items	-4	-2	-2	3	-1	-5	-2	1
Profit before tax	73	100	97	97	69	86	95	85
Tax on profit for the period	16	21	20	25	15	17	19	19
Profit for the period	**57**	**79**	**77**	**72**	**54**	**69**	**76**	**66**
EBITDA margin	18.8%	20.7%	20.1%	19.9%	18.6%	19.9%	19.8%	17.6%
EBIT margin	12.0%	14.7%	14.1%	13.2%	11.6%	13.6%	14.0%	11.7%
Statement of comprehensive income								
Profit for the period	57	79	77	72	54	69	76	66
Exchange rate adjustments of foreign subsidiaries	35	-1	20	-1	-16	3	2	-11
Change in pension obligation	-	-	-	-10	-	-	-	1
Hedging instruments, value adjustments	0	0	0	-3	1	1	0	-2
Tax on comprehensive income	0	0	0	4	0	0	0	1
Total comprehensive income	**92**	**78**	**97**	**62**	**39**	**73**	**78**	**55**

Quarterly follow-up

Group profitability

EBITDA in Q4 2019 reached EUR 142 million, a growth of 13.6 percent with an EBITDA margin of 19.9 percent compared to 17.6 percent in Q4 2018. The improvement was mainly driven by higher sales prices, lower input costs and higher growth in Systems segment.

EBIT in Q4 2019 reached EUR 94 million, a growth of 12.9 percent compared to Q4 2018. EBIT margin ended at 13.2 percent, 1.5 percentage points above Q4 2018. We maintained close attention to market conditions, adjusting capacity as needed to sustain good productivity.

Business segments

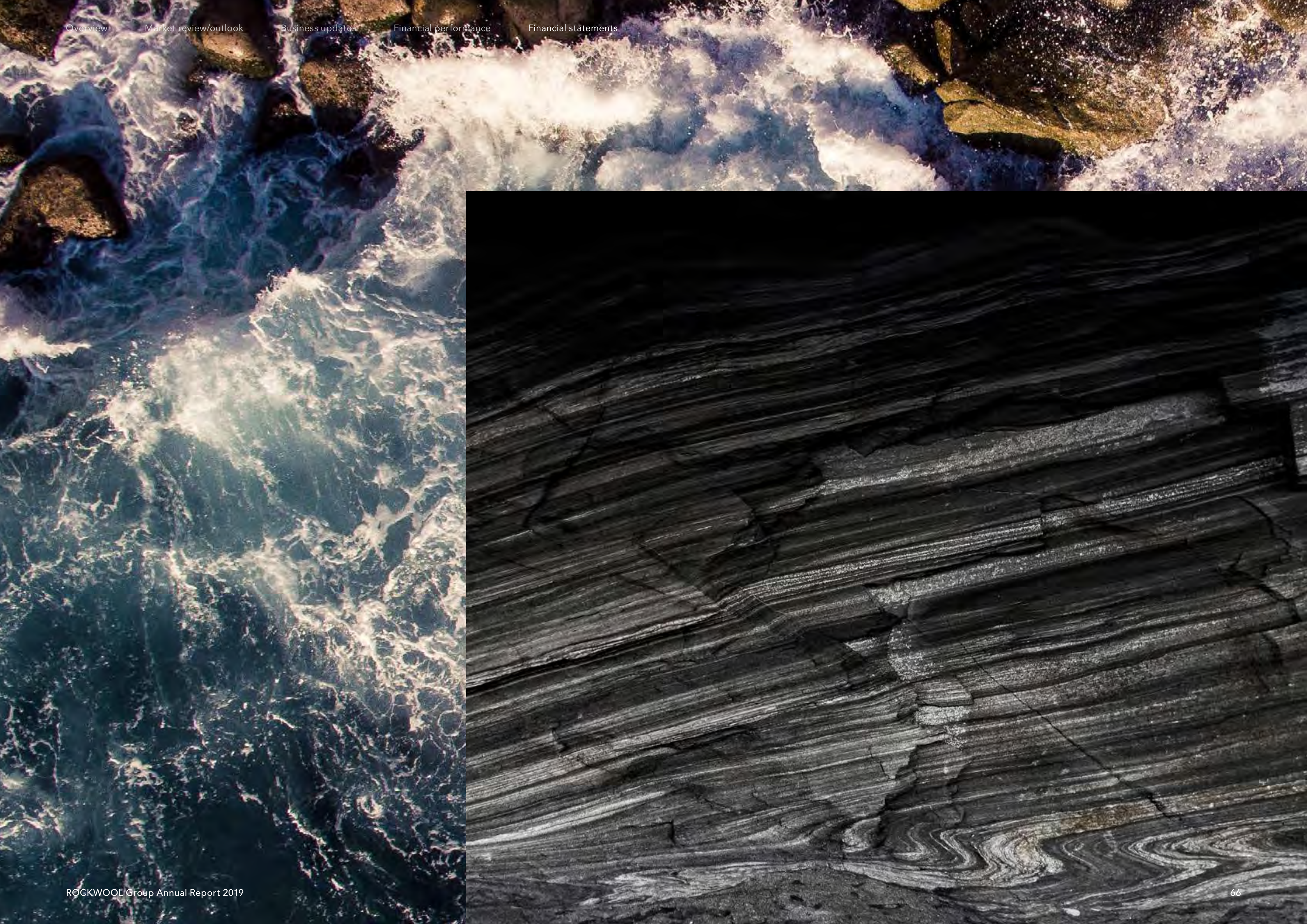
External sales in Q4 2019 in Insulation segment amounted to EUR 517 million, a decrease of 3.5 percent in local currencies (2.3 percent in reported figures) compared to Q4 2018, due to the difficult markets in Eastern Europe and Asia. Also the sandwich panel business had a slow quarter.

EBIT in Insulation segment reached EUR 70 million equal to an EBIT margin of 11.5 percent, up 1.1 percentage points compared to Q4 2018, driven by pricing and operational effeciency.

Systems segment presented a strong Q4 2019, which contributed to record high net sales and EBIT for the full year. Quarterly net sales reached EUR 198 million, an increase in local currency of 8.0 percent (9.6 percent in reported figures) compared to Q4 2018.

EBIT in Systems segment reached EUR 24 million in Q4 2019, an increase of 22 percent and an EBIT margin of 12.0 percent compared to 11.1 percent in Q4 2018.

	2019				2018			
EURm	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Cash flow statement								
EBIT	77	102	99	94	70	91	97	83
Adjustments for depreciation, amortisation and write-downs	43	42	42	49	42	41	41	42
Other adjustments	0	1	3	2	2	5	2	-16
Change in net working capital	-88	-18	72	-5	-79	-25	39	43
Cash flow from operations before financial items and tax	32	127	216	140	35	112	179	152
Cash flow from operating activities	-6	110	193	105	-2	101	162	147
Cash flow from investing activities and acquisitions	-78	-94	-120	-108	-33	-38	-52	-89
Cash flow from operating and investing activities (free cash flow)	-84	16	73	-3	-35	63	110	58
Cash flow from financing activities	-6	-94	3	-23	2	-67	4	7
Change in cash available	-90	-78	76	-26	-33	-4	114	65
Segment reporting								
Insulation segment:								
External net sales	486	533	541	517	468	520	548	529
Internal net sales	65	68	79	92	55	62	61	84
EBIT	55	67	77	70	55	70	78	63
EBIT margin	10.0%	11.2%	12.4%	11.5%	10.5%	12.0%	12.8%	10.4%
Systems segment:								
External net sales	155	162	165	198	135	147	144	180
EBIT	22	34	23	24	15	21	19	20
EBIT margin	14.0%	21.2%	14.0%	12.0%	11.4%	13.9%	13.1%	11.1%
Geographical split of external net sales:								
Western Europe	396	423	418	422	366	397	403	420
Eastern Europe including Russia	103	124	136	131	101	126	148	139
North America, Asia and others	142	148	152	162	136	144	141	150
Total external net sales	**641**	**695**	**706**	**715**	**603**	**667**	**692**	**709**



Consolidated financial statements

Income statement

1 January – 31 December

EURm	Note	2019	2018
Net sales	1.1	2,757	2,671
Other operating income	1.2	16	11
Operating income		**2,773**	**2,682**
Raw material costs and production material costs		929	909
Delivery costs and indirect costs		381	385
Other external costs		218	232
Personnel costs	1.3	697	649
Operating costs		**2,225**	**2,175**
EBITDA		**548**	**507**
Depreciation, amortisation and write-downs	2.4, 2.5	176	166
EBIT		**372**	**341**
Income from investments in associated companies		0	1
Financial income	4.1	5	5
Financial expenses	4.1	10	12
Profit before tax		**367**	**335**
Tax on profit for the year	5.1	82	70
Profit for the year		**285**	**265**
Attributable to:			
Non-controlling interests		0	0
Shareholders of ROCKWOOL International A/S		285	265
		285	**265**
Earnings per share of DKK 10 (EUR 1.3)	4.6	13.01	12.14
Earnings per share of DKK 10 (EUR 1.3), diluted	4.6	12.98	12.09

Statement of comprehensive income

1 January – 31 December

EURm	Note	2019	2018
Profit for the year		**285**	**265**
Items that will not be reclassified to the income statement:			
Actuarial gains and losses of pension obligations	2.6	-10	1
Tax on other comprehensive income		3	1
Items that may be subsequently reclassified to the income statement:			
Exchange rate adjustments of foreign subsidiaries		53	-22
Hedging instruments, value adjustments		-3	0
Tax on other comprehensive income		1	-0
Total other comprehensive income		**44**	**-20**
Comprehensive income for the year		**329**	**245**
Attributable to:			
Non-controlling interests		0	0
Shareholders of ROCKWOOL International A/S		329	245
		329	**245**

Balance sheet – Assets

As at 31 December

EURm	Note	2019	2018
Goodwill		97	95
Software		13	13
Customer relationships		43	49
Other intangible assets		21	19
Intangible assets under construction		18	13
Total intangible assets	2.1	192	189
Buildings and sites		643	608
Plant and machinery		444	444
Other operating equipment		20	15
Prepayments and tangible assets under construction		399	160
Total tangible assets	2.2	1,506	1,227
Right-of-use assets	2.3	52	-
Shares in associated companies		6	5
Long-term deposits and receivables		15	1
Deferred tax assets	5.3	54	46
Total financial assets		75	52
Non-current assets		**1,825**	**1,468**
Inventories	3.1	236	238
Trade receivables	3.2, 4.2	275	274
Other receivables	4.2	54	42
Prepayments		15	18
Income tax receivable	5.2	14	5
Cash	4.2, 4.3	275	386
Current assets		**869**	**963**
Total assets		**2,694**	**2,431**

Balance sheet – Equity and liabilities

As at 31 December

EURm	Note	2019	2018
Share capital	4.5	29	29
Foreign currency translation		-104	-157
Proposed dividend		94	88
Retained earnings		2,096	1,912
Hedging		-1	1
Equity attributable to shareholders of ROCKWOOL International A/S		**2,114**	**1,873**
Non-controlling interests		4	4
Total equity		**2,118**	**1,877**
Deferred tax liabilities	5.3	43	51
Pension obligations	2.6	62	53
Lease liabilities	2.3	34	-
Provisions	2.7	17	15
Bank loans and other loans	4.2	4	2
Non-current liabilities		**160**	**121**
Short-term portion of bank loans and other loans	4.2	1	3
Bank debt	4.2, 4.3	6	6
Trade payables	4.2	196	209
Lease liabilities	2.3	18	-
Provisions	2.7	9	7
Income tax payable	5.2	29	34
Other payables	4.2	157	174
Current liabilities		**416**	**433**
Total liabilities		**576**	**554**
Total equity and liabilities		**2,694**	**2,431**

Cash flow statement

Accounting policies

The consolidated cash flow statement is compiled using the indirect method on the basis of EBIT. The cash flow statement shows flows from operating, investing and financing activities for the year, as well as cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities comprises operating profit before financial items adjusted for non-cash items and changes in working capital.

Cash flows from investing activities comprise payments relating to acquisition and sale of companies, intangible and tangible assets and other asset investments.

Cash flows from financing activities comprise proceeds from borrowings, repayment of lease liabilities, instalments of debt, payment of dividends, payments and proceeds for sale of own shares, transactions with non-controlling interests and increases of the share capital.

Cash available includes cash less short-term bank debt.

EURm	**Note**	**2019**	**2018**
EBIT		372	341
Adjustments for depreciation, amortisation and write-downs	2.4	176	166
Adjustments of non-cash operating items	3.3	6	-7
Changes in net working capital	3.3	-39	-22
Cash flow from operations before financial items and tax		**515**	**478**
Finance income etc. received		5	5
Finance costs etc. paid		-5	-12
Taxes paid		-113	-63
Cash flow from operating activities		**402**	**408**
Payments for tangible assets		-379	-204
Proceeds from sale of tangible assets		0	1
Payments for intangible assets		-21	-19
Proceeds from sale of listed equities		-	18
Acquisition and additions of subsidiaries and associated companies		-	-8
Cash flow from investing activities		**-400**	**-212**
Cash flow from operating and investing activities (free cash flow)		**2**	**196**
Dividend paid		-87	-70
Dividend paid to non-controlling interests		-0	-0
Payments for own shares		-2	-3
Proceeds from sale of own shares		0	23
Transactions with non-controlling interests		-	-3
Instalments of lease liabilities	2.3	-17	-
Increase in non-current receivables		-14	0
Proceeds from borrowings		4	-
Instalments of non-current debt		-4	-1
Cash flow from financing activities		**-120**	**-54**
Changes in cash available		**-118**	**142**
Cash available 1/1		380	243
Exchange rate adjustments		7	-5
Cash available 31/12	4.3	**269**	**380**
Unutilised, committed credit facilities 31/12		**428**	**428**

Individual items in the cash flow statement cannot be directly deduced from the consolidated balance sheet.

Statement of changes in equity

Accounting policies

Dividend is included as a liability at the time of adoption by the Annual General Meeting. Dividend that is expected to be paid for the year is shown separately in the equity.

Sale and purchase of, as well as dividends on own shares are recognised under retained earnings in the equity. The reserve for foreign currency translation consists of exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into EUR.

Hedging adjustments comprise changes in the fair value of hedging transactions that qualify for recognition as cash flow hedges and where the hedged transaction has not yet been realised.

Non-controlling interests
Non-controlling interests are recognised at the minority's share of the net assets. The difference between the costs and the non-controlling interests' share of the total carrying amount including goodwill is transferred from the minority interests' share of the equity to the equity belonging to the shareholders of ROCKWOOL International A/S.

	Shareholders of ROCKWOOL International A/S							
EURm	**Share capital**	**Foreign currency translation**	**Proposed dividend**	**Retained earnings**	**Hedging**	**Total**	**Non-controlling interests**	**Total equity**
Equity 1/1 2019	**29**	**-157**	**88**	**1,912**	**1**	**1,873**	**4**	**1,877**
Profit for the year	-	-	94	191	-	285	0	285
Other comprehensive income	-	53	-	-7	-2	44	0	44
Comprehensive income for the year	-	53	94	184	-2	329	0	329
Sale and purchase of own shares	-	-	-	-2	-	-2	-	-2
Expensed value of RSUs issued	-	-	-	1	-	1	-	1
Dividend paid to the shareholders	-	-	-88	1	-	-87	0	-87
Equity 31/12 2019	**29**	**-104**	**94**	**2,096**	**-1**	**2,114**	**4**	**2,118**
Equity 1/1 2018	**29**	**-135**	**71**	**1,711**	**1**	**1,677**	**7**	**1,684**
Profit for the year	-	-	88	177	-	265	0	265
Other comprehensive income	-	-22	-	2	-0	-20	0	-20
Comprehensive income for the year	-	-22	88	179	-0	245	0	245
Sale and purchase of own shares	-	-	-	20	-	20	-	20
Expensed value of RSUs issued	-	-	-	1	-	1	-	1
Transactions non-controlling interests	-	-	-	-	-	-	-3	-3
Dividend paid to the shareholders	-	-	-71	1	-	-70	-0	-70
Equity 31/12 2018	**29**	**-157**	**88**	**1,912**	**1**	**1,873**	**4**	**1,877**

Notes content

Note 1
Operating profit

Note 2
Invested capital

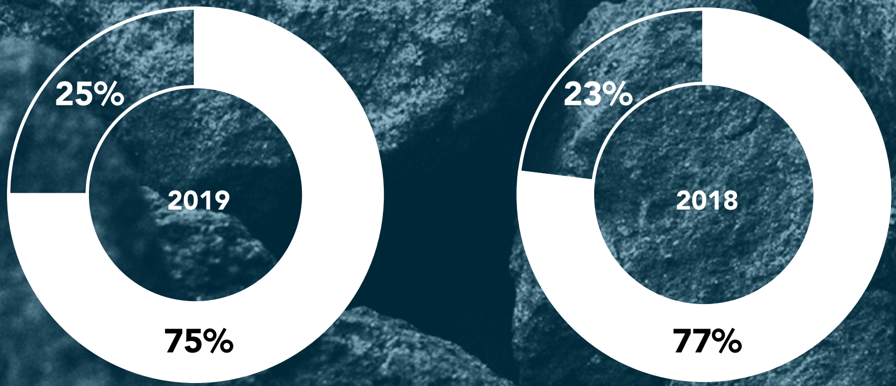
Note 3
Net working capital

Note 4
Capital structure and financing

Note 5
Other

Note 1
Operating profit

Sales per business segment



■ Insulation ☐ Systems

Reported sales growth

+3.2%

Average number of FTEs

11,646

Notes

1.1 Net sales and segmented accounts

Accounting policies

Net sales
The Group produces and sells a range of fire resilient stone wool insulation products, including solutions for ceiling systems, ventilated facades, friction and water management and stone wool substrate solutions for the professional horticultural.

Sales are recognised when control of the products has transferred to the customer, being when the products are delivered to the customer and the risk has been transferred.

The products are often sold with retrospective volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method.

The sales include no element of financing as the sales are made with credit terms of normally 30-60 days consistent with market practice.

A receivable is recognised when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Segmented accounts
Group Management has determined the business segments for the purpose of assessing business performance and allocating resources. Primarily segments are based on products and thermal performance, as Systems segment is primarily defined as non-thermal insulation products. Nearly all external sales consist of sales of products.

Segmental data is stated for business areas and geographical areas. The split by business areas is in accordance with the Group's internal reporting.

Business segments and sales reporting

	Insulation segment		Systems segment		Eliminations		ROCKWOOL Group	
EURm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
External net sales	2,077	2,065	680	606		-	2,757	2,671
Internal net sales	304	262	-	-	-304	-262	-	-
EBIT	**269**	**266**	**103**	**75**	**-**	**-**	**372**	**341**
EBIT margin	*11.3%*	*11.5%*	*15.1%*	*12.4%*	-	-	*13.5%*	*12.8%*
Financial items and income from associated companies	-	-	-	-	-	-	-5	-6
Tax on profit for the year	-	-	-	-	-	-	82	70
Profit for the year	-	-	-	-	-	-	**285**	**265**
Goods transferred at a point in time	2,077	2,065	680	606	-	-	2,757	2,671
Non-current asset investments	395	233	20	25	-	-	415	258

The segmental data is presented according to the same principle as the consolidated financial statements. The segmental EBIT includes net sales and expenditure including non-recurring expenditure operationally related to the segment.

Comments

ROCKWOOL Group operates in two business segments based on products: Insulation segment and Systems segment. The information is based on the management structure and internal management reporting to Group Management and constitutes the reportable segments.

Headquarters costs are allocated to the business segments based on allocation keys used in the internal management reporting. These allocation keys are reassessed annually based on planned activity in the segments. Intangible and tangible assets and related amortisation/depreciation are not fully allocated to business segments as all stone wool production is done in the Insulation segment. Financial income and expenses, and income taxes are managed at Group level and are not allocated to business segments.

Internal net sales from the Insulation segment to the Systems segment are at arms' length prices. The Insulation segment includes among others interior building insulation, façade insulation, roof insulation and industrial and technical insulation. The Systems segment includes acoustic ceilings, cladding boards, engineered fibres, noise and vibration control, and horticultural substrates.

In 2019 and in 2018 a write-down of software under construction was recognised affecting both segments. For additional information please refer to note 2.4.

Notes

1.1 Net sales and segmented accounts (continued)

Comments

The geographical net sales information is based on the location of the customers, while the information regarding the geographical assets distribution is based on the physical placement of the assets.

The domestic sale in Denmark is in the range of 2-3% (2018: 2-3%) of the Group's net sales. The domestic intangible and tangible assets in Denmark amount to EUR 168 million (2018: EUR 145 million).

No customers exceed 10% of the Group's net sales neither this year nor last year. In Germany, France and the United States net sales amounts to between 10-20% of the Group's total net sales in 2019, while only for Germany and France in 2018. In no other country do the net sales exceed 10% of the Group's total net sales.

Intangible and tangible assets in the United States, Poland and Germany exceed 10% of the Group's total intangible and tangible assets in 2019, while only for the United States and Poland in 2018.

Geographical segments

	Net sales		Intangible and tangible assets	
EURm	**2019**	**2018**	**2019**	**2018**
Western Europe	1,659	1,586	770	594
Eastern Europe and Russia	494	514	416	367
North America, Asia and others	604	571	512	455
Total	**2,757**	**2,671**	**1,698**	**1,416**

1.2 Other operating income

Comments

Other operating income includes among others received compensation, refunds, and gain/loss from sale of assets.

Other operating income

EURm	**2019**	**2018**
Other income	16	10
Gain/loss from sale of assets	0	1
Total	**16**	**11**

Notes

1.3 Personnel costs

Comments

Remuneration of Group Management (key management personnel) complies with the principles of the Group's Remuneration policy.

The variable part of the total remuneration (bonus and restricted share units (RSUs)) is dependent on achievement of individual targets and targets for the Group's financial performance, as approved by the Remuneration committee. The variable annual bonus can give up to 40% of the base remuneration. The long-term incentive programme (RSUs) is set to 20% of the base remuneration for Group Management and 30% for the CEO.

No termination costs is included in the remuneration in neither 2019 nor 2018.

Personnel costs

EURm	2019	2018
Wages and salaries	590	544
Expensed value of RSUs issued	1	2
Pension costs	27	28
Other social security costs	79	75
Total	**697**	**649**
Average number of employees	11,646	11,416
The above items include to Board of Directors and Group Management:		
Remuneration to Group Management	6	6
Value of RSUs issued or fair value adjusted to Group Management	1	3
Pension costs to Group Management	1	1
Board of Directors' remuneration	1	1
Total to Board of Directors and Group Management	**9**	**11**
Hereof remuneration to Registered Directors	3	3
Hereof value of RSUs issued or fair value adjusted to Registered Directors	0	3
Hereof pension costs to Registered Directors	0	0
Total to Registered Directors	**3**	**6**

1.4 Long-term incentive programmes

Accounting policies

Two different share-based incentive programmes have been established: A stock option programme and a restricted share programme (RSUs). Both programmes are classified as equity based, as they settle in shares. Due to local rules, a minor part of both programmes are given as phantom shares and is classified as cash-based, as they settle in cash. The programmes are offered to Group Management and other senior executives. The incentive programmes are part of the variable part of the remuneration and follows the Group's Remuneration policy. Participation in the programmes are at the Remuneration Committees discretion and no individual has a contractual right to participate or receive any guaranteed benefit.

Stock options
On issuing of stock options, the fair value of the options is assessed using the Black & Scholes formula at the time of grant and is recognised in personnel costs in the income statement and in equity over the 3-year vesting period.

A part of the stock options are given as phantom shares (cash-based programme) and are adjusted to fair value through financial expenses in the income statement against a related provision.

Restricted Share Units (RSUs)
When RSUs are issued, the value of the RSUs at grant date is recognised in personnel cost in the income statement and in equity over the 3-year vesting period. On initial recognition of the RSUs, the number of RSUs expected to vest is estimated. Subsequently, the estimate is revised so the total cost recognised is based on the actual number of RSUs vested. The fair value of RSUs is determined based on the quoted share price at grant adjusted for expected dividend payout (based on historic dividend payout ratio). The participants are compensated for any dividend payment by receiving additional RSUs.

A minor part of the RSUs are given as phantom shares (cash-based programme) and are adjusted to fair value through financial expenses in the income statement against a related provision.

Notes

1.4 Long-term incentive programmes (continued)

Comments

Stock options
No stock options have been granted since 2015. The outstanding options are all exercisable and fully vested at the end of the reporting period.

The average share price at exercise in 2019 was EUR 214 (2018: EUR 303).

No stock options have expired in neither 2019 nor 2018.

Stock option programme

Stock options outstanding at year-end have the following exercise periods and exercise prices:

Time of grant	Exercise period	Exercise price (DKK)	Number of stock options 2019	Number of stock options 2018
2012	01.09.2015 - 31.08.2020	515	7,625	8,250
2013	23.09.2016 - 22.09.2021	900	8,800	8,800
2015	20.03.2018 - 19.03.2023	769	18,500	20,175
			34,925	**37,225**

Of the number of options 2,350 belongs to Registered Directors and 32,575 to other senior executives in 2019.
In 2018, 2,350 belonged to Registered Directors and 34,875 to other senior executives.

Development in outstanding stock options

	2019		2018	
	Number of stock options	Average exercise price (EUR)	Number of stock options	Average exercise price (EUR)
Outstanding stock options 1/1	**37,225**	**100**	**177,450**	**102**
Exercised	2,300	127	140,225	164
Outstanding stock options 31/12	**34,925**	**100**	**37,225**	**100**

Notes

1.4 Long-term incentive programmes (continued)

Comments

Restricted Share Units
Restricted Share Units (RSUs) will be subject to a vesting period of three years. After the vesting period the shares are transferred to the participants without payment, subject to continued employment with ROCKWOOL Group in the vesting period.

The RSUs represent the employees right to shares but do not carry voting rights nor have any tangible value before the RSUs are exercised and become actual B shares of ROCKWOOL International A/S. The terms of the share incentive may provide that shares may be settled in cash in which case, the related provision equals the share price at the time of vesting.

The estimated fair value of RSUs granted was EUR 2 million (2018: EUR 2 million) at grant date.

EUR 2 million was expensed in 2019 relating to the RSUs (2018: EUR 2 million), of which EUR 1 million was recognised in personnel costs and EUR 1 million in finance expenses (fair value of phantom shares).

Cash-settled programmes
The cash-settled programmes consists of phantom shares granted during the years 2012-2019.

The employees granted the phantom shares participate on terms and conditions similar to those applying to the share options and the RSUs.

The outstanding stock options from 2012-2015 include 2,350 phantom options (2018: 3,000). The outstanding RSUs from 2017-2019 include 7,652 phantom shares (2018: 8,259).

The total intrinsic value of the phantom stock options/RSUs at year-end amounts to EUR 1 million (2018: EUR 2 million), which is recognised as a liability.

Restricted share units (RSUs)

RSUs outstanding at year-end have the following vesting dates:

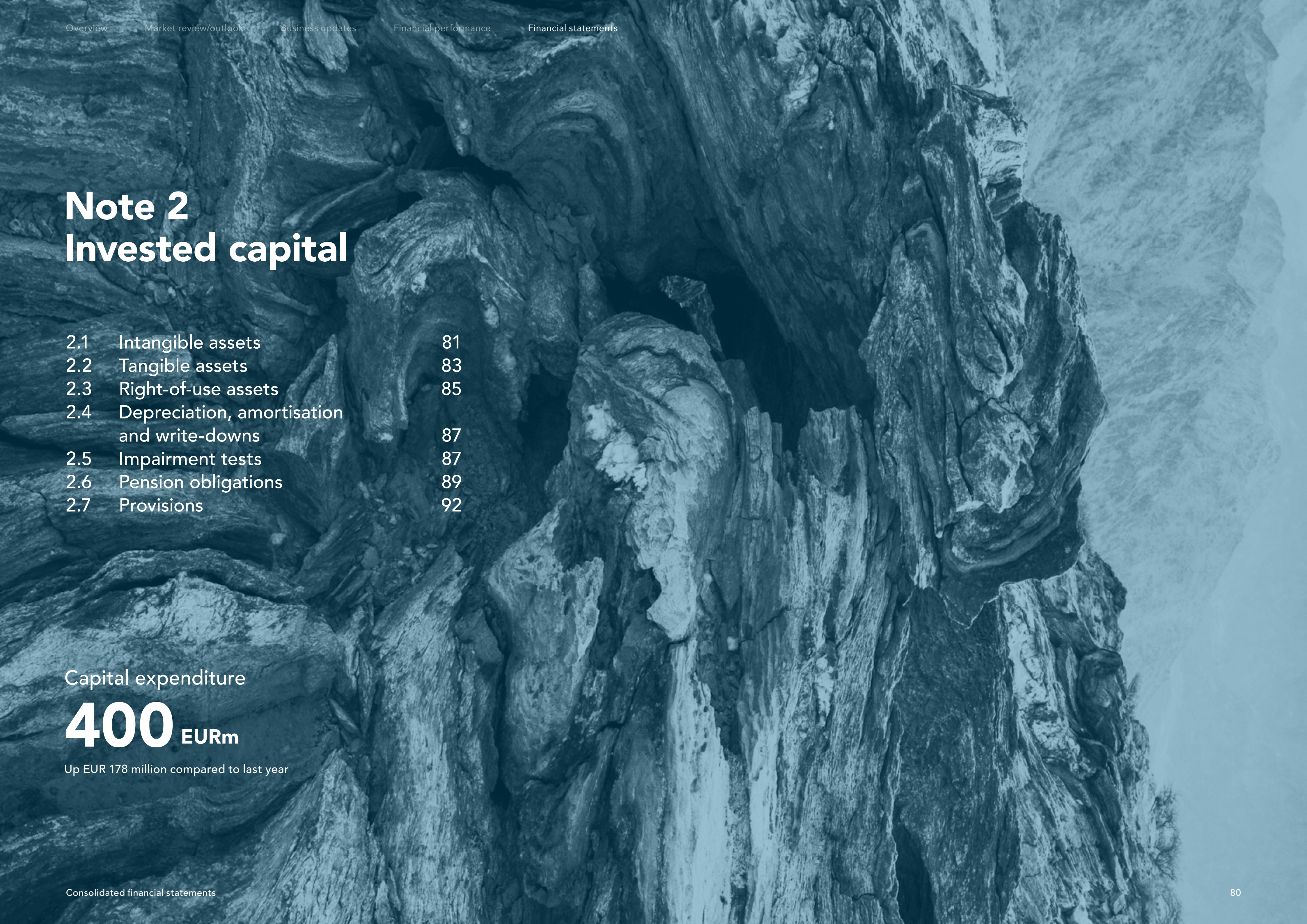
Time of grant	Vesting date	Number of RSUs 2019	Number of RSUs 2018
2016	08.04.2019	-	13,353
2017	07.04.2020	12,103	12,197
2018	12.04.2021	8,633	8,591
2019	24.05.2022	10,221	-
		30,957	**34,141**
Weighted average remaining contractual life of the outstanding RSUs at year-end (Year)		1.2	1.1

Of the number of RSUs 6,659 belong to Registered Directors and 24,298 to other senior executieves. In 2018, 7,273 belonged to Registered Directors and 26,868 to other senior executives.

Development in number of outstanding RSUs

	2019	2018
Outstanding RSUs 1/1	**34,141**	**26,202**
Granted	11,018	8,876
Vested	13,971	-
Forfeited	231	937
Outstanding RSUs 31/12	**30,957**	**34,141**

The average share price the day following the vesting date was EUR 210.



Note 2
Invested capital

Capital expenditure

400 EURm

Up EUR 178 million compared to last year

Notes

2.1 Intangible assets

Accounting policies

The costs of research activities are carried as expenditure in the year in which they are incurred. The costs of development projects which are clearly defined and identifiable, and of which the potential technical and commercial exploitation is demonstrated, are capitalised to the extent that they are expected to generate future revenue. Other development costs are recognised on an ongoing basis in the income statement under operating costs.

Intangible assets, apart from goodwill, are stated at cost less accumulated amortisation and write-downs.

Amortisation of the following intangible assets is made on a straight-line basis over the expected future lifetime of the assets, which is:

Development projects: 2-10 years
Patents: up to 20 years
Software: 2-4 years
Trademarks: up to 20 years
Customer relationships: 10-15 years

Goodwill arisen from acquisition of enterprises and activities is stated at cost. The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. Identification of independent cash-generating units is based on business structure and level of internal control of cash flow. Acquired CO_2 rights are capitalised under intangible assets. Granted CO_2 rights are not capitalised.

Goodwill is tested annually for impairment and the book value of other assets is reviewed on indications of impairment. When testing for impairment, the value is written down to the estimated net sales price or the value in use, if greater.

Intangible assets under construction are also tested for impairment annually.

Intangible assets

EURm	Goodwill	Software	Customer relation-ships	Other intangible assets	Intangible assets under construc-tion	Total
Cost:						
Accumulated 1/1 2019	126	72	69	54	21	342
Exchange rate adjustments	2	-2	3	1	1	5
Additions for the year	-	9	-	6	7	22
Transfer of assets under construction	-	9	8	-8	-9	-
Disposals for the year	-	-3	-	-1	-	-4
Accumulated 31/12 2019	**128**	**85**	**80**	**52**	**20**	**365**
Amortisation and write-downs:						
Accumulated 1/1 2019	31	59	20	35	8	153
Exchange rate adjustments	0	0	2	0	0	2
Amortisation for the year	-	8	8	3	-	19
Write-down for the year	-	-	-	-	2	2
Transfers	-	8	7	-7	-8	-
Disposals for the year	-	-3	-	-	-	-3
Accumulated 31/12 2019	**31**	**72**	**37**	**31**	**2**	**173**
Net book value 31/12 2019	**97**	**13**	**43**	**21**	**18**	**192**

During the year R&D costs amounting to EUR 41 million (2018: EUR 38 million) have been expensed.

Notes

2.1 Intangible assets (continued)

Comments

Goodwill is allocated to cash generating units (CGUs) in Insulation segment at an amount of EUR 41 million (2018: EUR 39 million) and to CGUs in Systems segment at an amount of EUR 56 million (2018: EUR 56 million).

Goodwill has been impairment tested in 2019 and 2018 for the identified CGUs, which for both years have not lead to any value adjustments.

The impairment test of goodwill is based on current and future results for the CGUs to where the results are allocated. Most of the goodwill in the Group is related to the acquisition of Flumroc in 2017, Chicago Metallic in 2013 and CSR in 2010 and they are performing according to plan.

Please refer to note 2.5 for further details.

In 2019 a write-down of EUR 2 million of assets under construction was recognised affecting both segments due to lower benefits and utilisation compared to the original expectation.

In 2018, a write-down of intangible assets under construction was recognised, amounting to EUR 8 million, due to a lower revenue stream compared to the original expectation. The value of the asset was written down to the net present value of future cash flows.

The net book value of other intangible assets includes brands amounting to EUR 11 million (2018: EUR 12 million) and development projects amounting to EUR 1 million (2018: EUR 3 million).

Intangible assets

EURm	Goodwill	Software	Customer relation-ships	Other intangible assets	Intangible assets under construc-tion	Total
Cost:						
Accumulated 1/1 2018	119	63	65	54	17	318
Exchange rate adjustments	4	-0	2	-0	-0	6
Additions for the year	-	3	-	0	16	19
Transfer of assets under construction	-	12	-	-	-12	-
Disposals for the year	0	-6	-	-	-	-6
Acquisition of subsidiary	3	-	2	-0	-	5
Accumulated 31/12 2018	**126**	**72**	**69**	**54**	**21**	**342**
Amortisation and write-downs:						
Accumulated 1/1 2018	31	59	15	30	-	135
Exchange rate adjustments	0	-0	0	0	-	-0
Amortisation for the year	-	6	6	5	-	17
Write-down for the year	-	-	-	-	8	8
Disposals for the year	-	-6	-1	-	-	-7
Accumulated 31/12 2018	**31**	**59**	**20**	**35**	**8**	**153**
Net book value 31/12 2018	**95**	**13**	**49**	**19**	**13**	**189**

Notes

2.2 Tangible assets

Accounting policies

Tangible assets are stated at cost less accumulated depreciation and impairment losses. The cost of technical plant and machinery manufactured by the Group comprises the acquisition cost, expenditure directly related to the acquisition, engineering hours, including indirect production costs and borrowing costs.

Depreciation is carried out on a straight-line basis, based on current assessment of their useful lives and scrap value.

The expected lifetimes are:
Buildings: 20-40 years
Plant and machinery: 5-15 years
Other operating equipment: 3-10 years

On sale or scrapping of assets, any losses or gains are included under other operating income for the year.

Investment grants are deducted in the cost of the equivalent tangible assets. The investment grants are recognised as income on a straight-line basis over the expected lives of the related assets as reduced depreciation expense.

Tangible assets

EURm	Buildings and sites	Plant and machinery	Other operating equipment	Prepayments and tangible assets under construction	Total
Cost:					
Accumulated 1/1 2019	1,021	1,972	95	160	3,248
Exchange rate adjustments	27	45	4	1	77
Additions for the year	1	4	1	387	393
Transfer of assets under construction	47	84	18	-149	-
Disposals for the year	-2	-21	-4	-	-27
Accumulated 31/12 2019	**1,094**	**2,084**	**114**	**399**	**3,691**
Depreciation and write-downs:					
Accumulated 1/1 2019	413	1,528	80	-	2,021
Exchange rate adjustments	10	38	2	-	50
Depreciation for the year	30	92	16	-	138
Disposals for the year	-2	-18	-4	-	-24
Accumulated 31/12 2019	**451**	**1,640**	**94**	**-**	**2,185**
Net book value 31/12 2019	**643**	**444**	**20**	**399**	**1,506**
Hereof investment grants	**-10**	**-2**	**-**	**-**	**-12**

Critical estimates and judgements

The expected lifetime for tangible assets is determined based on past experience and expectations for future use of the assets. Especially the estimated lifetime of plant and machinery is linked to uncertainty due to varying utilisation and the significant amount of maintenance costs. Reassessments of the expected future lifetime are made in connection with changes in production structures.

When there is an indication of a reduction in the profitability of an asset, an impairment test is performed for the assets in question and write-downs are made, if necessary.

The recoverable amounts of the assets and cash-generating units are determined based on value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates as they are based on budgets, business plans and projections for 5 years and take into account previous experience and represent Management's best estimate of future developments. Key parameters are growth in sales margin, discount rate and future growth expectations. Please refer to note 2.5.

Notes

2.2 Tangible assets (continued)

Comments

Of the total net book value of buildings and sites, EUR 114 million (2018: EUR 111 million) represent sites not subject to depreciation.

Accumulated capitalised interests amounting to EUR 4 million (2018: EUR 4 million) are included in the cost of tangible assets. There is no additional capitalised interest neither this year nor last year..

For the recognised investment grants the conditions are fulfilled or are expected to be fulfilled. Some of the received investment grants are subject to repayment obligations provided that the attached conditions are not fulfilled within a number of years.

The Group's investment grants are for the main part received in Poland, Spain, France, the United Kingdom, Germany and the United States. The investment grants are in most cases linked to expansion of the Group including the amount of investment in tangible assets and the creation of jobs - and is given as cash or loans. Only limited contingent liabilities exist. For a description of impairment tests on tangible assets see note 2.5.

Contractual obligations for the purchase of tangible assets at 31 December 2019 amount to EUR 134 million (2018: EUR 141 million).

Tangible assets

EURm	Buildings and sites	Plant and machinery	Other operating equipment	Prepayments and tangible assets under construction	Total
Cost:					
Accumulated 1/1 2018	1,002	1,966	92	55	3,115
Exchange rate adjustments	-15	-28	-4	-1	-48
Additions for the year	7	13	1	199	220
Transfer of assets under construction	22	59	13	-94	-
Acquisition of subsidiary	8	4	-	2	14
Disposals for the year	-3	-42	-7	-1	-53
Accumulated 31/12 2018	**1,021**	**1,972**	**95**	**160**	**3,248**
Depreciation and write-downs:					
Accumulated 1/1 2018	397	1,495	69	-	1,961
Exchange rate adjustments	-9	-26	-1	-	-36
Depreciation for the year	28	96	17	-	141
Disposals for the year	-3	-37	-5	-	-45
Accumulated 31/12 2018	**413**	**1,528**	**80**	**-**	**2,021**
Net book value 31/12 2018	**608**	**444**	**15**	**160**	**1,227**
Hereof investment grants	**-10**	**-3**	**-0**	**-**	**-13**

Notes

2.3 Right-of-use assets

Accounting policies

The Group's portfolio of leases covers leases of office buildings, warehouses and other equipment such as cars and forklifts. Leases for offices and other buildings have lease terms between 2-22 years, warehouses between 3-10 years while car and forklift leases generally have lease terms between 3-5 years. The Group also has a few long-term site leases with lease terms up to 99 years.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. For building leases, the determination of lease terms are generally based on contract terms, however for contracts with prolongation or termination options, strategic importance of e.g. location is also taken into consideration.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contracts to the lease and non-lease components based on their relative stand-alone prices. The Group has elected to exclude non-lease components from the measurement of its lease liabilities, except from those relating to cars. Non-lease components, except from those relating to cars, are expensed as operational costs.

RoU assets and lease liabilities are initially measured at present value basis. Lease liabilities include the net present value of the following lease payments:
- Fixed payments (including in-substance fixed payments), less any lease incentive receivable
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guaranties
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option.

If the lease contract contains an extension or purchase option that the Group considers reasonably certain to be exercised, these are included in the measurement of the liability.

To measure the lease liability at an amount equal to the net present value of the lease payments, a discount rate is used. For this purpose, the Group generally uses its incremental borrowing rate (IBR).

The IBR is calculated per main country/region per asset type. The length of the lease terms for the different asset types has also been taken into consideration. The IBR level in Europe is 3-7 percent p.a., in Russia around 12 percent p.a., in North America 5-6 percent p.a. while the level in Asia is 5-15 percent p.a.

RoU assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs
- Restoration costs.

RoU assets are depreciated on a straight-line basis over the shorter of the expected lease term and the asset's useful life. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. RoU assets are tested for impairment whenever there is an indication that the assets may be impaired. RoU assets and lease liabilities are presented separately in the balance sheet.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short-term leases (with a lease term of 12 months or less) and leases of low value assets (e.g. computer, printers and photocopying machines) are recognised on a straight line basis as a cost in the income statement.

Notes

2.3 Right-of-use assets (continued)

Right-of-use assets and lease liabilities in the balance sheet

EURm	2019	1 January 2019*
Right-of-use assets:		
Offices, other buildings and sites	10	11
Warehouses	25	8
Forklifts	2	3
Cars	14	13
Other assets	1	2
Total right-of-use assets	**52**	**37**
Lease liabilities:		
Current	18	13
Non-current	34	24
Total lease liabilities	**52**	**37**

* In the previous years the Group only recognised right-of-use assets and lease liabilities in relation to leases that were classified as "finance leases" under IAS 17 Leases. Additions to the right-of-use assets during the 2019 financial year were EUR 36 million.

Leases in the income statement

EURm	2019	2018
Depreciation of right-of-use assets		
Offices, other buildings and sites	2	-
Warehouses	6	-
Forklifts	1	-
Cars	6	-
Other assets	2	-
Total depreciation of right-of-use assets	**17**	**-**
Interest expense (included in financial expenses)	2	-
Expense relating to short-term leases (included in operating costs)	8	-
Expense relating to lease of low-value assets (included in operating costs)	0	-
Expense relating to variable lease payments not included in lease liability (included in operating costs)	5	-

The total cash outflow for leases in 2019 was EUR 32 million, of which EUR 17 million is classified as cash flow from financing activities and EUR 15 million is classified as cash flow from operating activities.

Notes

2.4 Depreciation, amortisation and write-downs

Comments

In 2019 a write-down of EUR 2 million of intangible assets under construction was recognised affecting both segments due to lower benefits and utilisation compared to the original business plan.

Also in 2018 a write-down of intangible assets under construction was recognised amounting to EUR 8 million due to a lower revenue stream compared to the original expectation.

Depreciation, amortisation and write-downs

EURm	2019	2018
Amortisation of intangible assets	19	17
Write-down of intangible assets	2	8
Depreciation of tangible assets	138	141
Depreciation of right-of-use assets	17	-
Total	**176**	**166**

2.5 Impairment tests

Accounting policies

When there is an indication of a reduction in the profitability of an asset, an impairment test is performed for the assets in question and write-downs are made, if necessary.

For goodwill, annual impairment tests are made. The recoverable amounts of the assets and cash-generating units (CGUs) have been determined based on value-in-use calculations. When testing for impairment, the value is written down to the estimated recoverable amount, if lower than the carrying amount.

Other assets are tested for impairment when there are indications of change in the structural profitability.

Impairment test of goodwill

EURm				2019
CGUs	**Net book value, Goodwill**	**Discount rate**	**Growth rate (budget period)**	**Headroom**
Chicago Metallic Corporation (Rockfon)	57	8.9%	2-5%	Large
HECK Wall Systems	6	7.6%	0%*	Minor
CSR	8	10.7%	6%*	Large
Flumroc	15	7.3%	2%	Large
KEWO	4	10.8%	5%*	Large
Other	7	7-10%	0-8%	Large
Total	**97**			

* Weighted average growth rate due to large spread in the period.

Notes

2.5 Impairment tests (continued)

Critical estimates and judgements

When preparing impairment tests, estimates are used to calculate the future value. Significant estimates are made when assessing long-term growth rates and profitability. In addition, an assessment is made of the reasonable discount rate.

Changes in the growth rate in the budget period or discount rate may result in significantly different values. The assessments are made based on budgets, business plans and projections for 5 years and take into account previous experience and represent Management's best estimate of future developments.

Key parameters are growth in sales, margin, discount rate and future growth expectations.

Impairment test of goodwill

EURm				2018
CGUs	**Net book value, Goodwill**	**Discount rate**	**Growth rate (budget period)**	**Headroom**
Chicago Metallic Corporation (Rockfon)	56	8.6%	2-12%	Large
HECK Wall Systems	6	7.4%	3-5%	Minor
CSR	8	10.6%	1-5%	Large
Flumroc	14	7.0%	2-3%	Large
KEWO	3	KEWO is recently acquired		
Other	8	7.4-9.7%	0-4%	Large
Total	**95**			

Comments

Management has performed the yearly impairment test of the carrying amount of goodwill. In addition, impairment test of other assets has also been made, where indication of reduction of value was found. In the impairment test, the carrying amount of the assets is compared to the discounted value of the future cash flows. The assessment of future cash flows is typically based on 5-year management reviewed budgets and business plans, where the last year is used as a normalised terminal year. Net sales, raw material prices, discount rate and future growth assumptions constitute the most material parameters in the calculation.

The average growth rate in the terminal period is set to 0.5% similar to last year. The weighted average growth rate in the budget period is estimated to be between 0-6% depending on the businesses.

The high growth rates are used in countries where we historically have seen steep increases after a slow period. Gross margins are based on average values the last 3 years and adjusted over the budget period for efficiency improvements and expected raw material inflation based on past actual price movements and future market conditions. Future investment is derived from the historic investment level to secure a smooth operation of the factories and the capacity utilisation is based on the current situation including investment plans. The discount rate calculation is based on the specific circumstances of the Group and the operating segments and is derived from the weighted average cost of capital (WACC).

2019
The impairment test for 2019 has not shown a need for write-downs or reversals of write-downs recognised previous years. During 2019 HECK Wall Systems has been monitored closely. HECK Wall Systems follows the expectations and market outlook outlined in the impairment test last year. The net present value of HECK Wall Systems amounts to EUR 28 million in 2019, which gives a headroom of EUR 1 million to the net book value. The main driver is conversion to stone wool products and this has shown good progress.

2018
The impairment tests for 2018 has not shown a need for write-downs or reversals of the write-downs recognised previous years. During 2018 HECK Wall Systems has been monitored closely. HECK Wall Systems follows the expectations and market outlook outlined in the impairment test last year. The main driver is conversion to stone wool products and this has shown good progress.

Sensitivity analysis
As part of the preparation of impairment tests, sensitivity analyses are prepared on the basis of relevant risk factors and scenarios that management can determine within reasonable reliability. Sensitivity analyses are prepared by altering the estimates with a range of probable outcomes.

2019
The sensitivities have been assessed as follows, all other things being equal; an increase in the discount rate of 1%, a decrease in the growth rate of 1% p.a. and an increase of input costs of 1% p.a. The write-down in HECK Wall Systems would have been EUR 3-6 million if the discount rate was to increase 1% or the growth was 1% lower.

We consider the chosen scenarios as the most realistic why none of the impairment tests have given rise to adjustment of the value.

2018
The sensitivities have been assessed as follows, all other things being equal; an increase in the discount rate of 1%, a decrease in the growth rate of 1% p.a. and an increase of input costs of 1% p.a. The write-down in HECK Wall Systems would have been EUR 3-4 million if the discount rate was to increase 1% or the growth was 1% lower.

Notes

2.6 Pension obligations

Accounting policies

Pension payments concerning defined contribution plans are recognised on an ongoing basis in the income statement.

Defined benefit plans are stated at the net present value at the balance sheet date and included in the consolidated financial statements. Adjustments of the plans are carried out on a regular basis in accordance with underlying actuarial assessments. Actuarial gains or losses for defined benefit plans are recognised in full in the period in which they occur in other comprehensive income. The actuarial assessment is carried out every year.

Funded benefit plans have assets placed in trustee-administered pension funds, which are governed by local regulations and practice in each country.

The payments to the pension funds are based on the usual actuarial assessments and are recognised in the income statement after maturity. Provided that the actuarial assessments of pension obligations show noticeable excess solvency or insolvency in relation to the pension fund's assets, the difference is entered to the balance sheet and the future payments are adjusted accordingly. With regard to these schemes, the actuarial assessment is also carried out every year.

Critical estimates and judgements

The present value of defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes to these assumptions will impact the carrying amount of pension obligations. The discount rate and other key assumptions are based in part on the current market conditions.

Pension costs for the year

EURm	2019	2018
Defined contribution plans		
Pension costs for the year, total	**22**	**22**
Defined benefit plans		
Pension costs	4	5
Interest costs	3	4
Interest income	-2	-3
Curtailments/settlements	-0	-0
Pension costs for the year, total	**5**	**6**

Net value of defined benefit pension plans

EURm	2019	2018	2017	2016	2015
Present value of pension liabilities	247	217	227	160	150
Fair value of plan assets	-185	-164	-174	-92	-96
Net value of pension plans 31/12	**62**	**53**	**53**	**68**	**54**

Notes

2.6 Pension obligations (continued)

Comments

A number of the Group's employees and former employees participate in pension schemes. The pension schemes are primarily defined contribution plans. However, defined benefit plans are also used, mainly in Switzerland, the United Kingdom and Germany. The plans in the United Kingdom and Germany are closed for new entries.

Under a defined benefit plan the Group carries the risk associated with the future development in e.g. interest rates, inflation, salaries, mortality and disability.

Defined benefit plans typically guarantee the employees a retirement benefit based on the final salary at retirement.

The pension benefit plans in the United Kingdom and Switzerland have assets placed in independent pension funds. The remaining plans are unfunded, where the main part relates to Germany. For these plans the retirement benefit obligations amount to approximately 22% (2018: 22%) of the total gross liability.

Except for the Swiss and UK plans, the mentioned defined benefit plans are not subject to regulatory requirements regarding minimum funding.

The granted pension payments of the mentioned defined benefit plans are based upon the salary of the participating employees during the period of employment. The Group's contributions are derived from the split of the pension premium between the employee and employer.

The actuarial assessment of the pension obligation is based on assumptions specific to each country. The latest actuarial calculation is prepared by authorised experts. The valuation of the assets is based on the composition and the expectations to the economic development. The assumptions used are weighted averages:

Actuarial assumptions

	2019	**2018**
Increase in salaries and wages	1.4%	1.4%
Discount rate	1.0%	1.8%
Remaining life expectancy at the time of retirement (years)	25.8	25.7

Development in the present value of the defined benefit obligation

EURm	**2019**	**2018**
Balance 1/1	217	227
Exchange rate adjustments	7	2
Pension costs	5	6
Interest costs	3	4
Settlements	-0	-0
Actuarial gains/losses from changes in demographic assumptions	-0	-0
Actuarial gains/losses from changes in financial assumptions	28	-9
Actuarial gains/losses from changes in experience	-3	-1
Benefits paid	-10	-12
Other adjustments	-	0
Total 31/12	**247**	**217**

Notes

2.6 Pension obligations (continued)

Sensitivity analysis

Assumptions	Discount rate		Salary increase		Life expectancy	
	-0.5%	+0.5%	-1.0%	+1.0%	-1 year	+1 year
EURm						
2019 - Impact on obligation	21	-19	-3	3	-6	7
2018 - Impact on obligation	18	-17	-3	2	-5	6

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions.

The following payments are expected contributions to the defined benefit plan obligation:

Expected contributions

EURm	2019	2018
0-1 year	6	5
1-5 years	27	25
Falling due after 5 years	43	44
Total	**76**	**74**

The expected duration of the defined benefit plan obligation is 26 years (2018: 26 years) at year end.

Development in the fair value of the plan assets

EURm	2019	2018
Balance 1/1	164	174
Exchange rate adjustments	7	2
Interest income	2	3
Return on plan assets	15	-9
Employer's contribution	4	3
Plan participants	1	1
Benefits paid	-8	-10
Other adjustments	-	0
Total 31/12	**185**	**164**

Plan assets in major categories

	2019	2018
Assets quoted in active markets:		
Equities in European markets	35%	34%
Bonds in European markets	37%	38%
Assets unquoted:		
Cash	10%	10%
Other	18%	18%

Notes

2.7 Provisions

Accounting policies

Provisions are recognised where a legal or constructive obligation has been incurred as a result of past events and if it is probable it will lead to an outflow of financial resources and if the size of the liability can be measured on a reliable basis. The provision is calculated as the amount expected to be paid to settle the obligation.

Comments

Provisions relate primarily to jubilee obligations and retirement benefits, fair value provision for phantom shares, restructuring, warranties and ongoing disputes, lawsuits, etc.

As at 31 December 2019 other provisions include a provision of EUR 4 million (2018: EUR 2 million) for restructuring measures. This provision is expected to be utilised within 1 year.

Provisions

EURm	2019	2018
Provision for employees 1/1	11	15
Exchange rate adjustments	0	0
Additions for the year	4	6
Used during the year	-2	-10
Reversed during the year	-1	-0
Total 31/12	**12**	**11**
Provisions for claims and legal proceedings 1/1	4	5
Exchange rate adjustments	0	-0
Additions for the year	3	3
Used during the year	-1	-2
Reversed during the year	-2	-2
Total 31/12	**4**	**4**
Other provisions 1/1	7	6
Exchange rate adjustments	0	-0
Additions for the year	5	4
Used during the year	-1	-2
Reversed during the year	-1	-1
Total 31/12	**10**	**7**
Total provisions	**26**	**22**
Specification of provisions:		
Non-current liabilities	17	15
Current liabilities	9	7
Total provisions	**26**	**22**

Note 3
Net working capital

Net working capital in % of net sales

9.0%

Increased compared to 7.4% in 2018

Notes

3.1 Inventories

Accounting policies

Inventories are valued at the lowest value of historical cost calculated as a weighted average or the net realisation value.

The cost of finished goods and work in progress include the direct costs of production materials and wages, as well as indirect production costs such as personnel costs, maintenance costs and depreciation of plant and machinery.

Comments

Raw materials and consumables include the net amount of the spare part inventory of EUR 25 million (2018: EUR 28 million).

The net amount consists of a cost price of EUR 82 million (2018: EUR 80 million) and a write-down of spare part inventory of EUR 57 million (2018: EUR 52 million).

Inventories

EURm	2019	2018
Raw materials and consumables	108	104
Work in progress	10	9
Finished goods	118	125
Inventories 31/12	**236**	**238**

Movement in inventory write-downs

EURm	2019	2018
Inventory before write-downs	250	250
Write-downs:		
Write-downs 1/1	-12	-10
Change in the year	-2	-2
Write-downs 31/12	-14	-12
Inventories 31/12	**236**	**238**

Notes

3.2 Trade receivables

Accounting policies

Trade receivable are measured at amortised cost less allowance for bad debt based on the expected credit loss model.

The Group applies the simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 1 January 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The costs of allowance for bad debts and realised losses during the year are included in other external costs.

Trade receivables

EURm	2019	2018
Trade receivables before allowance for bad debts (maximum credit risk)	288	289
Allowance for bad debts 1/1	-15	-15
Impact from new expected credit loss model	-	-0
Exchange rate adjustments	0	0
Movements during the year	0	-1
Realised losses during the year	2	1
Allowance for bad debts 31/12	-13	-15
Trade receivables 31/12	**275**	**274**

Allowance for bad debts based on the expected credit loss model

EURm	Expected loss rate	Gross carrying amount	Allowance for bad debt	Total 2019
Current	0.1%	264	0	264
More than 30 days past due	2%	10	0	10
More than 60 days past due	40%	1	0	1
More than 90 days past due	100%	13	-13	0
Total 31/12 2019		**288**	**-13**	**275**

Allowance for bad debts based on the expected credit loss model

EURm	Expected loss rate	Gross carrying amount	Allowance for bad debt	Total 2018
Current	0.1%	266	-0	266
More than 30 days past due	2%	7	-0	7
More than 60 days past due	40%	2	-1	1
More than 90 days past due	100%	14	-14	0
Total 31/12 2018		**289**	**-15**	**274**

Notes

3.3 Other cash flow notes

Adjustments of non-cash operating items

EURm	2019	2018
Provisions	5	-7
Expensed value of RSUs issued	1	1
Gain/loss on sale of intangible and tangible assets	0	-1
Total adjustments	**6**	**-7**

Changes in net working capital

EURm	2019	2018
Change in inventories	7	-42
Change in trade receivables	4	-18
Change in other receivables	-7	-3
Change in trade payables	-27	31
Change in other payables	-16	10
Change in net working capital	**-39**	**-22**

Note 4
Capital structure and financing

Equity ratio

78.5%

Compared to 77.1% last year

Earnings per share

13.0 EUR

Up 0.9 EUR from last year

Net cash position

269 EURm

Down from EUR 380 million last year

Notes

4.1 Financial income and Financial expenses

Accounting policies

Financial income and Financial expenses comprise interest income and interest costs, interest costs compiled from lease liabilities, realised and unrealised foreign exchange gains and losses, as well as fair value adjustments of cash-settled share-based incentive programmes which are offset against other liabilities.

Financial income and Financial expenses also include adjustments to fair value hedges, and income and costs relating to cash flow hedges transferred from other comprehensive income on realisation of the hedged items.

Financial income

EURm	2019	2018
Interest income	2	2
Foreign exchange gains	3	3
Total	**5**	**5**
Hereof: Financial income on financial assets at amortised cost	2	0

Financial expenses

EURm	2019	2018
Interest expenses etc.	7	5
Interest expenses lease liabilities	2	-
Fair value adjustment phantom shares	1	4
Foreign exchange losses	0	3
Total	**10**	**12**
Hereof: Financial expenses on financial liabilities at amortised cost	5	3

Notes

4.2 Financial risks and instruments

Accounting policies

Derivative financial instruments are initially recognised in the balance sheet at cost price and are subsequently measured at fair value. Derivative financial instruments are recognised in other receivables and other payables.

Changes to the fair value of derivative financial instruments, which meet the conditions for hedging the fair value of a recognised asset or liability, are recognised in the income statement together with any changes in the fair value of the hedged asset or liability.

Changes to the fair value of derivative financial instruments, which meet the conditions for hedging future cash flow, are recognised in other comprehensive income provided the hedge has been effective. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The accumulated value adjustment related to these hedge transactions is transferred from other comprehensive income when the position is realised, and is included in the value of the hedged position e.g. the adjustment follows the cash flow.

For derivative financial instruments, which do not qualify as hedging instruments, changes to the fair value are recognised on an ongoing basis in the income statement as financial income or financial expenses.

Categories of financial assets and liabilities

EURm	2019	2018
Financial assets:		
Financial instruments for hedging of future cash flows	1	1
Financial assets at fair value through other comprehensive income	**1**	**1**
Trade receivables	275	274
Other receivables and receivables from associated companies	54	42
Cash	275	386
Financial assets at amortised costs	**604**	**702**
Financial liabilities:		
Fair value hedges	0	4
Financial liabilities at fair value through income statement	**0**	**4**
Financial instruments for hedging of future cash flows	3	5
Financial liabilities at fair value through other comprehensive income	**3**	**5**
Bank loans incl. short-term	5	5
Bank debt	6	6
Trade payables	196	209
Other payables	154	165
Financial liabilities at amortised costs	**361**	**385**

The carrying value of the Group's financial assets and liabilities measured at amortised cost are assessed to be a reasonable approximation of fair value.

Other receivables and receivables from associated companies

Other receivables and receivables from associated companies fall due as follows:

EURm	2019	2018
< 1 year	54	42
1-5 years	-	-
> 5 years	-	-
Total	**54**	**42**

Notes

4.2 Financial risks and instruments (continued)

Comments

The Group's listed equity securities, taken over as part of the acquisition of Flumroc AG, were sold during 2018.

As a consequence of ROCKWOOL Group's extensive international activities, the Group's income statement and equity are subject to a number of financial risks. The Group manages these risks in the following categories:

– Exchange rate risk,
– Interest rate risk
– Liquidity risk
– Credit risk

The Group's policy is to identify and hedge significant financial risks on an ongoing basis. This is the responsibility of the individual companies in which financial risks might arise and overall supported by the Group's treasury department. The parent company continuously monitors the Group's financial risks in accordance with a framework determined by Group Management and/or the Board of Directors.

Exchange rate risk
As a consequence of the Group's structure, net sales and expenditure in foreign currency are to a significant degree set off against each other, so that the Group is not exposed to major exchange rate risks.

Commercial exchange rate risks in the companies, which cannot be set off are hedged on a continuous basis, to the extent that they may significantly affect the results of the individual company in a negative direction, using currency loans, currency deposits and/or financial derivatives. Exchange rate risks are hedged in the individual companies. The Group's hedging reserve is disclosed under "Statement of changes in equity" with an insignificant amount.

The Group's net sales and expenditures will be subject to exchange rate fluctuations on translation into EUR.

Sensitivity analysis

Effect in EURm	EBITDA	
5% change in exchange rate	**2019**	**2018**
USD (+/-)	8-12	7-10
RUB (+/-)	3-5	2-3
CAD (+/-)	0-1	1-2
PLN (+/-)	2-3	2-3
GBP (+/-)	4-5	3-5
	Equity	
USD (+/-)	10-16	7-10
RUB (+/-)	10-15	10-15
CAD (+/-)	6-9	5-8
PLN (+/-)	10-15	9-14
GBP (+/-)	5-7	3-5

A sensitivity analysis is made for the Group's result and equity based on the underlying currency transactions. The financial instruments included in the sensitivity analysis are cash, receivables, payables, current liabilities and financial investments without taking hedging into consideration. The result of the sensitivity analysis cannot be directly transferred to the fluctuations on translating the financial result and equity of subsidiaries into EUR.

The impact on the net sales of the difference between average rate and year-end rate amounts to EUR 15 million (2018: EUR -11 million) for the 5 largest currencies (USD, RUB, CAD, PLN and GBP), which is a change of 0.5% (2018: -0.4%).

The Group's policy is not to hedge exchange rate risks in long-term investments in subsidiaries. When relevant, external investment loans and Group loans are, as a general rule, established in the local currency of the company involved, while cash at bank and in hand are placed in local currency.

In the few countries with ineffective financial markets loans can be raised and surplus liquidity placed in DKK, EUR or USD, subject to the approval of the Group's finance function.

Most Group loans, that are not established in DKK or EUR, are hedged in via forward agreements, currency loans and cash pools or via the SWAP market.

Interest rate risk
Currently the Group does not have any significant interest-bearing debt or assets. The Group's policy is that necessary financing of investments should primarily be affected by raising 5 to 7 year loans at fixed or variable interest rates.

Drawings on credit facilities at variable interest rates generally match the funds, and all Group loans are symmetrical in terms of interest rates. Consequently, changes in interest rates will not have a significant effect on the result of the Group.

Notes

4.2 Financial risks and instruments (continued)

Liquidity risk
The current surplus and deficit liquidity in the Group's companies is set off, to the extent that this is profitable, via the parent company acting as intra-Group bank and via cash pool systems. When considered appropriate, underlying cash pool systems are established in foreign companies.

To the extent that the financial reserves are of an appropriate size, the parent company also acts as lender to the companies in the Group.

To ensure adequate financial reserves as defined by the Board of Directors, investment loans can be raised on a continuous basis to partly cover new investments and to refinance existing loans. The parent company has made guarantees for some credit facilities and loans. The parent company has issued ownership clauses and/or deed of postponements in connection with intercompany loans.

The parent company ensures on an ongoing basis that flexible, unutilised committed credit facilities of an adequate size are established with Investment Grade credit-rated banks. The Group's financial reserves also consist of cash at bank and in hand, and unused overdraft facilities.

Credit risk
Due to the considerable customer spread in terms of geographical location and numbers, the credit risk is fundamentally limited. To a minor degree, when considered necessary, insurance or bank guarantees are used to hedge outstanding receivables.

As a consequence of the international diversification of the Group's activities there are business relations with a number of different banks in Europe, North America and Asia. To minimise the credit risk on placement of funds and on entering into agreements on derived financial instruments, only major, financially sound institutions are used.

Customer credit risks are assessed considering the financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings. For impairment of trade receivable please refer to note 3.2.

No customer exceeds 10% of the Group's net sales neither this year nor last year.

Categories of financial instruments
Financial assets and liabilities at fair value are related to foreign exchange rate forward contracts, foreign exchange rate swaps or interest rate swaps all of which have been valued using a valuation technique with market observable inputs (level 2).

The Group is using no other valuation technique. The Group enters into derivative financial instruments with financial institutions.

Derivatives valued using valuation techniques with market observable inputs are mainly foreign exchange forward contracts. The most frequently applied valuation techniques include forward pricing models using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot rates.

4.3 Cash available

Cash available

EURm	2019	2018
Cash	275	386
Bank debts	6	6
Cash available 31/12	**269**	**380**

Notes

4.4 Own shares

Accounting policies

ROCKWOOL International A/S has a reserve of own shares recognised in retained earnings. The shares are bought back to meet obligations under the company's equity-based stock option and restricted share unit programmes.

Own shares

EUR			2019			2018
	Number of shares	Average purchase/ sales price	% of share capital	Number of shares	Average purchase/ sales price	% of share capital
Own shares 1/1	75,865		0.4	206,840		1.0
Purchase	9,700	217	0.0	9,250	241	0.0
Sale/awards	12,671	127	0.1	140,225	164	0.6
Own shares 31/12	**72,894**		**0.3**	**75,865**		**0.4**

Own shares are acquired and sold in connection with hedging of the Group's stock option and restricted share unit programmes etc. Own shares are purchased based on authorisation from the General Assembly.

4.5 Share capital

Comments

Each A share of a nominal value of DKK 10 (EUR 1.3) carries 10 votes, and each B share of a nominal value of DKK 10 (EUR 1.3) carries 1 vote. The total share capital has been unchanged for the last 19 years.

The share capital has been fully paid up. No shareholder is under an obligation to allow his shares to be redeemed whether in whole or in part. The shares are negotiable instruments, and all shares shall be freely transferable.

Share capital

EURm	2019	2018
A shares - 11,231,627 shares of DKK 10 each (EUR 1.3)	15	15
B shares - 10,743,296 shares of DKK 10 each (EUR 1.3)	14	14
Total	**29**	**29**

Notes

4.6 Earnings per share

Earnings per share

EURm	2019	2018
Profit for the year attributable to shareholders of ROCKWOOL International A/S	285	265
Average number of shares ('000)	21,975	21,975
Average number of own shares ('000)	74	141
Average number of outstanding shares ('000)	**21,901**	**21,834**
Dilution effect of stock options ('000)	52	86
Average number of diluted shares ('000)	**21,953**	**21,920**
Earnings per share	13.01	12.14
Earnings per share, diluted	12.98	12.09

Note 5
Other

Effective tax rate in 2019

22.4%

Number of subsidiaries in the Group

59

Notes

5.1 Tax on profit for the year

Accounting policies

The parent company is taxed jointly with all Danish subsidiaries. Income subject to joint taxation is fully distributed. Tax on profit for the year, which includes current tax on profit for the year as well as changes to deferred tax, is recognised in the income statement.

In the course of conducting business globally, transfer pricing disputes, etc. with tax authorities may occur, and Management judgement is applied to assess the possible outcome of such disputes. The most probable outcome is used as the measurement method, and Management believes, that the provision made for uncertain tax positions not yet settled with local tax authorities is adequate. However, the actual obligation may deviate and is dependent on the result of litigations and settlements with the relevant tax authorities.

Tax on changes in other comprehensive income is recognised directly under other comprehensive income.

Tax on profit for the year

EURm	2019	2018
Current tax for the year	90	85
Change in deferred tax	-3	-7
Adjustment to valuation of tax assets	-6	-8
Withholding taxes	3	1
Adjustment in current and deferred tax in previous years	-2	-1
Total	**82**	**70**

Reconciliation of effective tax rate

	2019	2018
Danish tax rate	22.0%	22.0%
Deviation in non-Danish subsidiaries' tax compared to Danish tax percentage	2.1%	2.4%
Withholding tax adjustment	0.8%	0.4%
Permanent differences	0.0%	0.1%
Effect on change in income tax rates	0.1%	-0.3%
Adjustment to valuation of tax assets	-2.0%	-3.0%
Initial recognition of tax credit	-0.5%	-0.8%
Other deviations	-0.1%	0.2%
Effective tax rate	**22.4%**	**21.0%**

Notes

5.2 Income tax receivable and payable

Income tax receivable and payable

EURm	2019	2018
Balance 1/1	29	14
Exchange rate adjustments	-0	0
Acquisition of subsidiary	-	0
Current tax for the year	93	85
Payments during the year	-109	-62
Adjustment in respect of prior years	2	-2
Current tax for the year recognised in other comprehensive income	0	-6
Total 31/12	**15**	**29**
Income tax is recognised as follows:		
Income tax receivable	14	5
Income tax payable	29	34
Total 31/12	**15**	**29**

5.3 Deferred taxes

Accounting policies

Provisions for deferred tax are calculated on all temporary differences between accounting and taxable values, calculated using the balance-sheet liability method.

Deferred tax provisions are also made to cover the re-taxation of losses in jointly taxed foreign companies previously included in the Danish joint taxation.

Deferred tax assets are recognised when it is probable, that the assets will reduce tax payments in coming years and they are assessed at the expected net realisable value.

Deferred tax is stated according to current tax regulations. Changes in deferred tax as a consequence of changes in tax rates are recognised in the income statement.

Notes

5.3 Deferred taxes (continued)

Critical estimates and judgements

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining provision for uncertain tax positions or the recognition of a deferred tax asset.

A tax asset is recognised if it is assessed, that the asset can be utilised in a foreseeable future based on strong indications, that sufficient future profits are available to absorb the temporary differences including the Group's future tax planning.

The valuation of tax assets related to losses carried forward is done on a yearly basis and is based on expected positive taxable income within the next 3-5 years.

Comments

Tax assets not recognised amount to EUR 42 million (2018: EUR 25 million). The tax assets have not been recognised as they have arisen in subsidiaries, that have been loss-making for some time and there is no evidence of recoverability in the near future.

Deferred tax assets and liabilities are offset in the consolidated balance sheet, if the Group has a legally enforceable right to set off and the deferred tax assets and liabilities relate to the same legal tax entity/consolidation. Of the total deferred tax assets recognised, EUR 1 million (2018: EUR 3 million) relate to tax loss carry forwards.

Deferred taxes

EURm	2019	2018
Deferred taxes, net 1/1	5	12
Exchange rate adjustments	1	1
Acquisition of subsidiary	-	1
Change in deferred tax recognised in profit and loss	-7	-6
Adjustment to valuation of tax assets	-6	-8
Deferred tax for the year recognised in other comprehensive income for the year	-4	5
Deferred tax, net 31/12	**-11**	**5**
Deferred tax is recognised in the balance sheet as follows:		
Deferred tax assets	54	46
Deferred tax liabilities	43	51
Deferred tax, net 31/12	**-11**	**5**
Deferred tax relates to:		
Non-current assets	10	37
Current assets	-5	-5
Non-current liabilities	-14	-24
Current liabilities	-5	-4
Tax loss carried forward	-1	-3
Re-taxable amounts	4	4
Deferred tax, net 31/12	**-11**	**5**

Tax assets expire as follows

EURm		2019		2018
	Recognised assets	**Unrecognised assets**	**Recognised assets**	**Unrecognised assets**
Within 1 year of balance sheet date	-	2	-	1
Within 1-5 years of balance sheet date	-	5	0	6
After 5 years of balance sheet date	11	30	11	13
Do not expire	43	5	35	5
Total	**54**	**42**	**46**	**25**

Notes

5.4 Auditor's fee

Comments

Fees for services in addition to the statutory audit of the financial statements which were provided by the statutory auditor PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab to the Group amounted to less than EUR 1 million in both 2019 and 2018.

Services in addition to the statutory audit of the financial statements comprise tax services relating to transfer pricing, as well as other general accounting consultancy services.

Fees to auditors elected at the Annual General Meeting

EURm	2019	2018
Statutory audit	1	1
Other opinions	0	0
Tax consultancy	1	0
Other services	0	1
Total	**2**	**2**

5.5 Commitments and contingent liabilities

Accounting policies

Provisions for legal proceedings are recognised, if they are certain or probable at the balance sheet date, and if the size of the liability can be measured on a reliable basis. Legal proceedings for which no reliable estimate can be made are disclosed as contingent liabilities.

Lease commitments expire within the following periods as from the balance sheet date:

Contractual undiscounted future cash flows

EURm	2019	2018
	IFRS 16 lease liabilities	**Operational lease commitments**
Within 1 year	20	19
Between 1 and 5 years	30	26
After 5 years	10	5
Total	**60**	**50**

Comments

For the Group, commitments comprise EUR 4 million (2018: EUR 5 million). Contingent liabilities amount to EUR 8 million (2018: EUR 5 million). Contractual obligations for purchase of tangible assets are mentioned in note 2.2.

The Group is engaged in a few legal proceedings. It is expected that the outcome of these legal proceedings will not impact the Group's financial position in excess of what has been provided for in the balance sheet as at 31 December 2019 (as well as at 31 December 2018).

In 2018, lease costs included in the income statement for the Group amounted to EUR 24 million.

Notes

5.6 Related parties

Comments

The Group's related parties comprise the Company's shareholder the ROCKWOOL Foundation, the Company's Board of Directors and Management and associated companies. Apart from dividends no transactions were carried out with the shareholders during the year. For transactions with the Board of Directors and Group Management please refer to note 1.3 and note 1.4.

Transactions with related parties

The income statement and balance sheet include the following transactions with other companies in the Group:

EURm	2019	2018
Transactions with associated companies:		
Net sales to associated companies	16	15
Dividend from associated companies	1	1
Receivable from associated companies	-	-

Notes

5.7 New and changed standards and general accounting policies

The Annual Report for ROCKWOOL International A/S has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

The financial year for the Group is 1 January – 31 December 2019.

5.7.1 New and changed standards and interpretations

The following EU adopted standards and interpretations with relevance for the Group were implemented with effect from 1 January 2019:

– IFRS 16: Lease (effective date 1 January 2019)

Several other amendments and interpretations apply for the first time in 2019, but have no impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Impact from IFRS 16 "Lease"
The Group adopted IFRS 16 using the modified retrospective method under which the effect of the implementation is included in the opening equity as of 1 January 2019 without adjustment of comparative figures.

The standard has replaced IAS 17, and requires that lease contracts previously classified as operational leases are recognised in the balance sheet as a right-of-use (RoU) asset with the corresponding lease liability. In the income statement, the lease cost under operating costs are replaced by depreciation of the leased asset and an interest expense for the lease liability. The impact on profit for the period is neutral over time, but a timing effect does occur due to frontloading of interest expenses.

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).

Lease liability bridge

EURm	2019
Lease liability reported per 31 December 2018	50
- Short-term leases not recognised as a liability	-11
- Low value leases not recognised as a liability	-0
- Non-lease components not included in liabilities	-1
+/- Adjustments as a result of a different treatment of extension and termination options	1
+ Contracts not included in operational lease commitments 31 December 2018	4
+/- Other differences	-2
Undiscounted lease liability recognised as at 1 January 2019	**41**
Discounted using incremental borrowing rate at the date of initial application:	
Lease liability recognised as at 1 January 2019	**37**
Of which are:	
Current lease liabilities	13
Non-current lease liabilities	24
Total	**37**

On adoption, lease liabilities related to leases previously classified as operating leases under the principle of IAS 17 Leases, were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.

The Group has elected to use the recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less for all classes of underlying assets, as well as the exemption for lease contracts for which the underlying asset is of low value ("low-value assets"), e.g. computers, printing and photocopying machines etc.

Further, the Group has elected to exclude any initial direct costs from the measurement of the right-of-use asset at the date of initial application, as well as hindsight has been used in determining the lease term of contracts that contains extension and/or termination options.

The incremental borrowing rate (IBR) is calculated per main country/region per asset type. The length of the lease terms for the different asset types has also been taken into consideration. The weighted average IBR applied to the lease liabilities on 1 January 2019 was 4.3%.

The change in the 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.

New and changed standards and interpretation not yet entered into force
EU adopted standards and amendments issued by IASB with effective date after 31 December 2019 and therefore not implemented, comprise:

– Amendments to IFRS 3: Business Combinations (effective date 1 January 2020).

It is assessed that the amendments to IFRS 3 might have an impact on the future recognition and measurement for the Group accounts.

Notes

5.7 New and changed standards and general accounting policies (continued)

5.7.2 General accounting policies

Group Accounts
The consolidated financial statements comprise ROCKWOOL International A/S and the entities in which the company and its subsidiaries hold the majority of the voting rights.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements, determined according to the Group's accounting policies, and with elimination of dividends, internal revenue and expenditure items, internal profits as well as intercompany balances and intercompany shareholdings.

Besides shares, capital investments in subsidiaries include long-term loans to subsidiaries if such loans constitute an addition to the shareholding.

Translation of foreign currency
The Annual Report has been presented in Euro (EUR) which is the Group's presentation currency. Each company in the Group determines its own functional currency.

Transactions in foreign currency are translated using the exchange rate at the transaction date or a hedged rate. Monetary items in foreign currency are translated using the exchange rates at the balance sheet date. Accounts of foreign subsidiaries are translated using the exchange rates at the balance sheet date for balance sheet items, and the periodic average exchange rates for items of the income statement.

All exchange rate adjustments are recognised in the income statement under financial items, apart from the exchange rate differences arising on:

– Conversion of equity in subsidiaries at the beginning of the financial year using the exchange rates at the balance sheet date
– Conversion of the profit for the year from average exchange rates to exchange rates at the balance sheet date
– Conversion of long-term intercompany balances that constitute an addition to the holding of shares in subsidiaries
– Conversion of the forward hedging of capital investments in subsidiaries
– Conversion of capital investments in associated and other companies
– Profit and loss on effective derivative financial instruments used to hedge expected future transactions

These value adjustments are recognised directly under other comprehensive income.

Critical estimates and judgements
In preparing the consolidated financial statements, Management makes various accounting estimates and assumptions that form the basis of the presentation, recognition and measurement of the Group's assets and liabilities. The most significant accounting estimates and judgements are presented below.

In applying the Group's accounting policies, Management make judgements that may significantly influence the amounts recognised in the consolidated financial statements. When determining the carrying amount of some assets and liabilities it requires Management to make judgments, estimates and assumptions concerning future events.

The judgements, estimates and assumptions are based on historical experience and other factors, and are considered by Management as reasonable in the circumstances, but are inherently uncertain and unpredictable and therefore the actual outcome may differ from these estimates.

Management considers critical estimates and judgements under the following items as significant to the consolidated financial statements:

– Impairment testing (note 2.5)
– Expected lifetime for tangible assets (note 2.2)
– Deferred tax assets and uncertain tax positions (note 5.3)
– Pension obligations (note 2.6)

Notes

5.8 Group companies

	Country	% Shares owned
Parent company		
ROCKWOOL International A/S		
Subsidiaries		
Insulation		
ROCKWOOL Handelsgesellschaft m.b.H.	Austria	100
ROCKWOOL B.V.B.A.	Belgium	100
Etablissements Charles Wille et cie SA	Belgium	100
ROCKWOOL Bulgaria Ltd.	Bulgaria	100
ROXUL Inc.	Canada	100
ROCKWOOL Firesafe Insulation (Jiangsu) Co., Ltd.	China	100
ROCKWOOL Firesafe Insulation (Guangzhou) Co. Ltd.	China	94.84
ROCKWOOL Adriatic d.o.o.	Croatia	100
ROCKWOOL a.s.	Czech Republic	100
ROCKWOOL A/S	Denmark	100
ROCKWOOL EE OÜ	Estonia	100
ROCKWOOL Finland OY	Finland	100
ROCKWOOL France S.A.S	France	100
Deutsche ROCKWOOL GmbH & Co. KG	Germany	100
HECK Wall Systems GmbH	Germany	100
ROCKWOOL Mineralwolle GmbH Flechtingen	Germany	100
ROCKWOOL Operations GmbH & Co.KG	Germany	100
ROCKWOOL Limited	Great Britain	100
ROCKWOOL Building Materials Ltd.	Hong Kong	100
ROCKWOOL Hungary Kft.	Hungary	100
ROXUL ROCKWOOL Insulation India Ltd.	India	100
ROXUL ROCKWOOL Technical Insulation India Pvt. Ltd.	India	100
ROCKWOOL Italia S.p.A.	Italy	100
ROCKWOOL Korea Co. Ltd.	Korea	100
SIA ROCKWOOL	Latvia	100
ROCKWOOL UAB	Lithuania	100
ROCKWOOL Malaysia Sdn. Bhd.	Malaysia	94.84
Breda Confectie B.V.	the Netherlands	100
ROCKWOOL B.V.	the Netherlands	100
A/S ROCKWOOL	Norway	100
ROCKWOOL Polska Sp. z o.o.	Poland	100
FAST Sp. z o.o.	Poland	100

Notes

5.8 Group companies (continued)

	Country	% Shares owned
Subsidiaries		
Insulation (continued)		
ROCKWOOL Romania s.r.l.	Romania	100
LLC ROCKWOOL	Russia	100
LLC ROCKWOOL-NORTH	Russia	100
LLC ROCKWOOL-Ural	Russia	100
LLC ROCKWOOL-VOLGA	Russia	100
ROCKWOOL Building Materials (Singapore) Pte Ltd.	Singapore	100
ROCKWOOL Slovensko s.r.o.	Slovakia	100
ROCKWOOL Peninsular S.A.U.	Spain	100
ROCKWOOL AB	Sweden	100
Flumroc AG	Switzerland	100
PAMAG Engineering AG	Switzerland	100
ROCKWOOL GmbH	Switzerland	100
ROCKWOOL Limited	Thailand	94.84
ROCKWOOL Insaat ve Yelitim Sistemleri San. Ve Tic. Ltd. Sti.	Turkey	100
ROCKWOOL Middle East FZE	UAE	100
LLC ROCKWOOL Ukraine	Ukraine	100
ROXUL USA Inc.	United States	100
Systems		
Chicago Metallic (Shenzhen) Co., Ltd.	China	100
ROCKWOOL Rockfon GmbH	Germany	100
Chicago Metallic (Asia Pacific) Ltd.	Hong Kong	100
Chicago Metallic (Malaysia) Sdn. Bhd.	Malaysia	100
Other subsidiaries		
ROCKWOOL Beteiligungs GmbH	Germany	100
ROCKWOOL Verwaltungs GmbH	Germany	100
CMC Productos Perlitas s de rl de cv	Mexico	100
Servicios Pearl de Mexico s de rl de cv	Mexico	100
ROCKWOOL Global Business Service Center Sp. Z.o.o.	Poland	100
Meilco Holding AG	Switzerland	100
Associated companies		
Betterhome ApS	Denmark	33
RESO SA	France	20

The German subsidiaries DEUTSCHE ROCKWOOL GmbH & Co. KG and ROCKWOOL Operations GmbH & Co. KG, which have legal form of partnership, make use of the exemptions provided by section 264b of the German Commercial Code (HGB).

Definition of key figures and ratios

EBITDA
Earnings before depreciation, write-downs, amortisations, financial items and tax

EBIT
Earnings before financial items and tax

Net working capital (NWC)
Trade receivables, other receivables and other current operating assets less trade payables, other payables and other current operational liabilities adjusted for investment payables

Invested capital
NWC + intangible assets, tangible assets and right-of-use assets less non-interest bearing liabilities and investment payables

Net interest bearing debt
Cash less bank loans and other loans less bank debt less lease liabilities

EBITDA margin (%)

$$\frac{\text{EBITDA}}{\text{Net sales}} \times 100\%$$

EBIT margin (%)

$$\frac{\text{EBIT}}{\text{Net sales}} \times 100\%$$

Earnings per share of DKK 10 (EUR 1.3)

$$\frac{\text{Profit for the year after non-controlling interests}}{\text{Average number of outstanding shares}}$$

Diluted earnings per share of DKK 10 (EUR 1.3)

$$\frac{\text{Profit for the year after non-controlling interests}}{\text{Diluted average number of outstanding shares}}$$

Cash flow per share of DKK 10 (EUR 1.3)

$$\frac{\text{Cash flows from operating activities}}{\text{Average number of outstanding shares}}$$

Dividend per share of DKK 10 (EUR 1.3)

$$\frac{\text{Proposed dividend for the year}}{\text{Number of shares at the end of the year}}$$

Book value per share of DKK 10 (EUR 1.3)

$$\frac{\text{Equity end of the year after non-controlling interests}}{\text{Number of shares at the end of the year}}$$

Return on invested capital (ROIC)

$$\frac{\text{EBIT}}{\text{Average invested capital including goodwill}} \times 100\%$$

Return on equity (%)

$$\frac{\text{Profit for the year after non-controlling interests}}{\text{Average equity excluding non-controlling interests}} \times 100\%$$

Equity ratio (%)

$$\frac{\text{Equity end of the year excl. non-controlling interests}}{\text{Total equity and liabilities at the end of the year}} \times 100\%$$

Payout ratio (%)

$$\frac{\text{Proposed dividend for the year}}{\text{Profit for the year after non-controlling interests}} \times 100\%$$

Leverage ratio

$$\frac{\text{Net interest-bearing debt}}{\text{EBITDA}}$$

Financial gearing

$$\frac{\text{Net interest-bearing debt}}{\text{Equity end of the year}}$$

Market cap
Number of outstanding shares x share price

Growth in local currency
Growth rates excluding currency impact, as both periods are using the same exchange rates.

RATIOS
The ratios have been calculated in accordance with www.keyratios.org/ issued by *CFA Society Denmark*. The ratios mentioned in the five-year summary are calculated as described in the definitions above.

EXCHANGE RATE

Average DKK/EUR	
2019	7.46
2018	7.45
2017	7.44
2016	7.45
2015	7.46

Accounts of foreign subsidiaries are translated using the exchange rates at the balance sheet date for balance sheet items, and the periodic average exchange rates for items of the income statement.

Management's statement

The Board of Directors and the Registered Directors have today considered and adopted the Annual Report of ROCKWOOL International A/S for the financial year 1 January - 31 December 2019.

The Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and the parent company financial statements have been prepared in accordance with the Danish Financial Statement Act. Management's review has been prepared in accordance with the Danish Financial Statement Act.

In our opinion the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's financial position at 31 December 2019 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January - 31 December 2019.

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

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

Hedehusene, 5 February 2020

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

Independent auditor's report

To the shareholders of ROCKWOOL International A/S

Our opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2019 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2019 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The Consolidated Financial Statements of ROCKWOOL International A/S for the financial year 1 January to 31 December 2019 (pp. 67-113) comprise income statement and statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes, including summary of significant accounting policies.

The Parent Company Financial Statements of ROCKWOOL International A/S for the financial year 1 January to 31 December 2019 comprise income statement, balance sheet, statement of changes in equity and notes, including summary of significant accounting policies.

Collectively referred to as the "Financial Statements"

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of ROCKWOOL International A/S on 9 April 2014 for the financial year 2014. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 6 years including the financial year 2019.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter
Impairment of intangible and tangible assets
Intangible and tangible assets might be impaired due to for example increased competition in local markets, changes in the global economy and changes in the strategy of the Group.

We focused on this area as the determination of whether or not an impairment charge for intangible and tangible assets was necessary involves significant estimates and judgements made by Management, including especially:

- estimation of future cash flows and the key assumptions underlying Management's expectations;
- discount rates applied in discounting future cash flows; and
- long-term growth rates

Reference is made to notes 2.1, 2.2, 2.4 and 2.5 to the Consolidated Financial Statements.

How our audit addressed the key audit matter
We tested the impairment tests prepared by Management and evaluated the reasonableness of estimates and judgements made by Management in preparing these.

Our audit procedures included assessing the Group's impairment model.

Special focus was given to the key drivers of the future cash flows, including growth in net revenues, cost inflation and efficiency improvements, as well as the discount rates and long-term growth rates applied.

We tested the reliability of Management's estimates by comparing budgeted figures to actual figures for the past years and evaluated the discount rates and long-term growth rates applied.

Moreover, we examined sensitivity analyses performed over changes in discount rates, revenue growth and efficiency improvements.

Independent auditor's report

(continued)

Statement on Management's Review
Management is responsible for Management's Review (pp. 3-66 and p. 114).

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

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

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

– Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report

(continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Hellerup, 5 February 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Torben Jensen
State Authorised Public Accountant
mne18651

Rune Kjeldsen
State Authorised Public Accountant
mne34160

Financial statements for ROCKWOOL International A/S

Income statement – ROCKWOOL International A/S

1 January – 31 December

EURm	Note	2019	2018
Net sales	2.1	402	269
Costs of raw material and consumables		134	61
Other external costs		110	99
Gross profit		**158**	**109**
Personnel costs	2.2	58	47
Depreciation, amortisation and write-downs	3.1, 3.2	24	13
Operating profit / EBIT		**76**	**49**
Income from investments in subsidiaries	2.3	226	251
Financial income	4.1	10	5
Financial expenses	4.1	11	11
Profit before tax		**301**	**294**
Tax on profit for the year	5.1	27	7
Profit for the year		**274**	**287**

Balance sheet – ROCKWOOL International A/S

Assets – as at 31 December

EURm	Note	2019	2018
Completed development projects		13	13
Acquired patents, licenses and trademarks		21	20
Development projects in progress		9	12
Intangible assets	3.1	**43**	**45**
Land and buildings		21	14
Other fixtures and fittings, tools and equipment		7	4
Prepayments and property, plant and equipment in progress		1	3
Property, plant and equipment	3.2	**29**	**21**
Investment in subsidiaries		1,821	1,665
Receivables from subsidiaries		204	46
Fixed assets investments	3.3	**2,025**	**1,711**
Fixed assets		**2,097**	**1,777**
Inventories		**-**	**8**
Contract work in progress	3.4	17	28
Receivables from subsidiaries		270	252
Tax receivables		7	4
Other receivables		27	19
Prepayments		5	6
Receivables		**326**	**309**
Cash		**126**	**257**
Current assets		**452**	**574**
Assets		**2,549**	**2,351**

Equity and liabilities – as at 31 December

EURm	Note	2019	2018
Share capital		29	29
Revaluation reserve according to the equity method		43	1
Reserve for development costs		22	25
Retained earnings		1,909	1,724
Proposed dividend		94	88
Shareholders' equity		**2,097**	**1,867**
Deferred tax	5.2	5	6
Other provisions		3	2
Provisions		**8**	**8**
Trade payables		24	19
Payables to subsidiaries		402	430
Other payables		18	27
Current liabilities		**444**	**476**
Liabilities		**452**	**484**
Liabilities and shareholders' equity		**2,549**	**2,351**

Statement of shareholders' equity, ROCKWOOL International A/S

EURm	Share capital	Revaluation reserve according to the equity method	Reserve for develop-ment costs	Retained earnings	Proposed dividend	Total equity
Shareholders' equity 1/1 2019	**29**	**1**	**25**	**1,724**	**88**	**1,867**
Exchange rate adjustments	-	-	-	-1	-	-1
Profit for the year	-	-4	-	184	94	274
Development costs for the year	-	-	-3	3	-	-
Currency revaluation of investments in subs	-	53	-	-	-	53
Other adjustments	-	-7	-	-	-	-7
Expensed value of RSUs issued	-	-	-	0	-	0
Sale and purchase of own shares	-	-	-	-2	-	-2
Dividend paid to the shareholders	-	-	-	1	-88	-87
Shareholders' equity 31/12 2019	**29**	**43**	**22**	**1,909**	**94**	**2,097**

EURm	Share capital	Revaluation reserve according to the equity method	Reserve for develop-ment costs	Retained earnings	Proposed dividend	Total equity
Shareholders' equity 1/1 2018	**29**	**-**	**18**	**1,116**	**71**	**1,234**
Adjustment to opening balance due to changes in accounting principles	-	77	-	341	-	**418**
Restated shareholders' equity 1/1 2018	**29**	**77**	**18**	**1,457**	**71**	**1,652**
Exchange rate adjustments	-	-	-	-3	-	-3
Profit for the year	-	-80	-	279	88	287
Development costs for the year	-	-	7	-7	-	-
Currency revaluation of investments in subs	-	-16	-	-	-	-16
Other adjustments	-	20	-	-24	-	-4
Expensed value of RSUs issued	-	-	-	1	-	1
Sale and purchase of own shares	-	-	-	20	-	20
Dividend paid to the shareholders	-	-	-	1	-71	-70
Shareholders' equity 31/12 2018	**29**	**1**	**25**	**1,724**	**88**	**1,867**

Notes for ROCKWOOL International A/S

Note 1

1.0 Accounting policies

The financial statements of ROCKWOOL International A/S have been prepared in accordance with the Danish Financial Statements Act (accounting class D).

The Financial statements for 2019 are presented in EUR.

Changes in accounting policies
The accounting policies have been changed compared to last year, as the parent company is applying the Danish Financial Statements Act instead of IFRS as was the case in 2018.

Prior to the transition to the Danish Financial Statements Act, the parent company has changed the accounting policy for measurement of investments in subsidiaries from the cost price method to the equity value method. As a result hereof, the 2018 comparative figures have been adjusted, resulting in an adjusted profit for the year of EUR 287 million (previously EUR 481 million) and adjusted equity of EUR 1,867 million (previously EUR 1,662 million) at 31 December 2018.

When changing accounting policy to the Danish Financial Statements Act, the company has elected to use the carrying value of subsidiaries as deemed cost for subsidiaries under the Danish Financial Statements Act as per 1 January 2018 i.e. the company have not amortised goodwill before that date. From 1 January 2018 goodwill which forms part of the carrying value of subsidiaries have been amortised and recognised as part of income from subsidiaries.

The accounting policies are the same as for the consolidated financial statements with the adjustments described below. For a description of the Group's accounting policies, please refer to the consolidated financial statements.

Recognition and measurement in general
Income is recognised in the income statement as earned.

All costs incurred in generating the year's revenue are also recognised in the income statement, including depreciation, amortisation and impairment losses.

Value adjustments of financial assets and liabilities measured at fair value or amortised cost are also recognised in the income statement.

Assets are recognised in the balance sheet when it is considered probable that future economic benefits will flow to the company and the value of the asset can be measured on a reliable basis. Liabilities are recognised in the balance sheet when they are considered probable and can be measured on a reliable basis. At initial recognition, assets and liabilities are measured at cost. Assets and liabilities are subsequently measured as described below for each item.

Net sales
The company produces and sells machinery and consultancy service under fixed price contracts. The projects typically include one deliverable. Revenue from the projects is recognised over time based on the progress and is based on the price of the projects. As the work is done at the customer's site, control is transferred along with the progress of the project. Recognition is based on the actual costs spent relative to the total estimated costs for the project, as this method is estimated to reflect the transfer of control. The credit terms are normally end of month plus 20 days.

Royalty is received for the use of the ROCKWOOL brand and technology. Royalty is based on the level of sales in the subsidiaries and recognised when earned according to the terms in the agreement.

Intangible assets
The accounting policies for intangible assets follow those of the Group with the exception of goodwill, which is amortised over a period of 10 years using the straight-line method.

An amount equal to the total capitalised development costs after tax is recognised under Shareholders' equity in the Reserve for development costs.

Fixed assets investments
Investments in subsidiaries are recognised initially at cost and measured subsequently using the equity method. The company's share of the equity of subsidiaries, based on the fair value of the identifiable net assets on the acquisition date, minus or plus unrealised intercompany profits or losses, with addition of any residual value of goodwill, is recognised under Investments in subsidiaries in the balance sheet.

If the shareholders' equity of subsidiaries is negative and ROCKWOOL International A/S has a legal or constructive obligation to cover the company's negative equity, a provision is recognised. Net revaluation of investments in subsidiaries is recognised under Shareholders' equity in the Revaluation reserve according to the equity method. The reserve is reduced by payments of dividends to the parent company and adjusted to reflect other changes in the equity of subsidiaries.

The proportionate share of the net profits of subsidiaries less goodwill amortisation is recognised under Income from investments in subsidiaries in the income statement. Goodwill in subsidiaries is amortised over a period of 10 years using the straight-line method.

Receivables from subsidiaries
Receivables from subsidiaries are recognised at amortised costs and are subsequently measured after deduction of allowance for losses based on an individual assessment.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Dividend
The dividend proposed for the financial year is shown as a separate item under Shareholders' equity.

Cash flow statement
ROCKWOOL International A/S has in accordance with the Danish Financial Statements Act, Section 86 (4) not prepared separate cash flow statements. Please refer to the consolidated cash flow statements.

References to notes to the consolidated financial statements for the following notes, see information in the consolidated financial statements:
– Own shares – see note 4.4
– Share capital – see note 4.5

Note 2

2.1 Net sales

EURm	2019	2018
Revenue from projects	160	85
Royalties and other fees	242	184
Total	**402**	**269**

2.2 Personnel costs

EURm	2019	2018
Wages and salaries	52	42
Expensed value of RSUs issued	1	1
Pension costs	5	4
Other social security costs	0	0
Total	**58**	**47**
Average number of employees in ROCKWOOL International A/S	428	369

Reference is made to note 1.3 and 1.4 to the consolidated financial statements concerning remuneration of the Board of Directors and the Registered Directors.

2.3 Income from investments in subsidiaries

EURm	2019	2018
Share of net profit/(loss)	236	229
Amortisation of goodwill	-10	-9
Reversal of write-down of shares and receivables in subsidiaries	-	31
Total	**226**	**251**

Note 3

3.1 Intangible assets

Comments

Completed development projects and development projects in progress mainly comprise software development.

EURm	Completed development projects	Acquired patents, licenses and trademarks	Development projects in progress	2019 Total	2018 Total
Cost:					
Accumulated 1/1	66	48	12	126	117
Exchange rate adjustments	0	0	0	0	0
Additions for the year	9	6	6	21	16
Transfer of development projects in progress	7	-	-7	-	-
Disposals for the year	-3	-1	-2	-6	-7
Accumulated 31/12	**79**	**53**	**9**	**141**	**126**
Amortisation and write-downs:					
Accumulated 1/1	53	28	-	81	77
Exchange rate adjustments	0	0	-	0	0
Amortisation for the year	16	4	-	20	10
Disposals for the year	-3	0	-	-3	-6
Accumulated 31/12	**66**	**32**	**-**	**98**	**81**
Net book value 31/12	**13**	**21**	**9**	**43**	**45**

3.2 Property, plant and equipment

Comments

Of the total net book value of land and buildings, EUR 1 million (2018: EUR 1 million) represent land not subject to depreciation.

EURm	Land and buildings	Other fixtures and fittings, tools and equipment	Prepayments and property, plant and equipment in progress	2019 Total	2018 Total
Cost:					
Accumulated 1/1	30	13	3	46	43
Exchange rate adjustments	0	1	0	1	-0
Additions for the year	0	0	11	11	4
Transfer of property, plant and equipment in progress	8	5	-13	-	-
Disposals for the year	-1	-1	0	-2	-1
Accumulated 31/12	**37**	**18**	**1**	**56**	**46**
Depreciation and write-downs:					
Accumulated 1/1	16	9	-	25	23
Exchange rate adjustments	0	0	-	0	-0
Depreciation for the year	1	3	-	4	3
Disposals for the year	-1	-1	-	-2	-1
Accumulated 31/12	**16**	**11**	**-**	**27**	**25**
Net book value 31/12	**21**	**7**	**1**	**29**	**21**

Note 3

3.3 Fixed assets investments

EURm 2019	Investments in subsidiaries	Receivables from subsidiaries	Total
Cost:			
Accumulated 1/1	1,664	46	1,710
Exchange rate adjustments	-1	0	-1
Additions for the year	115	162	277
Reductions/disposals for the year	-	-4	-4
Accumulated 31/12	**1,778**	**204**	**1,982**
Value adjustments:			
Accumulated 1/1	1	-	1
Exchange rate adjustments	53	-	53
Share of net profit	236	-	236
Amortisation of goodwill	-10	-	-10
Dividends received	-230	-	-230
Other adjustments	-7	-	-7
Accumulated 31/12	**43**	**-**	**43**
Net book value 31/12	**1,821**	**204**	**2,025**

EURm 2018	Investments in subsidiaries	Receivables from subsidiaries	Total
Cost:			
Accumulated 1/1	1,438	56	1,494
Exchange rate adjustments	-5	0	-5
Additions for the year	254	7	261
Reductions/disposals for the year	-23	-17	-40
Accumulated 31/12	**1,664**	**46**	**1,710**
Value adjustments:			
Accumulated 1/1	-343	-36	-379
Effect of changes in accounting principles	418	-	418
Restated value adjustments 1/1	**75**	**-36**	**39**
Exchange rate adjustments	-14	0	-14
Share of net profit	229	-	229
Amortisation of goodwill	-9	-	-9
Reversal write-downs previous years	-	31	31
Disposals for the year	23	5	28
Dividends received	-300	-	-300
Other adjustments	-3	-	-3
Accumulated 31/12	**1**	**-**	**1**
Net book value 31/12	**1,665**	**46**	**1,711**

3.4 Contract work in progress

EURm	2019	2018
Sales values of work performed	209	77
Invoiced on account	-192	-49
Contract work in progress, net	**17**	**28**
Recognised as follows:		
Contract work in progress (assets)	17	28
Prepayments received, contract work in progress	-	-

Note 4

4.1 Financial income and Financial expenses

EURm	2019	2018
Interest income	0	1
Interest income from subsidiaries	1	1
Foreign exchange gains	9	3
Financial income	**10**	**5**

EURm	2019	2018
Interest expenses etc.	3	4
Interest expenses to subsidiaries	6	3
Fair value adjustment phantom shares	1	4
Foreign exchange losses	1	0
Financial expenses	**11**	**11**

4.2 Proposed distribution of profit

EURm	2019	2018
Proposed distribution of profit		
Proposed dividend to shareholders	94	88
Revaluation reserve according to equity method	-4	-80
Retained earnings	184	279
Total profit	**274**	**287**

4.3 Derivatives

Reference is made to note 4.2 to the consolidated financial statements concerning derivatives.

Comments

The policy is not to hedge exchange rate risks in long-term investments in subsidiaries.

When relevant, external investment loans and Group receivables are, as a general rule, established in the local currency of the company involved, while cash at bank and in hand are placed in the local currency.

In the few countries with ineffective financial markets loans can be raised and surplus liquidity placed in DKK, EUR or USD, subject to the approval of the parent company's finance function.

Most Group receivables that are not established in DKK or EUR are hedged via forward agreements, currency loans and cash pools or via the SWAP market.

To ensure adequate financial reserves as defined by the Board of Directors, investment loans can be raised on a continuous basis to partly cover new investments and to refinance existing loans. Guarantees has been made for some credit facilities and loans. Please refer to note 3.3 for further specification of the receivables.

Ownership clauses have been issued and/or deed of postponements in connection with intercompany receivables. Please refer to note 5.4.

Note 5

5.1 Tax on profit for the year

EURm	2019	2018
Current tax for the year	15	8
Change in deferred tax	1	-3
Withholding taxes	8	1
Adjustment in current and deferred tax in previous years	3	1
Total	**27**	**7**

5.2 Deferred tax

EURm	2019	2018
Deferred tax 1/1	6	4
Change in deferred tax recognised in profit and loss	-1	-1
Deferred tax for the year recognised in equity	0	3
Deferred tax 31/12	**5**	**6**

5.3 Auditor's fee

Fees to auditors elected at the Annual General Meeting consist of:

EURm	2019	2018
Statutory audit	0	0
Other opinions	0	0
Tax consultancy	1	0
Other services	0	1
Total	**1**	**1**

Reference is made to note 5.4 to the consolidated financial statements concerning fees to statutory auditor.

5.4 Commitments and contingent liabilities

Operational lease commitments expire within the following periods as from the balance sheet date:

EURm	2019	2018
Within 1 year	1	1
Between 1 and 5 years	0	0
After 5 years	-	-
Total	**1**	**1**

Comments

The are no contingent liabilities neither this year nor last year.

For certain receivables amounting to EUR 80 million (2018: EUR 146 million) deeds of postponement have been given.

5.5 Related parties

ROCKWOOL International A/S has registered the following shareholders holding more than 5% of the share capital or the votes:

	2019	
	Share capital	**Votes**
ROCKWOOL Foundation, DK-1360 Copenhagen K	23%	28%
15. Juni Fonden, DK-2970 Hoersholm	6%	10%
Dorrit Eegholm Kähler, DK-2830 Virum	4%	6%

The ROCKWOOL® trademark
The ROCKWOOL trademark was initially registered in Denmark as a logo mark back in 1936. In 1937, it was accompanied with a word mark registration; a registration which is now extended to more than 60 countries around the world.

The ROCKWOOL trademark is one of the largest assets in ROCKWOOL Group, and thus well protected and defended by us throughout the world.

ROCKWOOL Group's primary trademarks:
ROCKWOOL®
Rockfon®
Rockpanel®
Grodan®
Lapinus®

Additionally, ROCKWOOL Group owns a large number of other trademarks.

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. In no event shall ROCKWOOL International A/S be liable for any direct, indirect or consequential damages or any other damages whatsoever resulting from loss of use, data or profits, whether in an action of contract, negligence or other action, arising out of or in connection with the use of information in this report.

Required reporting referring to the Danish Financial Statement Act §99a and §99b can be found on p. 13 and pp. 32-47.

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