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System Frugt A/S
Blomstervej 8
8381 Tilst
Central Business Registration No
13473498

Annual report 2017/18

The Annual General Meeting adopted the annual report on 12.03.2019

Chairman of the General Meeting

Name: Flemming Ib Windfeld

Contents

Entity details

Entity
System Frugt A/S
Blomstervej 8
DK-8381 Tilst

Central Business Registration No (CVR): 13473498
Founded: 18.12.1989
Registered in: Aarhus, Denmark
Financial year: 01.10.2017 - 30.09.2018

Phone: +45 87459595
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Board of Directors
Michael Zøhner-Pedersen, Chairman
Jacob Østergaard Bergenholtz
Esben Bay Jørgensen
Jørgen Peter Danielsen

Executive Board
Flemming Ib Windfeld, CEO

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
DK-8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of System Frugt A/S for the financial year 1 October 2017 - 30 September 2018.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30 September 2018 and of the results of their operations and cash flows for the financial year 1 October 2017 - 30 September 2018.

In our opinion, the management commentary contains a fair review of the development of the Entity's business and financial matters, the results for the year and the financial position, together with a description of the principal risks and uncertainties that the Entity faces.

We recommend the annual report for adoption at the Annual General Meeting.

Aarhus, 12.03.2019

Executive Board

Flemming Ib Windfeld
CEO

Board of Directors

Michael Zøhner-Pedersen
Chairman

Jacob Østergaard Bergenholtz

Esben Bay Jørgensen

Jørgen Peter Danielsen

Independent auditor's report

To the shareholders of System Frugt A/S

Opinion

We have audited the financial statements of System Frugt A/S for the financial year 1 October 2017 - 30 September 2018, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Entity. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30 September 2018, and of the results of their operations and cash flows for the financial year 1 October 2017 - 30 September 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor’s report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Management's responsibilities for the financial statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 Entity’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for 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 conducted 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 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 Entity’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor’s report

- Conclude on the appropriateness of Management’s use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity’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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Aarhus, 12.03.2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jacob Nørmark
State-Authorised Public Accountant
Identification No (MNE): mne30176

Management commentary

	2017/18 DKK’000	2016/17 DKK’000
Key figures		
Revenue	488,281	486,595
Gross profit/loss	57,465	65,436
Operating profit/loss	(5,624)	(9,402)
Net financials	(10,146)	(11,259)
Profit/loss for the year	(35,725)	(32,709)
Total assets	311,285	310,854
Investments in property, plant and equipment	15,747	5,307
Equity	102,218	49,858
Cash flows from (used in) operating activities	25,401	3,597
Cash flows from (used in) investing activities	(10,477)	(9,835)
Cash flows from (used in) financing activities	(18,535)	5,238
Average number of employees	131	137
Ratios		
Gross margin (%)	11.77	13.45
Net margin (%)	(7.32)	(7.00)
Return on equity (%)	(46.98)	(51.96)
Equity ratio (%)	32.84	16.04
Revenue per employee DKK’000	3,727	3,552

Key figures are only disclosed for the years 2016/17 and 2017/18 as a result of the merger between System Frugt A/S and System Frugt Holding A/S with System Frugt A/S as the continuing company.

As at the end of 2017/18 Management decided to present financial statements according to IFRS (International Financial Reporting Standards).

Financial highlights are defined and calculated in accordance with current ”Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formulas	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity’s operating gearing
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity’s operating profitability
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity’s return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.
Revenue per employee	$\frac{\text{Revenue}}{\text{Average number of employees}}$	The entity’s productivity

Management commentary

Transition to IFRS

System Frugt has decided to implement the IFRS standards from the financial year 2017/18. This means that comparative figures for 2016/17 on profit and loss have been restated to reflect IFRS, and for the balance sheet comparative figures for 2 years have been changed.

The most significant impact of implementing IFRS is on the valuation of goodwill, where amortisation is substituted by impairment testing. This has led to material restatements of the comparative figures.

The effects of the transition to IFRS on the income statement and balance sheet position are shown in the overview below with explanatory notes:

	1 October 2016				30 September 2017		
	Assets	Liabilities	Equity	Profit/loss	Assets	Liabilities	Equity
Applied according to Danish GAAP	**372,778**	**301,429**	**71,349**	**(42,552)**	**291,168**	**259,063**	**30,172**
Reversed amortisation of goodwill	9,843	0	9,843	9,843	19,686	0	19,686
Other changes	0	0	0	0	0	0	0
Tax effect on above changes	0	0	0	0	0	0	0
Total adjustments	**9,843**	**0**	**9,843**	**9,843**	**19,686**	**0**	**19,686**
Non-controlling interests	0	0	0	0	0	0	0
Applied according to IFRS	**382,621**	**301,429**	**81,192**	**(32,709)**	**310,854**	**259,063**	**49,858**

Primary activities

System Frugt A/S is the parent company in the System Frugt Group. The primary activities comprise:

- Develop, source, pack and supply the Nordic and Dutch markets with naturally healthy consumer products based on dried fruits, nuts, seeds, pulses, natural snacks and fresh specialties.
- Our products are marketed under the brand "Earth Control" and our customers' own labels.

System Frugt A/S consists of the following companies (the Group):

- System Frugt A/S, Denmark
- System Frugt AB, Sweden
- System Frugt Oy AB, Finland

Development in activities and finances

Focus on developing the Earth Control brand has continued in the past year. The brand gets a stronger and stronger foothold in the retail markets in the Nordic countries. This focus on creating the first choice among consumers in natural dried products is the main driver behind the Earth Control brand. Fresh Fruit has stabilised, however at a significantly lower level – but also here focus is on developing the core products and growing on a profitable base.

Management commentary

In order to strengthen and speed up the implementation of the strategy for System Frugt, the Management has decided to focus on a broader distribution of existing products and solutions in stead of a continued development and expansion of the product portfolio. This decision has led to an adjustment of the portfolio and the organization, including a decision to close down the product development and project departments in System Frugt. The financial impacts of these decisions are treated as discontinued operations in the Financial Statements.

In the financial year, the company merged with System Frugt Holding A/S with System Frugt A/S as the continuing company. As stated in accounting policies, the merger is applying the uniting-of-interest method with restatement of the comparative figures.

System Frugt Holding was the parent company of System Frugt A/S before the merger. The merger has not influenced the company's equity or result.

Discontinued operations include all financial items relating to the restructure – turnover, profit and development costs related to products launched in the financial year with the purpose of being tested in the market. It also includes costs related to the employees in departments that are being closed down. Finally, write-down of stocks, packaging and marketing materials related to the concerned products are treated as discontinued operations.

The financial impact of discontinued operations is a loss of DKK 11,582k.

In relation to continued operations, the decision of discontinuing the product development department means that all requests for new launches have to be evaluated and must not increase complexity and compromise earnings.

The financial year is characterised by a slight increase in turnover compared to last year. Total revenue ended at DKK 488,281k (2016/17: DKK 486,595k), which is an increase of 0.3% on last year. This in a combination of continued decline in fresh specialties and increasing turnover on dried products.

Gross margin is realised at 11.8%, which is 1.7% below last year. The decline in the margin is a consequence of compensating for declining turnover in fresh specialties by spot and campaign activities in dried goods. These activities have lower margins than regular sales. We do see an improved margin on the branded business compared to last year.

Fixed costs of administration and distribution are reduced by DKK 11,578k partly caused by discontinued operations. The average number of employees was brought down by 6 to 131 and reflects the continued restructuring of the organisation.

A combination of lower earnings and restructuring are the main reason for the operating profit of DKK -5,624k (2016/17: DKK -9,402k).

Management commentary

Loss after tax for the year amounts to DKK -24,143k (2016/17 DKK -34,049k). Losses from discontinued operations amount to DKK 11,582k (2016/17: profit of DKK 1,340k), which brings the total loss for the year to DKK 35,725k (2016/17: DKK 32,709k).

The financial performance for the year is considered unsatisfying.

Investments

In the financial year, investments amounted to DKK 15,747k (2016/17: DKK 5,307k). The main investment was a new packaging machine. Other investments are primarily been made in production equipment, IT infrastructure and software.

Financial resources

The equity ratio is 32.84% (2016/17: 16.04%), equivalent to equity at 30 September 2018 of DKK 102,218k (2017: DKK 49,858k).

Particular risks

Price risks:

The Group's most significant operating risk relates to the development in raw material prices and the possibility of passing on increases to sales prices. The Company has well-developed policies and procedures to reduce these price risks.

Exchange rate risks:

A considerable part of the Company's purchase is made in USD, which results in a risk of exchange rate fluctuations and a derived impact on financial performance, equity and cash flows. It is the Company's policy to hedge these commercial foreign exchange risks mainly by using forward exchange contracts or options.

Outlook

Revenue is expected to stabilize on a slightly lower level, mainly due to Fresh Fruit. Gross margins are expected to improve compared to last year leading to better profitability. Fixed costs are expected to stabilize. As a whole, financial performance is expected to significantly improve leaving a net result in the positive level of breakeven. This will be a significant improvement compared to current year and will reflecting the new structure and focusing of the business.

Intellectual capital resources

System Frugt A/S is BRC-certified and has implemented a well-functioning quality control system, which is developed on a regular basis. Moreover, the Company has built considerable knowledge about the individual products and their sourcing.

Management commentary

Environmental performance
The Company does not run any business resulting in dangerous or special impacts on the external environment. It is environmentally conscious and seeks to reduce the environmental impacts from operations.

Research and development activities
System Frugt constantly focuses on improving the quality of the product portfolio and efficiency of marketing and production facilities.

Corporate social responsibility
In our daily operations, we focus on acting responsibly towards our surrounding society and the environment. This section contains our disclosure on Corporate Social Responsibility according to sections 99a and 99b of the Danish Financial Statements Act during the financial year 2017/18.

Gender diversity in management bodies
In accordance with section 99b in the Danish Financial Statements Act, System Frugt A/S has drawn up a policy for gender diversity in the management bodies of the Company with the aim to ensure more female representatives on both the Board of Directors and at other management levels of the organisation.

The ambition of the Company is to have one of the seats on the Board of Directors held by women. This is reduced from a target of two in the past, due to a reduction of the members of the Board from 5 to 4. The target share of female members is thus decreased from 40% in the past to 25% going forward and should be achieved within the coming five years. Currently, there are no female members of the Board compared to one last year. This should be seen in the light that the number of Board members has been reduced. Last year the ratio was one of five (20%) women compared to zero of 4 this year. Recruiting of Board members is based on skills before gender, but the aim is still to have female members in the future.

The top management of the Company consists of five members, all male. The Extended Management Group consists of 28 members including the top management. Currently, there are 12 female members of the Extended Management Group. The Company has implemented a policy for ensuring more women in management positions at System Frugt A/S, however progress is dependent on changes and replacements taking place in top management. In the financial year 2017/18, there have not been any changes in the gender composition of the top management, so the initiated activities for diversity in the top management have not yet been successful. The process of recruiting female members in top management positions has already been initiated through internal as well as external recruitment, where relevant candidates of each gender should be considered for management positions.

Corporate social responsibility
We are a member of the **UN Global Compact** that sets a structured, high standard for worldwide CSR.

To promote the UN Global Compact, we have joined the **BSCI Code of Conduct** – a practical set of principles and values referring to the UN Global Compact conventions to improve working conditions in the sup

Management commentary

ply chain. By joining BSCI, we have committed ourselves to promote the **11 principles of the Code of Conduct** in our supply chain.

1. The Rights of Freedom of Association and Collective Bargaining.
2. No Discrimination
3. Fair Remuneration
4. Decent Working Hours
5. Occupational Health and Safety
6. No Child Labor
7. Special Protection for Young Workers
8. No Precarious Employment
9. No Bonded Labor
10. Protection of the Environment
11. Ethical Business

We constantly guide and encourage our suppliers to improve themselves in order to become more responsible. For instance, we always ask suppliers to sign the BSCI Code of Conduct when we enter into a partnership with them. We dedicate resources in our Quality and Sourcing departments to visit our suppliers on a scheduled regular basis in order to monitor and test the quality of our products

Our policies, the efforts done, and targets achieved in the financial year 2017/18 are described in the Communication on Progress report, which constitutes our Statement on Corporate Social Responsibility for 2017/18 in accordance with the Danish Financial Statements Act §99a, and which can be found here:

https://systemfrugt.dk/media/1523/communication_on_progress_cop_2018.pdf

https://systemfrugt.dk/media/1492/we-care-share.pdf

Events after the balance sheet date

In order to reflect the business cycle of the majority of the business, it has been decided to change the financial year from ending September 30 to ending December 31.

By this the financial year will be aligned to the majority of annual agreements made with the major retailers and thereby create a better platform for planning and follow-up.

Management commentary

This change of financial year will lead to the filling of financial statements covering the period 1 October to 31 December. These financial statements will reflect the restructuring made in 2017/18 and therefore represent the continued business.

The financial statements for the three months show a revenue of DKK 170,795k and an operating profit of DKK 5,923k. This is a significant improvement of profit compared to same period last year and reflects the new structure of the business.

After the balance sheet date, the owner has decided and conducted a capital increase of DKK 23,780k and a conversion of subordinated loans of DKK 10,000k. This was done to secure the equity ratio of System Frugt and the financing going forward. With this the equity ratio end of December 2018 is 49.33%.

After the balance sheet date, there has been a change in the Board of Directors, as the Chairman is changed.

Income statement for 2017/18

Continuing operations	Notes	2017/18 DKK'000	2016/17 DKK'000
Revenue	2	488,281	486,595
Production costs	3,5,7	(430,816)	(421,159)
Gross profit/loss		**57,465**	**65,436**
Distribution costs	3,7	(46,248)	(54,555)
Administrative expenses	3,6,7	(17,012)	(20,283)
Other operating income	8	171	0
Operating profit/loss		**(5,624)**	**(9,402)**
Income from investments in group enterprises		(8,373)	(6,627)
Other financial income	9	68	80
Other financial expenses	10	(10,214)	(11,339)
Profit/loss before tax		**(24,143)**	**(27,288)**
Tax on profit/loss for the year	11	0	(6,761)
Profit/loss from continuing operations		**(24,143)**	**(34,049)**
Profit/loss from discontinued operations	4	**(11,582)**	**1,340**
Profit/loss for the year	12	**(35,725)**	**(32,709)**
Attributable to:			
Shareholders of System Frugt A/S		(35,725)	(32,709)
		(35,725)	**(32,709)**

Other comprehensive income

Profit for the year		**(35,725)**	**(32,709)**
Other comprehensive income			
Items that can be reclassified to the income statement when certain conditions are met:			
Exchange differences on translating foreign operations		315	(5,370)
Fair value adjustments of financial instruments entered into Hedge future cash flows		6,671	(4,172)
Tax relating to financial instruments	17	(1,468)	918
Total comprehensive income		**(30,207)**	**(41,333)**
Attributable to:			
Shareholders of System Frugt A/S		5,518	(8,624)
		(30,207)	**(41,333)**

Cash flow statement for 2017/18

	Notes	2017/18 DKK'000	2016/17 DKK'000
Operating profit/loss		(5,624)	(9,402)
Amortisation, depreciation and impairment losses		9,677	8,182
Profit from discontinued operations		(11,582)	1,340
Increase/decrease in receivables		10,489	10,738
Increase/decrease in trade payables etc.		37,429	8,084
Increase/decrease in inventories		(4,842)	(90)
Cash flows from ordinary operating activities		**35,547**	**18,852**
Financial income received		68	80
Financial expenses paid		(10,214)	(10,529)
Income taxes refunded/(paid) including withholding tax		0	(4,806)
Cash flows from operating activities		**25,401**	**3,597**
Acquisition etc of intangible assets		(664)	(565)
Sale of intangible assets		0	0
Acquisition etc of property, plant and equipment		(10,196)	(3,587)
Sale of property, plant and equipment		383	0
Disposal of enterprises		0	0
Other investments		0	(5,683)
Cash flows from investing activities		**(10,477)**	**(9,835)**
Loans raised		10,000	15,507
Repayments of loans etc		(30,000)	(20,000)
Cash increase of capital		0	10,000
Incurrence of debt to group enterprises		1,739	0
Repayment of lease debt		(274)	(269)
Cash flows from financing activities		**(18,535)**	**5,238**
Increase/decrease in cash and cash equivalents		**(3,611)**	**(1,000)**
Cash and cash equivalents beginning of year		(41,312)	(40,312)
Cash and cash equivalents end of year		**(44,923)**	**(41,312)**
Cash and cash equivalents at year-end are composed of:			
Cash		13	24
Short-term debt to banks		(44,936)	(41,336)
Cash and cash equivalents end of year		**(44,923)**	**(41,312)**

Balance sheet at 30.09.2018

	Notes	2017/18 DKK'000	2016/17 DKK'000	1 Oct. 2016 DKK'000
Acquired trademarks		1,671	1,259	1,012
Goodwill	13,16	147,648	147,648	147,648
Intangible assets	13	**149,319**	**148,907**	**148,660**
Plant and machinery		22,739	14,711	15,582
Other fixtures and fittings, tools and equipment		6,223	7,142	7,938
Leasehold improvements		2,380	3,551	4,441
Property, plant and equipment	14	**31,342**	**25,404**	**27,961**
Investments in group enterprises		2,404	979	55,400
Receivables from group enterprises		0	1,739	5,270
Other investments		0	488	0
Fixed asset investments	15	**2,404**	**3,206**	**60,670**
Non-current assets		**183,065**	**177,517**	**237,291**
Manufactured goods and goods for resale		89,891	84,866	84,732
Prepayments for goods		0	183	227
Inventories		**89,891**	**85,049**	**84,959**
Deferred tax	17	7,667	9,135	9,594
Trade receivables	18	12,271	14,474	23,078
Receivables from group enterprises		2,769	8,089	22,641
Income tax receivables		0	0	794
Other receivables		12,813	15,809	3,337
Prepayments	19	685	757	826
Receivables		**36,205**	**48,264**	**60,270**
Cash		**13**	**24**	**101**
Current assets		**126,109**	**133,337**	**145,330**
Assets regarding discontinued operations		**2,111**	**0**	**0**
Assets		**311,285**	**310,854**	**382,621**

Balance sheet at 30.09.2018

	Notes	2017/18 DKK'000	2016/17 DKK'000	1 Oct. 2016 DKK'000
Contributed capital		501	501	500
Reserve for net revaluation according to the equity method		0	0	12,900
Retained earnings		101,717	49,357	67,792
Equity	20	**102,218**	**49,858**	**81,192**
Provisions for investments in group enterprises		0	1,933	0
Subordinate loan capital	21	10,000	79,266	63,759
Bank loans		0	0	30,000
Finance lease liabilities	22	4,225	330	730
Non-current liabilities other than provisions		**14,225**	**81,529**	**94,489**
Current portion of long-term liabilities other than provisions	22,23	1,273	30,274	20,269
Bank loans		44,936	41,336	40,413
Trade payables		115,612	79,049	71,508
Payables to group enterprises		1,644	2,806	53,073
Joint taxation contribution payable		183	183	0
Other payables		27,847	25,819	21,677
Current liabilities other than provisions		**191,495**	**179,467**	**206,940**
Liabilities other than provisions		**205,720**	**260,996**	**301,429**
Liabilities regarding discontinued operations		**3,347**	**0**	**0**
Equity and liabilities		**311,285**	**310,854**	**382,621**

Rental and lease commitments	23
Financial instruments	24
Mortgages and securities	25
Contingent liabilities	26
Related parties and group relations	27
Financial risks and financial instruments	28
Events after the reporting period	29

Statement of shareholders' equity

DKK'000	Share capital	Share premium	Reserve equity method	Retained earnings	Total
2017/18					
Shareholders' equity at beginning of year	**501**	**0**	**0**	**49,357**	**49,858**
Profit for the year	0	0	0	(35,725)	(35,725)
Other comprehensive income	0	0	0	5,518	5,518
Total comprehensive income	**0**	**0**	**0**	**(30,207)**	**(30,207)**
Other adjustments	0	0	0	0	0
Effect as a result of a debt conversion in 2017/18*	0	0	0	82,567	82,567
Shareholders' equity at end of year	**501**	**0**	**0**	**101,717**	**102,218**
2016/17					
Shareholders' equity at beginning of year	**500**	**0**	**12,900**	**48,106**	**61,506**
Adjustment according to IFRS	0	0	0	19,686	19,686
Adjusted equity at beginning of year	**500**	**0**	**12,900**	**67,792**	**81,192**
Profit for the year	0	0	(7,530)	(25,179)	(32,709)
Other comprehensive income	0	0	(5,370)	(3,254)	(8,624)
Total comprehensive income	**0**	**0**	**(12,900)**	**(28,433)**	**(41,333)**
Other adjustments	0	0	0	(1)	(1)
Capital increases	1	9,999	0	0	10,000
Transferred from share premium	0	(9,999)	0	9,999	0
Shareholders' equity at end of year	**501**	**0**	**0**	**49,357**	**49,858**

Number of shares is 501,050 of the nominal value of DKK 501,000.

*The Company carried out a debt conversion of DKK 82,567k in the financial year as part of a Group re-structuring.

Notes to financial statements

1. Effect of IFRS and critical accounting judgements and key sources of estimation uncertainty

1.1 Effect of IFRS

The financial statements included in this annual report have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

The financial statements for 2017/18 are the first financial statements to be prepared in accordance with IFRS. The amounts in the financial statements for 2017/18 and 2016/17 as well as the opening balance sheet at 1 October 2016 have been prepared as if IFRS had always been applied, except where the Entity has applied the special provisions of IFRS 1 "First-time Adoption of IFRSs" as explained below. Financial highlights and key ratios for the year 2015/16 in the management commentary have also been restated.

The effects of the transition to IFRS on the income statement and balance sheet position are shown in the overview below with explanatory notes:

	1 October 2016				30 September 2017		
	Assets	**Liabilities**	**Equity**	**Profit/loss**	**Assets**	**Liabilities**	**Equity**
Applied according to Danish GAAP	**372,778**	**301,429**	**71,349**	**(42,552)**	**291,168**	**259,063**	**30,172**
Reversed amortisation of goodwill	9,843	0	9,843	9,843	19,686	0	19,686
Other changes	0	0	0	0	0	0	0
Tax effect on above changes	0	0	0	0	0	0	0
Total adjustments	**9,843**	**0**	**9,843**	**9,843**	**19,686**	**0**	**19,686**
Non-controlling interests	0	0	0	0	0	0	0
Applied according to IFRS	**382,621**	**301,429**	**81,192**	**(32,709)**	**310,854**	**259,063**	**49,858**

Goodwill

Goodwill is no longer amortised in the income statement. Instead, the Entity performs impairment tests annually and when there are indications of impairment. Until this point in time, goodwill has been amortised on a straight-line basis over its economic life up to a maximum of 20 years. At the transition to IFRS, the Group has exercised the exemption provision of IFRS 1, which allows the use of the carrying value of goodwill at the date of transition as the new deemed cost price in the opening balance sheet at 1 October 2016.

1.2 Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments to IFRSs that are mandatorily effective for the current year

New and revised standards and interpretations that are mandatorily effective as at 1 October 2017 have been implemented in connection with the first time implementation of IFRS, cf. note 1.1.

Notes to financial statements

1. Effect of IFRS and critical accounting judgements and key sources of estimation uncertainty, continuing

New and revised IFRSs in issue but not yet effective

At the time of publication of the 2017/18 financial statements of System Frugt A/S, there are a number of new or changed standards and interpretations which have not yet come into effect and which therefore have not been incorporated into the financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

System Frugt A/S will implement IFRS 15 in the financial year 2018/19 retrospectively with recognition of the cumulative effect of initially applying this standard recognised in the retained earnings at 1 October 2018 without restatement of comparative figures.

The Group recognises revenue from the following major sources:

- Sale of goods (business to business)

System Frugt A/S has analysed the effects of IFRS 15, and the analysis indicates that there are no material effects of implementing IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 supersedes the current IAS 39 Financial Instruments: Recognition and Measurement and the related interpretations when it becomes effective.

System Frugt A/S will implement IFRS 9 in the financial year 2018/19, using the modified retrospective approach where periods before 1 October 2018 are not restated and any difference between the previous carrying amount and the carrying amount at 1 October 2018 according to IFRS 9 are recognised in the opening retained earnings at 1 October 2018.

System Frugt A/S has analysed the effects of IFRS 9, and the analysis shows no material effects in the provisions for bad debts, which will be based on expected losses and not incurred losses. The extent of hedging is currently at a minimum. IFRS 9 is not showing any changes in the classification of financial assets.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

Notes to financial statements

1. Effect of IFRS and critical accounting judgements and key sources of estimation uncertainty, continuing

System Frugt A/S has not yet begun analysing the possible effect of IFRS 16. The new IFRS is applicable for the financial year 2019/20, but the analysis will include considerations regarding early adoption. As System Frugt A/S has significant operating lease commitments, IFRS 16 is expected to increase non-current assets (right-of-use assets) as well as lease liabilities and will also impact the income statement, cash flow statement and equity to some degree.

The directors are to begin the assessment of the impact of IFRS 16 during 2018/19.

Other new or revised IFRS

Other new or revised IFRSs in issue but not yet effective are not expected to have any material impact on future consolidated financial statements.

1.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Entity's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value of the cash flows. Where the present value of the expected cash flows will not exceed the carrying amount of goodwill, a material impairment loss may arise. The key assumptions used in the impairment tests of goodwill are disclosed in note 16. The carrying amount of goodwill is DKK 147,648k (2016/17: DKK 147,648k).

Notes to financial statements

2. Revenue and segments

The Entity's products cannot be broken down into product groups, etc. and therefore no operating segments have been identified. The revenue consists primarily of sale of goods.

Revenue by geographical area

The Entity's activities are primarily distributed by area: Denmark, Sweden, Norway, Finland, Netherlands and other countries.

The Entity's revenue from external customers in these geographical areas is specified below where revenue is distributed by the customer's registered office.

	2017/18 DKK'000	2016/17 DKK'000
Denmark	285,792	302,989
Sweden	83,219	73,392
Norway	33,173	28,419
Finland	33,849	37,336
Netherlands	43,040	35,576
Other countries	9,208	8,883
	488,281	**486,595**

	2017/18 DKK'000	2016/17 DKK'000
3. Staff costs		
Remuneration of the Board of Directors	406	375
Wages and salaries	65,191	70,881
Pension costs	9,017	10,028
Other social security costs	1,218	1,382
Other staff costs	1,585	1,683
Cost reimbursement received from public authorities	(1,463)	(2,125)
	75,954	**82,224**
Staff costs are distributed as follows:		
Production costs	37,152	40,815
Distribution costs	26,902	30,235
Administrative expenses	11,900	11,174
	75,954	**82,224**
Average number of employees	131	137

Notes to financial statements

	Board of Directors and Executive Board DKK'000	Other key-management personnel DKK'000	Total DKK'000
3. Staff costs, continuing			
2017/18			
Salary	3,594	0	3,594
Cost at end of year	**3,594**	**0**	**3,594**
2016/17			
Salary	3,089	0	3,089
Cost at end of year	**3,089**	**0**	**3,089**

There are no warrant programmes for the Board of Directors, the Executive Board, other key management personel or other employees.

The Entity has only entered into defined contribution plans. In defined contribution plans, the employer pays a continuous contribution to an independent pension company, pension fund etc. but has no risk as to the future development of interest rates, inflation, mortality, disability etc. in respect of the amount due to the employee in due time.

The average number of full-time employees who derive from discontinued activities is 7.

	2017/18 DKK'000	2016/17 DKK'000
4. Discontinued operations		
The discontinued operations have affected the income statement as follows:		
Operating profit/loss for the period until closure	(11,582)	0
Gains or losses from disposals etc.	0	1,340
Net effect on profit/loss for the year	**(11,582)**	**1,340**

The company's discontinuing activities in 2017/18 consist of the decommissioning of the company's development and project department. These are closed in connection with the management's future focus on the company's core competencies. Management considers the discontinued operation to be a separate business area and the area is therefore treated in accordance with the rules for discontinued operations. The business area has only insignificant influence in the 2016/17 financial year, due to the fact that the developed products, etc. has been developed and produced in the financial year 2017/18.

For the 2016/17 financial year, the discontinued operation consisting of divestment of activity in a subsidiary company, which constitutes a separate business segment. Based on this, this is treated as a discontinuing activity.

Notes to financial statements

	2017/18 DKK'000	2016/17 DKK'000
4. Discontinued operations, continuing		
Operating profit/loss for the period up to transfer of control can be specified as follows:		
Revenue	3,429	0
Production costs	(6,346)	0
Gross profit/loss	**(2,917)**	**0**
Distribution costs	(5,279)	0
Administrative expenses	(3,386)	0
Operating profit/loss (EBIT)	**(11,582)**	**0**
Income from investments in group enterprises	0	1,340
Financial expenses	0	0
Profit/loss before tax	**(11,582)**	**1,340**
Tax on profit/loss for the year	0	0
Profit/loss for the year	**(11,582)**	**1,340**
During the financial year, the discontinued operation has affected the cash flow statement as follows:		
Cash flows from operating activities	(11,582)	0
Cash flows from investing activities	0	1,340
Cash flows from financing activities	0	0
	(11,582)	**1,340**

	2017/18 DKK'000	2016/17 DKK'000
5. Production costs		
Cost of sales	386,154	376,015
Inventory write-down	2,526	1,140
Reversal of previous inventory write-down	(1,140)	(1,129)
Wages and salaries recognised under production costs	37,152	40,815
Depreciation and amortisation recognised under production costs	6,124	4,318
	430,816	**421,159**

Notes to financial statements

	2017/18 DKK'000	2016/17 DKK'000
6. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	230	230
Other assurance engagements	18	145
Tax services	15	55
Other services	276	221
	539	**651**

	2017/18 DKK'000	2016/17 DKK'000
7. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	252	318
Depreciation of property, plant and equipment	9,425	7,864
Profit/loss from sale of intangible assets and property, plant and equipment	0	0
	9,677	**8,182**
Depreciation, amortisation and impairment losses are distributed as follows:		
Production costs	6,124	4,318
Distribution costs	870	1,348
Administrative expenses	2,683	2,516
	9,677	**8,182**

8. Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

	2017/18 DKK'000	2016/17 DKK'000
9. Other financial income		
Interest income from group enterprises	68	60
Other financial income	0	20
	68	**80**

Notes to financial statements

	2017/18 DKK'000	2016/17 DKK'000
10. Other financial expenses		
Financial expenses from group enterprises	0	44
Interest expenses	6,270	9,619
Exchange rate adjustments	2,843	338
Other financial expenses	1,101	1,338
	10,214	**11,339**

	2017/18 DKK'000	2016/17 DKK'000
11. Income tax		
Current tax:		
Current tax on profit for the year	0	(6,518)
Current tax on Other comprehensive income for the year	0	0
Total current tax	**0**	**(6,518)**
Deferred tax:		
Adjustment of deferred tax asset/liability	0	(243)
Total deferred tax	**0**	**(243)**
Total income tax	**0**	**(6,761)**

Current tax in 2016/17 includes DKK 5,417K relating to withholding tax on the distribution of dividends from the subsidiary System Multifood Ltd.

	2017/18 DKK'000	2016/17 DKK'000
Earnings before tax	**(24,143)**	**(27,288)**
Income from Investments in Group enterprises	8,373	6,627
Calculated tax at Danish statutory rate of 22%	3,469	4,545
Income/expenses not subject to tax	(1,110)	0
Withholding tax on the distribution of dividends from the subsidiary	0	(5,417)
Gain on sale	0	(1,344)
Unrecognized loss	(2,359)	(4,545)
Tax charge	**0**	**(6,761)**

Notes to financial statements

	2017/18 DKK'000	2016/17 DKK'000
12. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	0	(7,530)
Retained earnings	(35,725)	(25,179)
	(35,725)	**(32,709)**

There are no proposed dividends for the financial year.

	Acquired trademarks DKK'000	Goodwill DKK'000
13. Intangible assets		
2017/18		
Cost at beginning of year	**2,111**	**147,648**
Additions	664	0
Total cost at end of year	**2,775**	**147,648**
Amortisation at beginning of year	**(852)**	**0**
Amortisation for the year	(252)	0
Total amortisation at end of year	**(1,104)**	**0**
Carrying amount at end of year	**1,671**	**147,648**
2016/17		
Cost at beginning of year	**1,546**	**196,864**
Adjustment according to IFRS	0	(49,216)
Adjusted cost at beginning of year	**1,546**	**147,648**
Additions	565	0
Total cost at end of year	**2,111**	**147,648**
Amortisation at beginning of year	**(534)**	**(49,216)**
Adjustment according to IFRS	0	49,216
Adjusted amortisation at beginning of year	**(534)**	**0**
Amortisation for the year	(318)	0
Total amortisation at end of year	**(852)**	**0**
Carrying amount at end of year	**1,259**	**147,648**

Apart from goodwill, all other intangible assets are considered to have finite useful lives over which the assets are amortised, cf. the description of accounting policies. See note 16.

Notes to financial statements

	Plant and machinery DKK’000	Other fixtures and fittings, tools and equipment DKK’000	Leasehold improve-ments DKK’000
14. Property, plant and equipment			
2017/18			
Cost at beginning of year	**46,763**	**18,313**	**9,288**
Additions	12,530	3,043	173
Disposals	0	(755)	0
Total cost as at end of year	**59,293**	**20,601**	**9,461**
Depreciation at beginning of year	**(32,052)**	**(11,171)**	**(5,737)**
Depreciation for the year	(4,502)	(3,579)	(1,344)
Reversal regarding disposals	0	372	0
Depreciation at end of year	**(36,554)**	**(14,378)**	**(7,081)**
Carrying amount at end of year	**22,739**	**6,223**	**2,380**
Hereof finance lease	**7,280**	**0**	**0**
2016/17			
Cost at beginning of year	**45,499**	**16,662**	**8,714**
Additions	1,914	2,819	574
Disposals	(650)	(1,168)	0
Total cost at end of year	**46,763**	**18,313**	**9,288**
Depreciation at beginning of year	**(29,917)**	**(8,724)**	**(4,273)**
Depreciation for the year	(2,785)	(3,615)	(1,464)
Reversal regarding disposals	650	1,168	0
Total depreciation at end of year	**(32,052)**	**(11,171)**	**(5,737)**
Carrying amount at end of year	**14,711**	**7,142**	**3,551**
Hereof finance lease	**604**	**0**	**0**

Notes to financial statements

	Investments in group enterprises DKK'000	Receivables from group enterprises DKK'000	Other investments DKK'000
15. Fixed asset investments			
2017/18			
Cost at beginning of year	**19,471**	**1,739**	**488**
Additions	8,296	0	0
Disposals	0	(1,739)	(488)
Total cost at end of year	**27,767**	**0**	**0**
Impairment losses at beginning of year	**(18,492)**	**0**	**0**
Exchange rate adjustments	315	0	0
Share of profit/loss for the year	(5,255)	0	0
transferred to provisions	(1,931)	0	0
Impairment losses at end of year	**(25,363)**	**0**	**0**
Carrying amount at end of year	**2,404**	**0**	**0**
2016/17			
Cost at beginning of year	**42,501**	**5,270**	**0**
Transfers	(488)	0	488
Additions	3,720	(2,650)	0
Disposals	(26,262)	(881)	0
Total cost at end of year	**19,471**	**1,739**	**488**
Revaluations at beginning of year	**12,899**	**0**	**0**
Exchange rate adjustments	(5,371)	0	0
Transfers	18,492	0	0
Share of profit/loss for the year	(4,784)	0	0
Adjustment of intra-group profits	517	0	0
Dividend	(36,096)	0	0
Investments with negative equity value transferred to provisions	1,933	0	0
Reversal regarding disposals	12,410	0	0
Depreciation at end of year	**0**	**0**	**0**
Transfers	(18,492)	0	0
Impairment losses at end of year	**(18,492)**	**0**	**0**
Carrying amount at end of year	**979**	**1,739**	**488**

Notes to financial statements

	Ownership in percentage	Share of voting rights
15. Fixed asset investments, continuing		
System Frugt Oy AB, Finland	100	100
System Frugt AB, Sweden	100	100

16. Impairment test of goodwill

Besides goodwill, there are no intangible assets with indefinite useful lives. At 30 october 2018, the goodwill accounted for DKK 148m, (2016/17: DKK 148m) for the Entity. The Entity has per 30 october 2018 performed impairment test of the carrying amount of goodwill at 30 October 2018 based on value in use. Impairment testing is performed in Q4 each year, based on the budgets or business plans approved by the Board of Directors.

The impairment test for cash-generating units compares the recoverable amount, equivalent to the present value of the expected future free cash flow, with the carrying amount of the individual cash-generating units. The expected future free cash flow is based on budgets and projections for subsequent years. Key parameters include net sales, gross profit margin, EBIT margin and future capital expenditure, and general growth expectations for the years after 2025.

Budgets and projections for the 2019-2028 period are based on business plans and external market surveys, assessing risks associated with key parameters and incorporating these in expected future free cash flows. The value for the period after 2028 takes into account the real growth and inflation expectations, which makes up a growth rate of 2% used in the terminal period.

When calculating the recoverable amount of goodwill, a discount rate of 8.5% after tax is assumed. The discount rate is based on a risk-free interest rate of 0.3%. The impairment tests performed at 30 october 2018 indicate significantly higher value in use of the assets compared to the carrying amounts, and the impairment tests are therefore not sensitive to changes in the significant conditions and factor.

Notes to financial statements

16. Impairment test of goodwill, continuing

Key assumptions from the impairment testing of goodwill are as follows:

	Value drivers based on average for the period 2018-2027	Value drivers based on average for the terminal period
2017/18		
Net sales growth	4.8%	2.0%
Gross margin	20.3%	20.5%
EBITDA margin	3.6%	4.0%
EBITA margin	2.7%	3.6%
Intangible fixed assets/Sales	14.3%	3.2%
Tangible fixed assets/Sales	2.1%	1.2%
NWC/Sales	6.3%	6.2%
ROIC (beginning of year invested capital)	14.5%	28.1%

	Value drivers based on average for the period 2017-2026	Value drivers based on average for the terminal period
2016/17		
Net sales growth	3.7%	2.0%
Gross margin	22.7%	23.5%
EBITDA margin	4.6%	6.0%
EBITA margin	3.5%	5.3%
Intangible fixed assets/Sales	14.7%	4.3%
Tangible fixed assets/Sales	3.4%	2.4%
NWC/Sales	4.8%	4.5%
ROIC (beginning of year invested capital)	19.2%	38.8%

Notes to financial statements

17. Deferred tax assets and deferred tax liabilities

2017/18 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, financial non-current assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Deferred tax, short term liabilities	Total deferred tax
Deferred tax beginning of year	**5,003**	**(1,620)**	**0**	**(331)**	**0**	**6,073**	**10**	**0**	**0**
Charge to the income statement	56	1,478	0	32	0	(1,556)	(10)	0	0
Other adjustments	0	0	0	0	0	(1,468)	0	0	0
Deferred tax end of year	**5,059**	**(142)**	**0**	**(299)**	**0**	**3,049**	**0**	**0**	**0**

Deferred tax is presented in the balance sheet as follows:	
Deferred tax asset	8,108
Deferred tax liability	(441)
Deferred tax asset year end, net	**7,667**

2016/17 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, financial non-current assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Deferred tax, short term liabilities	Total deferred tax
Deferred tax beginning of year	**4,770**	**(1,287)**	**0**	**(341)**	**0**	**6,452**	**0**	**0**	**0**
Charge to the income statement	233	(333)	0	10	0	(163)	10	0	0
Other adjustments	0	0	0	0	0	(216)	0	0	0
Deferred tax end of year	**5,003**	**(1,620)**	**0**	**(331)**	**0**	**6,073**	**10**	**0**	**0**

Deferred tax is presented in the balance sheet as follows:	
Deferred tax asset	11,086
Deferred tax liability	(1,951)
Deferred tax asset year end, net	**9,135**

Management has assessed the deferred tax asset based on the estimated tax results for the coming years. It is Management's expectation that the Company will be able to realise the recognised tax asset over the next 3 years. Management has assessed the coming years' budgets and expectations and has recognised equivalent tax-loss carryforwards.

	2017/18 DKK'000	2016/17 DKK'000
18. Trade receivables		
Trade receivables	12,286	14,474
Provisions for impairment of trade receivables	(15)	0
	12,271	**14,474**

	2017/18 DKK'000	2016/17 DKK'000
Impairment losses at beginning of year	0	0
Impairment losses in the year	15	0
Realised in the year	24	(178)
Impairment losses at end of year	**39**	**(178)**

Notes to financial statements

18. Trade receivables, continuing

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Overdue trade receivables not written down are broken down as follows:

	2017/18 DKK'000	2016/17 DKK'000
Overdue 1-30 days	2,120	1,437
Overdue 31-60 days	274	959
Overdue 61-90 days	14	287
Over 90 days	115	83
	2,523	**2,766**
Undue not impaired receivables are split as follows:		
Denmark	9,763	11,708
Sweden	0	0
Norway	0	0
Finland	0	0
Netherlands	0	0
Other countries	0	0
	9,763	**11,708**

The Entity does not have significant credit risks related to a single customer or regarding sales to specific markets.

19. Prepayments

Prepayments relate to prepaid costs, including licenses and insurance.

	Number	Par value DKK'000	Nominal value DKK'000	Recorded par value DKK'000
20. Contributed capital and own shares				
A shares	492,128	493	493	493
B shares	4,436	4	4	4
C shares	4,436	4	4	4
	501,000		**501**	**501**

Each A share of a nominal value of DKK 1 carries one vote at the Annual General Meeting. B shares and C shares carry no voting rights.

Notes to financial statements

20. Contributed capital, continuing

In addition, the Company has a portfolio of own A shares of a nominal value of DKK 14,345k equal to 2.86% of total share capital. This occurred as part of the merger in 2017/18 between System Frugt Holding A/S and System Frugt A/S with System Frugt A/S as the surviving company.

	Instalments within 12 months 2017/18 DKK'000	Instalments between 12-60 months 2017/18 DKK'000	Outstanding after 60 months DKK'000
21. Financial liabilities at amortised cost			
Subordinate loan capital	0	10,000	0
	0	**10,000**	**0**

	within 12 months 2016/17 DKK'000	Instalments between 12-60 months 2016/17 DKK'000	Instalments Outstanding after 60 months DKK'000
Subordinate loan capital	0	79,266	0
	0	**79,266**	**0**

Fair value

The fair value of the subordinate loan capital at 30 September 2018 is equivalent to DKK 10,000k compared to the carrying amount of DKK 10,000k.

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Lease liabilities DKK'000	Total liabilities from financing activities DKK'000
22. Reconciliation of liabilities arising from financing activities				
Beginning of year	**79,266**	**71,336**	**604**	**151,206**
Cash flows	(69,266)	(26,400)	4,894	(90,772)
End of year	**10,000**	**44,936**	**5,498**	**60,434**

	2017/18 DKK'000	2016/17 DKK'000
23. Rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	**13,313**	**13,106**

Notes to financial statements

23. Rental and lease commitments, continuing

Financial lease commitments

2017/18	Payments due 1 year DKK'000	Payments due between 1-5 years DKK'000	Outstanding after 5 years DKK'000
Minimum lease payments	1,273	4,498	0
Present value of minimum lease payments	1,248	4,408	0

2016/17	Payments due 1 year DKK'000	Payments due between 1-5 years DKK'000	Outstanding after 5 years DKK'000
Minimum lease payments	274	331	0
Present value of minimum lease payments	269	324	0

Operating lease commitments

Operating leases relate to leases of building and equipment with lease terms between 1 and 5 years. The Group does not have an option to purchase the leased building or equipment at the end of the lease terms.

2017/18	Payments due 1 year DKK'000	Payments due between 1-5 years DKK'000	Outstanding after 5 years DKK'000
Minimum lease payments	10,044	3,269	0
Present value of minimum lease payments	9,843	3,203	0

2016/17	Payments due 1 year DKK'000	Payments due between 1-5 years DKK'000	Outstanding after 5 years DKK'000
Minimum lease payments	9,195	3,306	0
Present value of minimum lease payments	9,011	3,240	0

Notes to financial statements

24. Derivatives

Disclosure on forward exchange contracts acquired to hedge liabilities

Other receivables include currency hedging of future cash flow regarding purchase of goods. The amount per 30.09.2018 is DKK 3,139k. The forward exchange contracts have been acquired to hedge the foreign currency risk of future trade payables in USD. The exchange gain has been set off against the value adjustments of the hedged payables in the income statement. The forward exchange contracts have a term of 0-13 months. The forward exchange contracts have been entered into with the Company's usual bank.

For 2016/17, it was included in other payables and the amount per 30.09.2017 was DKK 3,139k. The forward exchange contracts have been acquired to hedge the foreign currency risk of trade payables in USD and AUD.

25. Mortgages and securities

The Company has issued letters of credit and payment guarantees through its bank to suppliers amounting to DKK 52k (2016/17: DKK 298k).

As security for all accounts with Jyske Bank, a floating charge has been granted of nominal DKK 30,000k over System Frugt A/S' unsecured claims arising from the sale of goods and services and inventories. The carrying amount is DKK 101,728k at 30.09.2018 (2016/17: 99,523k).

A negative pledge is registered regarding System Frugt A/S for unsecured claims arising from the sale of goods and services.

26. Contingent liabilities

The Entity has committed itself to fixed price and quantity contracts towards its suppliers of goods and services on delivery of raw material in the coming financial years. The contractual commitments from the concluded contracts at 30 September 2018 amount to DKK 93,999k (2016/17: DKK 83,102k).

The Entity's bank has issued a guarantee for non-recognised import letters of credit with an open balance at the balance sheet date totalling DKK 405k (2016/17: DKK 758k).

Joint taxation arrangement

The Company is party to a mandatory Danish joint taxation arrangement with Anpartsselskabet af 9. September 2010 serving as the administration company. The joint taxation arrangement complies with general Danish tax legislation and has included other Danish sister companies due to common ultimate ownership. From 16 July 2015, the Company is partially jointly and secondarily liable for obligations, if any, relating to withholding of tax on interest, royalties and dividend for the jointly taxed companies. However, secondary liability cannot exceed an amount equivalent to the share of capital of the Company, which is owned directly or indirectly by the ultimate parent.

Notes to financial statements

27. Related parties and group relations

The following parties exercise control over System Frugt A/S:

Name	Registered office	Basis for control
Anpartsselskabet af 9. september 2010	Avderødvej, Kokkedal	Shareholder holding the majority of voting rights
BWB Partners II K/S	Avderødvej, Kokkedal	Shareholder holding the majority of voting rights in Anpartsselskabet af 9. september 2010

Transactions with related parties

All transactions were made on terms equivalent to arm's length principles.

Apart from dividend payments, the Group had the following transactions with related parties in the financial year:

	Group enterprises DKK'000	Key persons in management DKK'000	Other related parties DKK'000	Total DKK'000
2017/18				
Sale of goods	30,474	0	0	30,474
Sale of services	662	0	0	662
Remuneration, cf. note 3	0	3,594	0	5,744
Trade receivables, group enterprises	2,769	0	0	2,769
Loans	0	0	10,000	10,000
Trade payables, group enterprises	1,644	0	0	1,644
Interest on loans to related parties	66	0	3,974	4,040
2016/17				
Sale of goods	21,087	0	0	21,087
Purchase of goods	17,542	0	0	17,542
Sale of services	1,618	0	0	1,618
Remuneration, cf. note 3	0	3,089	0	3,089
Trade receivables, group enterprises	8,089	0	0	8,089
Loans	2,103	0	79,266	81,369
Trade payables, group enterprises	2,806	0	0	2,806
Interest on loans to related parties	16	0	8,317	8,333

28. Financial risks and financial instruments

Financial risk factors refer to fluctuations in the Entity's results, cash flows and financial position due to changes in financial exposure. The overall objective of risk monitoring and control is to provide cost-effective financing and to minimise potential adverse impacts from market fluctuations.

Price risk

The Entity's most significant operating risk relates to the development in raw material prices and the possibility of passing on increases to sales prices. The Entity has well-developed policies and procedures to reduce these price risks.

Notes to financial statements

28. Financial risks and financial instruments, continuing

Exchange rate risk

A considerable part of the Entity's purchase is made in USD, which results in a risk of exchange rate fluctuations and a derived impact on financial performance, equity and cash flows. It is the Entity's policy to hedge these commercial foreign exchange risks mainly by using forward exchange contracts or options.

Interest rate risk

The interest rates of credit facilities are a mix of fixed and variable interest. System Frugt A/S does not use derivative contracts to hedge the interest rate risks.

System Frugt A/S exclusively has fixed-rate interest-bearing debt.

Liquidity risk

During the financial year, System Frugt A/S' owners have converted their subordinate loans and in the new year made a capital increae for the purpose of repaying the Company's banks. This has been a step in the Management's and owners' wish to reduce the liquidity risk.

Treasury management is centralised and ensures that sufficient financial resources are available to meet planned requirements. This is done by ensuring that the cash flow on a monthly basis matches the planned cash needs.

Credit risk

Credit risk mainly relates to trade debtors, other receivables and cash at banks. The aggregate amounts recognised under these items in the balance sheet constitute the maximum credit risk. Receivables relate to sale of products. Credit risk associated with the construction industry is handled by the Danish credit function, which monitors the creditworthiness of existing and new customers and assists in collection. System Frugt A/S conducts individual assessments of customer creditworthiness, and credit lines are managed in Denmark. Cash is held with banks with high credit ratings.

Fair values measurements

System Frugt A/S use financial instruments on forward exchange contracts acquired to hedge liabilities. The forward exchange contracts have been acquired to hedge the foreign currency risk of trade payables in USD. The exchange gain has been set off against the value adjustments of the hedged payables in the income statement.

On initial recognition in the balance sheet, derivative financial instruments. Derivative financial instruments are recognised under other receivables or other payables.

The Entity does not have any other assets or liabilities measured at fair value.

The Management is of the opinion that the carrying amounts of all other financial assets and liabilities recognised in the financial statements approximate their fair values.

Notes to financial statements

28. Financial risks and financial instruments, continuing

Capital structure

The Company's Management assesses whether the Entity's capital structure is in line with the interests of the Company and its shareholders. The overall objective is to ensure a capital structure that supports long-term profitable growth. As of 30 September 2018, the Entity's interest-bearing debt net comprises DKK 55 million (2016/17: DKK 151 million), which is considered a reasonable level compared to the current need for financial flexibility. There are no changes in the Entity's guidelines and procedures for managing capital structure in 2017/18.

However, in the new year, Management has decided to make a capital increase to strengthen the Company financially in order to make an extraordinary repayment of the loan to Jyske Bank.

29. Events after the reporting period

There have been no post-balance sheet events material to this Annual Report which have not been recognised or disclosed.

Accounting policies

Reporting class

This annual report has been presented in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for the financial statements of class C enterprises (large), cf. the Danish Executive Order on IFRS (IFRS-bekendtgørelsen) issued in accordance with the Danish Financial Statements Act.

In the financial year, the Company merged with System Frugt Holding A/S with System Frugt A/S as the continuing company. As stated in accounting policies, the merger is treated applying the uniting-of-interests method with restatement of the comparative figures.

System Frugt Holding was the parent company of System Frugt A/S before the merger. The merger has not influenced the company's equity or result.

Changes in accounting policies as a result of the adoption of IFRS

The 2017/18 annual report is the first annual report to be prepared in accordance with IFRS.

Upon transition to IFRS, IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied. According to this standard, the opening balance sheet at 1 October 2016 and the comparative figures for 2016/17 have been prepared in accordance with the standards and interpretations applicable at 30 September 2018. The opening balance sheet at 1 October 2016 has been prepared as if these standards and interpretations had always been applied, except for situations where the special transitional and commencement provisions in IFRS 1 described below apply.

The monetary effect of the changes in accounting policies as a result of the transition to reporting according to IFRS is specified in note 1.

Non-comparability

In 2017/18, the Company decided to close its activities within product development of special products for their customers. The activity relating to this segment is therefore treated as a discontinued activity in the annual report. The comparative figures are not restated and are therefore not directly comparable to last year.

In addition to this, during the financial year 2016/17, the Entity sold Crispo Denmark ApS, which has led to the termination of activity. Crispo Denmark ApS is therefore included in the financial statements for 2016/17 as a discontinued activity.

Accounting treatment of intercompany merger

The uniting-of-interests method is applied on acquisition of enterprises, mergers, demergers, contributions of assets and exchanges of shares, etc where the enterprises concerned are controlled by the Parent, under which method the uniting-of-interests is considered completed at the date of acquisition with restatement of comparative figures. Under the uniting-of-interests method, the acquiree's assets and liabilities are recognised at their carrying amounts, adjusted for any differences in accounting policies and accounting estimates.

Accounting policies

The difference between the consideration agreed and the carrying amount of the acquiree is recognised in equity.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements
Referring IFRS BKG 8 and to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Accounting policies

Changes that are complying with the requirements for hedging of future cashflow of a recognised asset or a recognised liability are recorded in the other comprehensive income statement together with changes in the value of the hedged asset or the hedged liability.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary writedown of inventories.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative expenses

Administrative expenses comprise costs incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises etc.

Accounting policies

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with the Parent and all the Parent's other Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment of goodwill is recognised directly in profit/(loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit/(loss) on disposal.

Intellectual property rights etc

Intellectual property rights etc comprise acquired intellectual property rights assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, which is estimated at 5 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Accounting policies

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	3-8 years
Other fixtures and fittings, tools and equipment	3-6 years
Leasehold improvements	5 years

Estimated useful lives and residual values are reassessed annually.

Items of plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits and losses.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for Net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Other investments

Other investments comprise unlisted investments measured at fair value.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

Accounting policies

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Finance lease liabilities
Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Accounting policies

Income tax receivable or payable
Current tax receivable or payable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Joint taxation contributions receivable or payable
Current joint taxation contributions receivable or joint taxation payable is recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Deferred income
Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirects method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank loans.

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