Faerch A/S

Rasmus Færchs Vej 1, DK-7500 Holstebro

Annual Report for 1 January - 31 December 2018

CVR No 13 72 35 40

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 22/5 2019

Nils Smedegaard Andersen
Chairman

Content

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Faerch A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Holstebro, 22 May 2019

Executive Board

Lars Gade Hansen
CEO

Arne Holme
CTO

Jesper Emil Jensen
Regional CEO

Tom Sand-Kristensen
CFO

Board of Directors

Nils Smedegaard Andersen
Chairman

Ronald John Edward Marsh

Markus Brettschneider

Sönke Renk

Laurent Bendavid

Sven Seidel

Erik Mortensen
Staff Representative

Torben Toft Jensen
Staff Representative

Brian Troldtoft Pedersen
Staff Representative

Independent Auditor's Report

To the Shareholder of Faerch A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018, and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Faerch A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("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 are independent of the Company 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, 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 Management's Review

Management is responsible for Management's Review.

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 during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review 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 in Management's Review.

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 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 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report (continued)

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 conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, 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, 22 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Lars Østergaard
State Authorised Public Accountant
mne26806

Company Information

The Company	Faerch A/S Rasmus Færchs Vej 1 DK-7500 Holstebro Telephone: + 45 99 10 10 10 Website: www.faerchplast.com CVR No: 13 72 35 40 Financial period: 1 January - 31 December Municipality of reg. office: Holstebro
Supervisory Board	Nils Smedegaard Andersen, Chairman Ronald John Edward Marsh Markus Brettschneider Sönke Renk Laurent Bendavid Brian Troldtoft Pedersen Erik Mortensen Torben Toft Jensen Sven Seidel
Executive Board	Lars Gade Hansen Arne Holme Jesper Emil Jensen Tom Sand-Kristensen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Group Structure

Investment in group companies comprise the following at 31 December 2018.
3PET holding B.V. owned 50,00002%
Remaining companies are owned 100% by Faerch A/S

Name of entity	Country
Faerch A/S	Denmark
Faerch Plast s.r.o.	Czech Republic
Faerch Plast SAS	France
CGL Pack Services SAS	France
CGL Pack Annecy SAS	France
CGL Pack Lorient SAS	France
Faerch Plast Bunol S.L.U.	Spain
Faerch Plast Ltd.	United Kingdom
FP1988UK Ltd.	United Kingdom
Faerch Plast Manufacturing Ltd	United Kingdom
Avro Holdings Ltd.	United Kingdom
Faerch Plast UK Ltd.	United Kingdom
BDE Plastics Ltd. (dormant)	United Kingdom
Avro Industries Ltd. (dormant)	United Kingdom
Anson Food Service Ltd. (dormant)	United Kingdom
Faerch Plast Poole Ltd.	United Kingdom
FPH 2017 Ltd.	United Kingdom
Færch Netherland B.V.	Netherland
3PET Holding B.V.	Netherland
4PET Holding B.V.	Netherland
Kattenberg Druten B.V.	Netherland
Drupet B.V.	Netherland
Snelcore B.V.	Netherland
Sneltray B.V.	Netherland
4PET Recycling B.V.	Netherland
Folietechniek International B.V.	Netherland

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

DKKm	2018	2017	2016	2015	2014
Key figures					
Profit/loss					
Revenue	1.249,8	1.469,8	1.367,8	1.299,4	1.166,5
Operating profit	245,7	242,2	203,6	180,7	117,2
Profit before financial income and expenses	181,8	216,1	221,4	143,2	114,6
Net profit for the year	151,5	176,1	175,0	164,1	106,3
Balance sheet					
Balance sheet total	2.752,9	1.814,3	1.473,1	1.439,9	1.104,0
Equity	1.277,7	1.124,5	947,2	834,4	579,0
Investments in Fixed Assets	56,4	102,0	109,1	67,7	80,2
Average number of employees	364	362	367	372	349
Ratios					
Profit margin	14,5%	14,7%	16,2%	11,0%	9,8%
Solvency ratio	46,4%	62,0%	64,3%	57,9%	52,4%
Return on equity	12,6%	17,0%	19,6%	23,2%	20,1%

Management's Review

Since the establishment in 1969, Faerch A/S has grown to become one of the leading plastic packaging manufacturers for the European food industry.

Like last financial year, 2018 also turned out to be challenging with polymer prices continuing to increase and UK's exit from the European Union continuously bringing uncertainty to the business and to the financial markets. Despite those considerable headwinds, Faerch produced another record year with strong results, including record sales volume, top-line and EBITDA. We believe this demonstrate the strength of Faerch, the strong customer base and manufacturing set-up allowed us to weather headwinds on several fronts, while continuing to deliver earnings improvements.

Again, we delivered on most of our targets seeing both sales volume and revenue. The UK revenue was transferred from Faerch A/S to UK, this had a negative effect at the revenue line. A proforma sales volume show growth equivalent to 6.6% against last year. Despite the top line growth, gross profit declined slightly due to the UK revenue transfer and high resin prices and. EBITDA declined from DKK 234.9m in 2017 to DKK 204.5m in 2018.

2018 was another year with multiple factors having an impact directly and indirectly on Faerch A/S. The British business continued to be impacted by the Brexit referendum and resin prices increased during 2018.

Faerch A/S has successfully acquired two new business. In June 2018 CGL Pack S.A.S was acquired from PSB Industries S.A.S., supporting Faerch's strategy with a strong manufacturing footprint in France. CGL Pack is having two sites in respectively Annecy and Lorient. With this local presence and strong CGL customer platform the fundament for accelerated growth in France is established. With CGL Pack, Faerch also entered into two new business segments, i.e. healthcare and consumer. These are two market segments with a strong and loyal customer base and segments with tractions and growing 1-2% CAGR. Two month later, in August 2018 Faerch acquired 50,0001% of the Dutch recycler 3PET Holding located in Duiven.

Strategy
The Group's strategy 2021, which sets out clear priorities and focus areas, remains unchanged. Faerch will continue to build on the success it has had over many years in winning market share in selected markets and applications. In light of being an integrated recycler following the acquisition of 3PET Holding, the strategy will be revisited during the summer of 2019, as it is the intention to scale up the recycling technology country by country within Europe.

The updated plan continues to build on several years' success of winning market shares in selected markets and applications. The strategy sets out clear priorities and focus areas for the Company - geographical focus and in which applications the growth opportunities are considered most attractive.

Maintaining the cost leadership is paramount for Faerch A/S and continuous investments in material and process innovation will secure this. Product and platform innovation through research and development is a key priority and it is encouraging to look into 2019 knowing the Company is having the strongest new product pipeline ever seen. The strength in our research and development is always to aim for perfection and the highest quality with focus on the competitive advantage and the product innovation that Faerch A/S is admired for in the market.

Management’s Review (continued)

Diverse product offering focused on three core product applications

The Company focuses on selected food segments where a plastic tray is a key product differentiator and value enhancer for the food producer, retailer and/or the end consumer. We strive to achieve a leading position in methods and products designed to protect food and ensure high standards of safety and quality. We are committed to comply with and stay ahead of legislative and regulatory requirements within food safety at all times. Moreover, our deep process knowledge and wide range of products have been developed and enhanced over decades in close cooperation with our customers. As a result, Faerch A/S can today present a strong product assortment within three distinct product applications, Ready meals, Fresh Meat and Food To-Go.

The market for prepared meals made for heating is experiencing strong growth. Development is driven by consumers’ increasing demand for convenience, along with food producers’ strive for individualisation of brands while maintaining a cost-efficient setup. This places major requirements for end-to-end competencies on tray producers such as Faerch A/S. The ability to drive shelf impact through unique design while maintaining extreme temperature tolerances enables Faerch A/S to grow further into Ready Meal sub-segments that historically have been dominated by non-plastic packaging materials as aluminum and cardboard.

Value added via the packaging format is changing the solution space within the market for chilled and marinated fresh meat, fish and poultry. Shelf life extension of premium meat through vacuum (skin) packaging and increased glass-clear transparency and robust sealing requirements for MAP packaging are providing an overall trade-up within this product application. The continued increasing interest in environmentally friendly materials and intelligent design supporting less food waste is shaping the agenda of both producers and consumers across all Fresh Meat categories. Local legislation and tariffs are expected to push forward solutions based on eco-friendly mono material, as MAPET ® II, at the expense of older and more traditional material formats.

The market for convenience meals not requiring heating is a broad and diverse sum of sub segments, each requiring a different set of features to producer and consumer. Faerch A/S remains focused on the advanced convenience sub-segments; where producer, retailer and end-consumers value innovative design, built-in convenience features as well as high quality and environmentally friendly materials. Delivering on these parameters allows Faerch A/S to tap into the trend of busy lifestyle, where on-the-go consumption of quality food becomes an increasing part of most households regardless if the purchase takes place at an urban cafe or in a major supermarket.

Adding value across the entire value chain

Great packaging is not only about protecting a product, and Faerch A/S persistently strives to add value to all aspects of the supply chain, starting with our own suppliers, to when the tray arrives at our customers and until the end customer purchases and consumes the final product.

To succeed with this end-to-end perspective, Faerch A/S is constantly collaborating with our stakeholders to optimize and develop processes and ultimately the final products. Working with NGO organizations like WRAP in the UK fighting food waste, to optimize tray stacking for automated food producers or R&D collaborations with top-film producers, are all examples of the wide span of activities in which the Company engages on a daily basis in order to maintain and develop our position as adding value for the food industry.

Continued investment to deliver best in class

The plastics packaging industry is constantly changing and the growing external demands require Faerch A/S to evolve by investing in technology as well as in process and material knowledge. Factors like precision, efficiency and automation play a crucial role in achieving success.

Management's Review (continued)

To offer our customers the optimal solutions at the lowest possible cost, the factories, processes and people receive substantial investments to ensure the highest standards and use of latest technology. Faerch A/S will continue to invest significant amounts every year to maintain and develop our leading position.

The right values

Value creation at Faerch A/S encompasses more than just financial return, and is built on an ingrained sense of responsibility that permeates our organisation.

Responsibility – and in this case a shared responsibility with the customer – is central to our value model. Responsibility for the environment and the world around us is a natural and basic precondition for our work. Only on this basis are we able to meet our own requirements of being the leading and most recognized player in our industry in Europe. We want to be recognized for quality, credibility, responsibility and our ability to deliver. In this way, we can remain innovative and deliver optimal solutions, where we can combine our competencies.

Responsibility is also about maintaining effective manufacturing processes, environmental considerations, production efficiency and sustainable energy supply. The Company is fully supplied with renewable energy provided by sustainable energy sources, such as hydro and wind power plants.

Segment reporting

Faerch A/S is producing and selling rigid plastic packaging primarily to the European food industry. Our approach to the market is based on a sales channel split, which is also the basis of our segment reporting.

Faerch A/S operates with three different sales channels based on customers' characteristics; Industrial Food Producers, Distributors and Retailers.

Food Producers

Food producers comprise our largest segment. Food producers are large-scale industrial processors within all chilled food and frozen segments (Fresh Meat, Ready Meals, and Food to go). They deliver mainly to independent retailers or own outlets. Faerch A/S provides a full sales setup tailored to cater for this channel:

- Sales representatives focused around product applications and with clear Key Account Management responsibility
- Large portfolio of tools, which provides off-the-shelf standard solutions or can be altered to deliver a tailored solution to the individual customer
- Operational setup that allows for short lead time and dedicated stock levels if required
- Agile logistic model servicing our customers with daily deliveries when needed
- Full design and innovation team helping our customers to develop the unique packaging solution that suits their needs

Management's Review (continued)

Distributors

Distributors is our second largest segment. Distributors range from full-service providers for the restaurant and catering industry carrying a wide range of utilities, to more specialised distributors servicing smaller food producers and retailers mainly with a full packaging solution inclusive tray, top film, sealing equipment etc. Faerch A/S currently holds a strong position with select large distributors across Europe, but wishes to further expand our presence in this segment. Expansion will be driven by rolling out tailored service models building on best practices from our current sales areas incl.:

- Dedicated sales resources
- Quick response rates
- Proactive product development aimed for distributor assortment
- Standard assortment on stock

Retailers

Retailers are predominantly indirect customers through one of the above core sales channels, where we mainly supply packaging for food products, which are prepared and packed on site. Direct servicing of retailers allows the Company to be on the forefront of innovation and customer demand, minimizing dependency on any single food producer.

Income Statement

In 2018, the Company reported revenue of DKK 1.249,8m (2017: DKK 1.469,8m). Increasing raw material price development for resin have impacted the selling prices positive in 2018 H2.

Cost of goods sold amounted to DKK 874,4m (2017: DKK 1.065,9m). The reported gross profit margin decreased by -0,2% to 14,5% as a result of higher resin prices during 2018. The efficiency improvements at the factory in Holstebro compensated partly.

Sales and distribution costs amounted to DKK 91,1m (2017: DKK 119,2m). The decline was mainly driven by a headcount reduction exercise and reduced logistic costs.

Administrative costs amounted to DKK 38,7m (2016: DKK 42,5m). The decrease was mainly driven by transfer for tasks to other countries.

Other operating income of DKK 3,4m (2017: DKK 29,0m) is income from realised and unrealized forward contracts applied to manage the net currency exposure in the UK market, income from customer contributions in relation to tools and gain in connection with assets disposals. The significant decline is due to the forward contracts on the sterling.

Other operating expenses of DKK 67,3m (2017: DKK 55,1m) increased by DKK 12,2m due to expenses related to strategy projects as well as additional costs related to redundancies.

Management's Review (continued)

Tax for the period amounted to DKK -53,0m against DKK -58,9m in 2017.

Profit for the year recorded DKK 151,5m (2017: DKK 176,1m). The decline was due to transfer of revenue to UK.

Equity at 31 December 2018 has increased to DKK 1.277,7m from DKK 1.124,3m in 2017. No dividend was distributed in 2018.

Investments
The Company's investments for 2018 amounted to DKK 56,4m (2017: DKK 102,0m).

Subsequent events
No events materially affecting the assessment of the Company's financial position have occurred after the balance sheet date.

Expectations for 2019
The expectations for 2019 are positive and the strategy for 2021 reflects the Company's expectations end of 2018. The company expect an organic volume growth and being able to maintain the EBITDA margin.
The execution of the Strategy 2021 has the following key priorities for 2019; growth, new product development, channel and segments and cost leadership.

Strategy 2021
In 2016, following two strategic acquisitions and to reflect Faerch A/S's broader product offering, we completed and started the execution of a five-year strategy plan, highlighting mid-term priorities of the new Faerch A/S. The plan is an outcome of a six-month internal process leveraging inputs and support from all levels and functions across the Faerch A/S organisation. The strategy plan is in many ways a logical continuation of the Faerch A/S heritage, aiming to continue our healthy growth via a broad product portfolio tailored for attractive market segments and with an unrivaled focus on cost optimisation and process and material innovation.

The strategy remains unchanged after the change of ownership. Faerch will continue to build on the success it has had over many years in winning market share in selected markets and applications.

Management's Review (continued)

Strengthen our geographical position

Our strengthened product offering in Food-To-Go and Fresh Meat, combined with our product leadership position for heated ready meal products and our ability to supply products in all leading base materials, will drive further penetration in our core western European markets as well as continue to build our position in central and Southern Europe.

Our strategy will be two-folded, with the core focus on maintaining organic growth, combined with a continued screening for quality acquisition targets/partnerships for which strategic rationale is right and combined value can be

Significant investment in New Product Development With our new strategy comes an enhanced and even more explicit focus on our development work. Faerch A/S has grown, and so has our scale facilitating the opportunity to form specialised units. Since 2016, Faerch A/S has strengthened its full organisation to build the processes, materials and products of tomorrow. We enter 2018 with very strong pipeline.

Continuous focus on cost optimisation

Driving cost improvements is a deeply embedded part of Faerch A/S's way of operating, and our technology and operational teams possess significant experience in developing and delivering on cost improvement targets. In the coming years, Faerch A/S will continue to invest significantly back into the business, for which a number of the identified projects will deliver cost optimisation and lowering of the overall loss of resources. Further automation across the production chain, leveraging the newest robotic technology and Faerch A/S best practice process principles, will contribute with savings in line with historical achievements.

A crucial part of "Strategy 2021" is the continued efforts of bringing and maintaining our newly acquired production sites to the Faerch A/S Group standard for production. This journey started in 2015, and since then a significant amount has been invested based on Faerch A/S expertise, in combination with the deep knowledge of the local teams. We are pleased to see that at end of 2018 we are on track for delivering optimisation to all our new sites, and we look forward to continuing these efforts and gain from the full potential in the coming years.

Management's Review (continued)

Risk Management

Business risks
The Management of the Company has made an assessment of the internal and external business risks. Some of the risks can have a significant impact on the performance of the business. The risks identified, monitored and evaluated as being particularly important at current time are:

- Raw material prices – the main cost element represents around 33 % of the turnover. To minimize the risk the Company can pass on 85 % of the price variances to customers through pricing mechanism in the customer contacts
- Dependence of customers – the variety of customers and the unique tools for customers reduce the risk of losing customers
- Integration of new entities – a successful integration of the new entities is paramount to ensure continuous growth and increase in operating profit

Financial risk
R. Faerch Plast A/S' main financial risks relate to exchange rate, interest rate and tax.

Currency risks
The reporting currency is Danish Kroner, which is closely linked to the Euro within a narrow range of ±2,25%. However, a large part of the invoiced sales are in British pound and is therefore the company's biggest financial risk. To manage the exchange risk the company hedges expected future cash flow for GBP and the hedging follows procedures and policies approved by the Board of Directors.

Interest rate risk
Faerch A/S is exposed to interest rate risk, because the Company borrows funds at variable rates of interest. The risk is monitored by Faerch A/S and hedging is applied in accordance with policy approved by the Board of Directors.

Tax
By operating business globally, transfer pricing disputes with tax authorities may occur. Faerch A/S' policy is to pursue a competitive tax level in a responsible way, which means paying relevant tax in jurisdictions where its business activity generates profit. To manage uncertainties regarding tax, Faerch A/S has transfer pricing agreements on market terms.

Internal control and risk management
The Board of Directors and management are responsible for ensuring that the structure and control systems in the Company are suitable and function satisfactorily. The Board of Directors regularly assesses the overall and specific risks associated with the business and operation, and seeks to ensure that such risks are managed in a proactive and efficient

Management's Review (continued)

A detailed annual planning and budget process has been established and variances are monitored on a weekly and monthly basis. This includes particular attention to development in sales and earnings. To ensure high quality in the financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting including follow-up on variance from budgets and use of Company's accounting policies and reporting instructions to secure alignment and transparency within the Company.

The responsibility for maintaining sufficient and efficient internal control and risk management in connection with financial reporting lies with the Executive Board. The Board of Directors has assessed the Company's existing control environment and concluded that it is adequate at the current stage in the company's development.

Ownership and capital structure

Faerch A/S is a limited company incorporated and operating under Danish Law. The company's share capital is indirectly owned by funds advised by Advent International.

Corporate Governance

The Board of Directors and Executive Board of Faerch A/S are responsible for ensuring that the Company's management structure and control systems are appropriate and function satisfactorily.

The basis for the management's work includes the Danish Companies Act, the Danish Financial Statements Act, the Company's articles of association, and rules of procedure for the Board of Directors and Executive Board, as well as generally accepted practice for companies of the same size as Faerch A/S.

Corporate Social Responsibility (CSR)

As an international manufacturer of plastic packaging, Faerch A/S has far-reaching environmental, social and economic impacts. It is our commitment to act in a responsible manner in all aspects of the tray's life cycle - from materials sourcing, product design and development, manufacturing, distribution and disposal.

In order to mitigate these impacts, we define a set of actions and how we create value, delivering competitive advantages to our customers. Consequently, we embed Corporate Social Responsibility in our processes and focus areas. Faerch A/S defined the five focus areas:

- Sustainable Packaging – Faerch A/S is the leading producer of recycled plastic and is helping to raise awareness of the waste challenge faced by the industry. Faerch A/S has developed a Cradle-to-Cradle concept for a range of plastics
- Food Safety – the standard is high and the legislative and regulatory requirements in this area are always met or exceeded
- Responsible Operations – Faerch A/S wants to offer innovative and sustainable products that help to minimize CO_2 emissions from own activities. Energy optimisation is a key area at all factories
- People & Organisation – Faerch A/S will secure a safe workplace with focus on the employee's well-being and development
- Business Ethics – the organisation acts as a proper and responsible company and supports international anti-corruption efforts and is dedicated to upholding the highest standards

Management's Review (continued)

For 2018 there has not been prepared any separate Sustainability Report for the Group but the section included in parent company accounts page 52-77 presents information according to section 99a and § 99b of the Danish Financial

Embedding Corporate Social Responsibility

Our Corporate Social Responsibility effort is an integrated part of our daily operations and priorities. Therefore, these activities are strongly anchored into our organizational structure and reflected on different structural levels.

The overall organizational responsibility and direction of the Corporate Social Responsibility work is part of the Group Executive Management.

The Group functions are responsible for the individual focus areas and ensure that we work in order to achieve our ambitions and meet our obligations to society, our customers and employees.

On a local level, in the respective departments and working groups, we implement specific initiatives and improvement

Materiality Assessment

Faerch A/S' materiality assessment reflects the areas creating impact on our business success and playing an important role for our stakeholders.

The focus areas

We defined five focus areas supporting Faerch A/S sustainability effort: Sustainable Packaging, Food Safety, Responsible Operations, People & Organisation, and Business Ethics.

Sustainability Agenda

Materiality assessment is one of the strategic themes put forward on the sustainability agenda at Faerch A/S. As a dynamic company, it is important to us to ensure that we are aware of and react to the changes in the external environment that can influence our business. We monitor and follow up on our KPIs and progress towards sustainability, linking them to investment decisions that support our sustainable business growth.

Management's Review (continued)

Focus areas and ambition levels

Faerch A/S's sustainability initiatives are based on the focus areas that have been defined through the materiality assessment.

For each focus area, we have established a long-term level of ambition supported by our actions.

Our highest level of ambition is to be the leader in Sustainable Packaging and Food Safety.

For every focus area we have defined the KPIs supporting our long-term ambition and sustainable development.

Board of Directors

The Board of Directors held three meetings in 2018.

The meetings included ongoing review and support of Faerch A/S' new strategy, its organisation and underlying action plans. The Executive Board briefs the Board of Directors on the Group's financial development on an ongoing basis.

The wide variety of relevant competences and experience represented on the Board of Directors can be summarized as follows: international business and industry experience; M&A experience; financial competency; consumer goods experience; customer relationship experience combined with innovation and out-of-the box thinking.

The Board of Directors has an international profile with some diversification in relation to age. The Board of Directors aims to further strengthen diversification in relation to gender. Faerch A/S will endeavour that at least one of the six members elected by the shareholders should be of the underrepresented gender.

Audit Committee

The Board of Directors has set up an Audit Committee in 2015.

The purpose of the Committee is to act in an advisory capacity to the Board of Faerch A/S in matters to review the adequacy of the Company's financial reporting, internal controls and compliance with prescribed law.

Income statement

1 January - 31 December

DKKm	Note	2018	2017
Revenue	1	1.249,8	1.469,8
Production costs	2	-874,4	-1.065,9
Gross profit		375,5	404,0
Sales and distribution costs	2	-91,1	-119,2
Administrative expenses	2	-38,7	-42,5
Other operating income		3,4	29,0
Other operating cost		-67,3	-55,1
Earning before interest and tax		181,8	216,1
Financial income	3	47,2	43,3
Financial expenses	3	-24,4	-24,5
Profit before income tax		204,5	234,9
Income tax expenses	4	-53,0	-58,9
Profit for the year		151,5	176,1

Balance Sheet

31 December

Note	DKKm	2018	2017
5	Completed development projects	15,0	15,1
	Intangible assets	15,0	15,1
6	Land and buildings	150,6	155,3
6	Plant and machinery	160,1	178,7
6	Other fixtures and fittings, tools and equipment	48,6	57,2
6	Fixed assets in progress	51,2	46,4
	Property, plant and equipment	410,5	437,6
7	Investments in subsidiaries	334,1	311,7
	Fixed assets investments	334,1	311,7
	Fixed assets	759,6	764,4
8	**Inventories**	125,4	123,0
	Trade receivables	148,2	259,6
	Receivables from group enterprises	1.701,3	93,6
	Other receivables	7,3	9,2
	Corporation tax	0,1	-
	Prepayments	6,5	5,5
	Receivables	1.863,4	368,0
	Cash at bank and in hand	4,5	558,9
	Current assets	1.993,3	1.049,9
	Assets	2.752,9	1.814,3

Balance Sheet

31 December

Note	DKKm	2018	2017
9	Share capital	73,0	73,0
	Reserve for development costs	11,7	12,9
10	Retained earnings	1.193,0	1.038,5
	Equity	1.277,7	1.124,4
11	Provision for deferred tax	28,0	27,5
	Provisions	28,0	27,5
	Mortgage loans	167,8	175,9
	Leasing	6,0	3,9
12	**Long-term debt**	173,8	179,8
	Mortgage loans short-term	8,0	18,5
	Leasing	3,6	2,4
	Credit institutions	23,3	0,6
	Trade payables	107,1	114,1
	Payables to group enterprises	1.005,4	205,7
	Corporation tax	62,6	62,8
	Other payables	56,5	71,9
	Deferred income	6,9	6,6
	Short-term debt	1.273,4	482,6
	Debt	1.447,3	662,4
	Liablities	2.752,9	1.814,3

13 Contingent assets, liabilities and other financial obligations
14 Fee to auditors appointed at the general meeting
15 Related parties and ownership
16 Subsequent Events
17 Accounting Policies

Statement of changes in equity

DKKm	Share capital	Reserve for development costs	Retained earnings	Total
Equity 1 January	73,0	12,9	1.038,4	1.124,3
Change in accounting policies			0,1	0,1
Adjusted equity 1 January	73,0	12,9	1.038,5	1.124,4
Capitalized development costs		-1,2	1,2	-
Fair value adjustment of hedging instruments			2,4	2,4
Tax on adjustment of hedging instruments			-0,5	-0,5
Net profit for the year			151,5	151,5
Equity 31 December	73,0	11,7	1.193,0	1.277,7

Note 1 Revenue

DKKm	2018	2017
Geographical segments		
North Europe	682,5	1.015,7
South Europe	197,2	171,1
Central Europe	329,8	263,5
Rest of the world	40,3	19,5
Total	1.249,8	1.469,8

Note 2a Staff expenses

	2018	2017
Wages and salaries	167,6	184,8
Pensions	10,7	11,4
Other social security expenses	3,9	4,0
Total	182,2	200,2
Including remuneration to:		
Executive Board	11,9	18,8
Board of Directors	1,3	1,1
Total	13,2	19,9
Average number of employees	**364**	**362**

Note 2b Depreciation, amortisation and impairment losses

	2018	2017
Intangible assets, amortisation	9,8	9,8
Leasing, depreciation	4,5	0,0
Property, plant and equipment, depreciation	63,8	64,1
Total depreciation, amortisation and impairment losses	78,1	73,9
Depreciation/amortisation and impairment losses relate to:		
Cost of goods sold	69,1	72,7
Sales and distribution costs	6,8	0,3
Administration cost	2,1	0,9
Total depriciation, amortisation and impairment losses	78,1	73,9

Note 3 Financial items

	2018	2017
Interest received from group entreprises	46,9	43,2
Other financial income	0,3	0,1
Total financial income	47,2	43,3
Interest paid to group enterprises	14,7	2,9
Other financial expenses	9,8	21,6
Total financial expenses	24,4	24,5

Note 4 Tax

	2018	2017
Current tax for the year	49,3	58,7
Deferred tax for the year	0,5	0,5
Adjustment of tax concerning previous years	3,2	0,0
Tax on profit for the year	**53,0**	**59,2**
which breaks down as follows:		
Tax on profit/loss for the year	52,5	58,9
Tax on changes in equity	0,5	0,3
Total	**53,0**	**59,2**

Note 5 Intangible assets

DKKm	Completed development projects
Cost at 1 January	58,1
Reclassification	9,7
Cost at 31 December	67,8
Amortization and impairment at 1 January	43,0
Amortization for the year	9,8
Amortization and impairment at 31 December	52,8
Carrying amount at 31 December	**15,0**

Intangible assets include developments projects mainly within better resin utilization and lower resin quality.
At a quarterly basis projects are evaluated including future value and capitalized.

Note 6 Property, plant and equipment

DKKm	Land and buildings	Plant and machinery	Other fixtures and fitting, tools and equipment	Fixed assets in progress	Total
Cost at 1 January	270,3	778,6	317,6	46,4	1.412,9
Change of Accounting Principles	-	3,9	6,8	-	10,7
Adjusted cost 1 January	270,3	782,5	324,4	46,4	1.423,6
Additions	-	-	-	56,4	56,4
Reclassification	0,3	21,5	20,2	-51,7	-9,7
Disposals	-	-10,5	-0,2	-	-10,8
Cost at 31 December	270,6	793,5	344,3	51,2	1.459,6
Depreciation and impairment at 1 January	115,0	602,0	264,6	-	981,6
Change of Accounting Principles	-	1,7	2,6	-	4,3
Adjusted depreciation 1 January	115,0	603,6	267,2	-	985,9
Depreciation for the year	5,0	34,5	28,7	-	68,2
Depreciation on disposals	-	-4,7	-0,3	-	-5,0
Depreciation and impairment at 31 December	120,0	633,4	295,7	-	1.049,1
Carrying amount at 31 December	**150,6**	**160,1**	**48,6**	**51,2**	**410,5**

Including assets under finance leases amounting to DKK 4.3m for Plant and Machinery and DKK 5.5m Other fixtures and fitting

Note 7 Investment in subsidaries

	2018	2017
Cost at 1 January	311,7	311,7
Additions for the year	22,4	0,0
Cost at 31 December	334,1	311,7
Value adjustments at 1 January	-	-
Change of accounting policies	-	-
Value adjustments at 31 December	-	-
Carring amount at 31 December	334,1	311,7

Investments in subsidaries are specified as follows:

Name	Place of registered office	Share capital	Equity	Profit for the year
Faerch Plast s.r.o.	Liberec, CZ	CZK 500.200k	CZK 683.471k	CZK 59.871k
Faerch Plast SAS	Semoy, France	EUR 13k	EUR 391k	EUR -2.314k
Faerch Plast Manufacturing Ltd.	Durham, UK	GBP 6.000k	GBP 3.135k	GBP -5.443k
Faerch Plast Bunol S.L.U.	Bunol, Spain	EUR 4.500k	EUR 11.083k	EUR 1.1809k
FPH 2017 Ltd.	Sutton, UK	GBP 1	GBP 1	GBP 0
Færch Netherland B.V.	Duiven, NL	EUR 10	EUR 10	EUR -3.445

Færch Netherland B.V. 50% owned.
Remaining subsidiaries are 100% owned by the company.
All foreign subsidiaries are recognised and measured as separate entities.

Note 8 Inventory

	2018	2017
Raw materials and consumables	49,4	41,3
Work in progress	31,2	30,7
Finished goods	44,7	51,0
Total inventory	125,4	123,0

Note 9 Share Capital

The share capital is broken down as follow:

	Number	Nominal value
		DKK '000
A-shares	13	13.000
B-shares	60	60.000
Total		73.000

The share capital has developed as follows:

DKKm	2018	2017
Share capital at 1 January	73,0	73,0
Capital increase/decrease	-	-
Equity 31 December	73,0	73,0

Note 10 Distribution of profit

DKKm	2018	2017
Retained earnings	151,5	176,1

Note 11 Deferred tax

DKKm	2018	2017
1 January	27,5	27,0
Changes in deferred tax through Income Statement	1	0,8
Changes in deferred tax through Equity	-0,5	-0,3
31 December	**28,0**	**27,5**
Total deferred tax	28,0	27,5

Note 12 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in logn-term debt.
The debt falls du for peyment as sepcified below:

Mortgage loans	2018	2017
After 5 years	86,7	101,9
Between 1 and 5 years	81,1	74,0
Long-term part	167,8	175,9
Within 1 year	8,0	18,5
Total mortgage loans	175,9	194,4

Leasing	2018	2017
After 5 years	-	
Between 1 and 5 years	6,0	3,9
Long-term part	6,0	3,9
Within 1 year	3,6	2,4
Total leasing	9,6	6,3

Credit institutions	2018	2017
After 5 years	-	-
Between 1 and 5 years	-	-
Long-term part	-	-
Within 1 year	23,3	0,6
Total credit institutions	23,3	0,6

Payables to group enterprises	2018	2017
After 5 years	-	-
Between 1 and 5 years	-	-
Long-term part	-	-
Within 1 year	1.005,4	205,7
Total payables to group enterprises	1.005,4	205,7

Note 13 Contingent assets, liabilities and other financial obligations

Security	2018	2017
The following assets have been placed as security with mortgage credit institutions:		
Land and buildings with the carrying amount of	150,6	155,3
Plant and machinery with the carrying amount of maximum	208,7	229,6

Contractual obligations	2018	2017
To hedge interest rate risks, the Company have concluded contracts of	146,9	163,7

The Company has concluded contracts concerning sale of foreign exchange at a countervalue of DKK146,9m.

The Company has concluded contracts with a number of suppliers. The contracts do not entail any obligations other than those normally involved in tradig relationships.

Note 13 Contingent assets, liabilities and other financial obligations (continued)

The Company has concluded operating leases with a remaining obligation over the term of DKK 11,6m. The leases have remaining terms up to 83 months.

Contingent liabilities

The Company has issued suretyships towards the subsidiary Faerch Plast s.r.o. limited to CZK 9,0m.

The Company has placed the shares of the subsidiaries; Faerch Plast Manufacturing Ltd, FPH 2017 Ltd and Faerch Plast Bunol SLU and their subsidiaries as security with the Groups credit institutions.

The Company and its subsidiaries have issued irrevoably and unconditionally jointly and severally guarantess towards the Group's credit institutions.

The Company is not involved in any lawsuits which are expected to have a material effect on the financial position of the Company.

Note 14 Fees to auditors appointed by the board of representatives

	2018	2017
Statutory audit of financial statements	0,4	0,4
Other assurance engagements	0,0	0,1
Tax advisory services	0,3	0,1
Other services	1,6	0,2
	2,3	0,8

Note 15 Related parties and ownership

Controlling interest	Basis
Færch Plast Group A/S	Parent Company
The Company's subsidiaries, see group chart	Subsidiaries

Transactions

Related parties with significant influence comprise group enterprises as well as the Board of Directors and the Executive Board of the Company.

Pursuant to section 98c(1) of the Danish Financial Statements Act, the Company does not disclose any information on transactions with related parties.

Ownership

Færch Plast Group A/S, Holstebro, Denmark is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital.

Note 15 Related parties and ownership (continued)

Consolidated Financial Statements

The Company's Annual Report is included in the Consolidated Financial Statements of:
Faerch Group A/S, Holstebro, Denmark, CVR No 38 81 24 24.

The Group Annual Reports of Faerch Group A/S may be obtained at the following address:
Faerch Group A/S, Rasmus Færchs Vej 1, 7500 Holstebro, Denmark

Note 16 Subsequent Events

No events materially affecting the assessment of the Annual Report have occured after the balance sheet date.

Note 17 Accounting Policies

Basis of Preparation

The Financial Statements of Faerch A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C. The Financial Statements for 2018 are presented in DKK millions.

The accounting policy regarding finance leases has changed compared to the previous year. Comparative figures have been changed in accordance with the Danish Financial Statements Act. The change ment an increase in the company's total assets of DKK 6,2, an increases in liabilities of DKK 6,1 meaning a total effect on equity of DKK 0,1m.
All other accounting policies applied are unchanged compared to the previous year. Some reclassifications were made in the financial statements. These do not affect results or equity. Comparative figures have been restated.
With reference to section 112 (1) of the Danish Financial Statements Act and to the consolidated financial statements of Faerch Group A/S, the Company has not prepared consolidated financial statements.

Cash Flow Statement

With reference to section 86(4) of the Danish Financial Statements Act and to the Cash Flow statement included in the Consolidated Financial Statement of Faerch Group A/S, the Company has not prepared a Cash Flow Statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.
Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Note 17 Accounting Policies (continued)

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

Income statements of foreign subsidiaries and associates that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity

Income statements of enterprises that are integrated entities are translated at transaction date rates or approximated average exchange rates; however, items derived from non-monetary balance sheet items are translated at the transaction date rates of the underlying assets or liabilities. Monetary balance sheet items are translated at the exchange rates at the balance sheet date, whereas non-monetary items are translated at transaction date rates. Exchange adjustments arising on the translation are recognised in financial income and expenses in the income statement.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting.

Note 17 Accounting Policies (continued)

Segment reporting

Segment information is presented relating to the distribution of revenue on geographical segments.

Based on this, it is the Company's assessment that it has one business segment which is "production and sale of plastic packaging" and four geographical segments which are "North Europe", "South Europe", Central Europe and "rest of the World".

Income Statement

Revenue

Revenue from the sale of goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprises, including gains and losses on the sale of intangible assets and property, plant and equipment.

Note 17 Accounting Policies (continued)

Income from investments in subsidiaries and associates

The items “Income from investments in subsidiaries” and “Income from investments in associates” in the income statement include dividend adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the onaccount taxation scheme.

Tax on profit for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance Sheet

Intangible assets

Costs incurred in connection with development projects are recognised as assets if they are expected to bring future economic benefits. Other development costs are expensed as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the periode of the expected aconomic benefit. The period of amoritsation is three years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, cost comprises direct and indi rect expenses for labour, materials, components and sub-suppliers.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Note 17 Accounting Policies (continued)

Property, plant and equipment (continued)

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	30-50 years
Plant and machinery	1-20 years
Other fixtures and fittings, tools and equipment	1-10 years

Assets costing less than DKK 50k are expensed in the year of acquisition.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Inventories

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

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Current asset invest ments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Note 17 Accounting Policies (continued)

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Prepayments

Prepayments comprise prepaid expenses concerning subscriptions.

Equity

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Fixed-interest loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Note 17 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$