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Rynkeby Foods A/S
Vestergade 30
5750 Ringe
Business Registration No
19982912

Annual report 2018

The Annual General Meeting adopted the annual report on 27.05.2019

Chairman of the General Meeting

____
Name: Jørn Falk

Contents

Entity details

Entity

Rynkeby Foods A/S
Vestergade 30
5750 Ringe

Central Business Registration No (CVR): 19982912
Founded: 30.06.1967
Registered in: Faaborg-midtfyn
Financial year: 01.01.2018 - 31.12.2018

Phone: +45 63623200
Fax: +45 63623201
Website: www.rynkeby.dk
E-mail: rynkeby@rynkeby.dk

Board of Directors

Claus Thomas Hinderer, Chairman
Sidney Lins Coffeng, Deputy chairman
Ulrich Bunk
Jose Marti Cos
Karsten Hansen
Lene Bøjden Lindstrøm

Executive Board

Peter Frank Andersen, Managing Director

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Rynkeby Foods A/S for the financial year 01.01.2018 - 31.12.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

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

Ringe, 27.05.2019

Executive Board

Peter Frank Andersen
Managing Director

Board of Directors

Claus Thomas Hinderer Chairman	Sidney Lins Coffeng Deputy chairman	Ulrich Bunk
Jose Marti Cos	Karsten Hansen	Lene Bøjden Lindstrøm

Independent auditor's report

To the shareholders of Rynkeby Foods A/S

Opinion

We have audited the financial statements of Rynkeby Foods A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity’s financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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.

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 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 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 exits. 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.

Independent auditor's report

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 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 Entity'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 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.

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.

Independent auditor's report

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

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.

Copenhagen, 27.05.2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Tim Kjær-Hansen	Lars Rynord
State Authorised Public Accountant	State Authorised Public Accountant
Identification No (MNE) mne23295	Identification No (MNE) mne28680

Management commentary

	2018	2017	2016	2015
	DKK'000	**DKK'000**	**DKK'000**	**DKK'000**
Financial highlights				
Key figures				
Revenue	981.693	1.025.976	711.979	26.248
Gross profit/loss	164.901	182.632	109.483	2.033
Operating profit/loss	(383.472)	(1.471)	6.355	410
Net financials	(3.309)	(2.432)	(10.005)	(20)
Profit/loss for the year	(381.081)	(9.030)	(6.460)	299
Total assets	994.405	1.342.820	1.478.258	6.232
Investments in property, plant and equipment	331.075	225.337	466.881	33
Equity	681.868	1.062.950	1.071.980	1.915
Cash flows from (used in) operating activities	8.106	61.531	83.638	569
Cash flows from (used in) investing activities	(134.287)	(114.255)	(863.404)	58
Cash flows from (used in) financing activities	143.052	21.146	813.525	(5.279)
Average numbers of employees	251	206	197	N/A
Ratios				
Gross margin (%)	16,8	17,8	15,4	7,7
Net margin (%)	(38,8)	(0,9)	(0,9)	1,1
Return on equity (%)	(43,7)	(0,8)	(1,2)	15,6
Equity ratio (%)	68,6	79,2	72,5	30,7
Revenue per employee	3.911,1	4.980,5	3.614,1	-

The financial highlights include the financial statements of;
2015: Valsølille Most ApS 01.01.2015 - 31.12.2015.
2016: Valsølille Most ApS 01.01.2016 – 31.12.2016 and Rynkeby Foods A/S 18.05.2016 – 31.12.2016.

Financial highlights for the period before 2015 are not presented as the period consisted solely of Valsølille Most ApS, which in the years up to 2016 prepared financial statements in accordance with the Danish Financial Statements Act governing reporting class B enterprises, and therefore did not compile financial highlights and ratios. Management does not consider the financial highlights for the period 2012 to 2014 to be of significance for evaluating the development of the entity.

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

Management commentary

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

Management commentary

Primary activities
The primary business activity of Rynkeby Foods A/S is to develop, produce and sell fruit-based drinks and cordials which are sold mainly in Denmark, Sweden, Finland, and Norway.

Development in activities and finances
Rynkeby Foods A/S (RFAS) realized a revenue of DKK 982m in the financial year 2018 and a loss after income taxes for the year of DKK 381m. The primary reason for this significant loss is an impairment of goodwill of DKK 334m.

Overall, the Danish juice and cordials marked increased by 5.7% in value in 2018 and increased by 3.3 % in volume. This, however, covers some significant movements within the various segments.

Rynkeby Foods A/S increased the branded market share on the total juice market from 26.7% to 28.2%. The growth primarily comes from the chilled market where the God Morgen brand performed very well.

RFAS was acquired by Eckes-Granini in 2016. End of 2016, RFAS was merged with the Danish Eckes-Granini company Valsølille. The merger resulted in a goodwill amount of DKK 587m.

In 2017 and 2018, the business of RFAS was restructured. The range of products offered to the customers was enlarged. In parallel, the plant in Ringe was completely restructered and expanded (among others the Eckes-Granini plant in Sweden was closed and the production was transferred to Ringe). Finally this led to a significant increase of the production volume and a broadening of the business model of RFAS.

In the course of the restructuring, the financial performance for the year 2018 has been affected by several extraordinary events:

1. To be able to take over the production from the Swedish plant, RFAS invested in an Elopak high speed production line with new techniques replacing two old production lines; however in 2018 the new line has not been able to perform as cost efficiently as expected but is showing significant improvements now.
2. To be able to take over the production from the Eckes-Granini plant in Sweden, a significant number of new people have been hired and trained.
3. The big launch of new products early 2019 led to significant up-front costs in 2018.

Overall the above has caused an unsatisfactory financial performance for 2018, and thus initiatives have been launched to improve the profitability of RFAS.

As required by the Danish Financial Statements Act, RFAS has prepared an impairment test of goodwill based on free cash-flows and estimated cost of capital (WACC) due to unsatisfactory results. The outcome of the impairment test is an impairment of goodwill of DKK 334m, which is, among others, related to not yet realized synergies and the described extraordinary events causing currently lower profitability and cash flows.

Senior Management is convinced that expected future cash flows based on the restructured business platform will be reached and be in line with previous expectations.

Management commentary

Investments

During 2018, DKK 135m was invested in new equipment, mainly follow-up investments from the big investments in 2017 in production facilities.

Research and development activities

The Company is continuing its development activities to constantly improve and build on its products and competitive strength. The ownership of Eckes-Granini offers several improvements and benefits also in relation to R&D activities.

Unusual circumstances regarding the 2018 financial statements

Except for the circumstances referred to above, nothing has been regarded as unusual.

Outlook

Expectations for the Danish juice and cordials market are that ambient juice and cordials will be stable or slightly decline and that chilled juice and smoothies will continue to increase its growth rates.

The challenges RFAS has had in supply chain is expected to improve in 2019 leading to higher line efficiency and less waste.

Early 2019 RFAS has launched Rigtig Juice. This is one of the biggest launches in recent years – and we expect a good market position with Rigtig Juice. We expect to continue the successful relaunch of God Morgen juice.

On this background we expect EBITDA will be slightly better in 2019 than in 2018.

Particular risks

Price risks

The Company's primary purchase of raw material (orange and apple concentrate) is done through the Eckes-Granini central procurement function. The Company seeks through the Eckes-Granini Group to hedge purchases and prices of raw material within a reasonable time frame.

Currency risks

The Company makes its main purchase in EUR and is accordingly exposed to currency risks with respect to its current operation. Also, the Company makes many of its sales transactions in EUR, with a similar currency risk.

Environmental performance

The Company is carrying on environmentally sound operations with focus on product quality and production environment.

Statutory report on corporate social responsibility

Rynkeby Foods A/S has created a CSR policy for the Company's social responsibility and has joined the UN Global Compact. Rynkeby Foods A/S's CSR report may be found at:
https://www.rynkeby.dk/rynkeby/csr.aspx

Management commentary

Statutory report on the underrepresented gender

Target for the Executive Board

The Executive Board consists of 4 owner appointed members and 2 employee nominated members. It is the Company's goal to provide a gender composition among top management in 2020 of 1 of the underrepresented gender (here female). The current status is that none of the 4 owner nominated members are at present female. There have not been any changes in the Executive Board in 2018.

Gender equality in other management levels of Rynkeby Foods A/S

It is Management's assessment that a balanced gender ratio leads to increased satisfaction, as genders handle professional and personal situations in different ways and opens up of problem solving that will provide better results.

Rynkeby Food A/S works towards increasing the number of the underrepresented gender in all management levels in the organization. Target is an equal 50/50 distribution. By the end of 2018, the underrepresented gender is 36% in all levels of management. Through our recruitment and promotion work we expect to be able to increase the underrepresented gender ratio, if candidates with the right qualifications can be found.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue	2	981.693	1.025.976
Other operating income	3	5.673	14.932
Cost of sales		(637.103)	(749.280)
Other external expenses	4	(185.362)	(108.996)
Gross profit/loss		**164.901**	**182.632**
Staff costs	5	(148.365)	(133.172)
Depreciation, amortisation and impairment losses	6	(400.008)	(50.931)
Operating profit/loss		**(383.472)**	**(1.471)**
Other financial income	7	0	570
Other financial expenses	8	(3.309)	(3.002)
Profit/loss before tax		**(386.781)**	**(3.903)**
Tax on profit/loss for the year	9	5.700	(5.127)
Profit/loss for the year	10	**(381.081)**	**(9.030)**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Acquired intangible assets		86.669	1.320
Acquired trademarks		172.718	176.364
Goodwill		191.068	548.532
Intangible assets	11	**450.455**	**726.216**
Land and buildings		72.747	75.208
Plant and machinery		236.572	74.263
Other fixtures and fittings, tools and equipment		4.741	4.630
Property, plant and equipment in progress		4.313	154.233
Property, plant and equipment	12	**318.373**	**308.334**
Deferred tax	16	4.460	0
Fixed asset investments	13	**4.460**	**0**
Fixed assets		**773.288**	**1.034.550**
Raw materials and consumables		35.325	36.640
Work in progress		1.763	1.404
Manufactured goods and goods for resale		45.086	35.823
Inventories		**82.174**	**73.867**
Trade receivables		66.856	130.247
Receivables from group enterprises		45.669	88.737
Other receivables		892	4.325
Income tax receivable		854	0
Prepayments	14	3.978	7.271
Receivables		**118.249**	**230.580**
Cash		**20.694**	**3.823**
Current assets		**221.117**	**308.270**
Assets		**994.405**	**1.342.820**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital	15	30.000	30.000
Retained earnings		651.868	1.032.950
Equity		**681.868**	**1.062.950**
Deferred tax	16	0	1.240
Provisions		**0**	**1.240**
Mortgage debt		14.833	22.101
Non-current liabilities other than provisions	17	**14.833**	**22.101**
Current portion of long-term liabilities other than provisions	17	3.662	0
Trade payables		104.285	169.202
Payables to group enterprises		150.029	46.438
Income tax payable		0	5.361
Other payables		39.728	35.528
Current liabilities other than provisions		**297.704**	**256.529**
Liabilities other than provisions		**312.537**	**278.630**
Equity and liabilities		**994.405**	**1.342.820**
Events after the balance sheet date	1		
Assets charged and collateral	19		
Related parties with controlling interest	20		
Transactions with related parties	21		

Statement of changes in equity for 2018

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	30.000	1.032.949	1.062.949
Profit/loss for the year	0	(381.081)	(381.081)
Equity end of year	**30.000**	**651.868**	**681.868**

Cash flow statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Operating profit/loss		(383.472)	(1.471)
Amortisation, depreciation and impairment losses		400.008	50.931
Working capital changes	18	1.094	20.499
Cash flow from ordinary operating activities		**17.630**	**69.959**
Financial income received		0	507
Financial expenses paid		(3.309)	(3.002)
Income taxes refunded/(paid)		(6.215)	(5.933)
Cash flows from operating activities		**8.106**	**61.531**
Acquisition etc of intangible assets		(89.477)	(1.416)
Sale of intangible assets		0	70.477
Acquisition etc of property, plant and equipment		(45.839)	(225.337)
Sale of property, plant and equipment		1.029	42.021
Cash flows from investing activities		**(134.287)**	**(114.255)**
Repayments of loans etc		(3.606)	(16.563)
Repayment of debt to group enterprises		146.658	37.709
Cash flows from financing activities		**143.052**	**21.146**
Increase/decrease in cash and cash equivalents		**16.871**	**(31.578)**
Cash and cash equivalents beginning of year		3.823	35.401
Cash and cash equivalents end of year		**20.694**	**3.823**

Notes

1. Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

	2018	2017
	DKK'000	DKK'000
2. Revenue		
Retail	505.899	560.412
Industry	475.794	465.564
	981.693	**1.025.976**

3. Other operating income

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

	2018	2017
	DKK'000	DKK'000
4. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	582	611
Tax services	29	164
Other services	607	482
	1.218	**1.257**

	2018	2017
	DKK'000	DKK'000
5. Staff costs		
Wages and salaries	138.697	125.221
Pension costs	4.958	4.709
Other social security costs	4.710	3.242
	148.365	**133.172**
Average number of employees	**251**	**206**

Notes

	Remuneration of management 2018 DKK'000	Remuneration of management 2017 DKK'000
Total amount for management categories	2.028	6.365
	2.028	**6.365**

	2018 DKK'000	2017 DKK'000
6. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	31.237	29.580
Impairment losses on intangible assets	334.000	0
Depreciation of property, plant and equipment	35.754	24.012
Profit/loss from sale of intangible assets and property, plant and equipment	(983)	(2.661)
	400.008	**50.931**

As required by the Danish Financial Statements Act, RFAS has prepared an impairment test of goodwill based on free cash flows and estimated cost of capital (WACC) due to unsatisfactory results. The outcome of the impairment test is an impairment of goodwill of DKK 334m, which among others relates to not yet realized synergies and the extraordinary events in 2018 causing currently lower profitability and cash flows.

	2018 DKK'000	2017 DKK'000
7. Other financial income		
Financial income arising from group enterprises	0	570
	0	**570**

	2018 DKK'000	2017 DKK'000
8. Other financial expenses		
Financial expenses from group enterprises	1.623	86
Other financial expenses	1.686	2.916
	3.309	**3.002**

Notes

	2018 DKK'000	2017 DKK'000
9. Tax on profit/loss for the year		
Current tax	0	4.711
Change in deferred tax	(5.700)	416
	(5.700)	**5.127**

	2018 DKK'000	2017 DKK'000
10. Proposed distribution of profit/loss		
Retained earnings	(381.081)	(9.030)
	(381.081)	**(9.030)**

	Acquired intangible assets DKK'000	Acquired trademarks DKK'000	Goodwill DKK'000
11. Intangible assets			
Cost beginning of year	7.577	182.277	586.587
Additions	89.477	0	0
Disposals	(2.991)	0	0
Cost end of year	**94.063**	**182.277**	**586.587**
Amortisation and impairment losses beginning of year	(6.257)	(5.913)	(38.056)
Impairment losses for the year	0	0	(334.000)
Amortisation for the year	(4.128)	(3.646)	(23.463)
Reversal regarding disposals	2.991	0	0
Amortisation and impairment losses end of year	**(7.394)**	**(9.559)**	**(395.519)**
Carrying amount end of year	**86.669**	**172.718**	**191.068**

The amortisation period for acquired intangible assets (trademarks) is based on the acquired trademark being of strategical nature, having a strong market position and the long-term earning history. The amortisation period is assessed to be 50 years.

The amortisation period for goodwill is based on the strategical importance of the acquired entity, the strong market position, the historical employee turnover rate and the long-term earnings profile. The amortisation period is assessed to be 25 years.

Notes

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
12. Property, plant and equipment				
Cost beginning of year	173.983	239.081	32.068	154.233
Additions	5.405	187.420	2.934	135.316
Disposals	0	0	(2.545)	(285.236)
Cost end of year	**179.388**	**426.501**	**32.457**	**4.313**
Depreciation and impairment losses beginning of year	(98.774)	(164.818)	(27.438)	0
Depreciation for the year	(7.867)	(25.111)	(2.776)	0
Reversal regarding disposals	0	0	2.498	0
Depreciation and impairment losses end of year	**(106.641)**	**(189.929)**	**(27.716)**	**0**
Carrying amount end of year	**72.747**	**236.572**	**4.741**	**4.313**

	Deferred tax DKK'000
13. Fixed asset investments	
Additions	4.460
Cost end of year	**4.460**
Carrying amount end of year	**4.460**

14. Prepayments

Prepayments consist of prepaid insurance and other prepaid costs related to subsequent financial years.

Notes

	Number	Par value DKK'000	Nominal value DKK'000
15. Contributed capital			
Share capital	30.000	1	30.000
	30.000		**30.000**

16. Deferred tax

	2018 DKK'000	2017 DKK'000
Deferred tax at 1 January	(1.240)	(824)
Addition through business combination	0	0
Change in deferred tax	5.700	(416)
Adjustment of deferred tax for previous years	0	0
Value adjustments relating to financial instruments	0	0
Deferred tax at 31 December	**4.460**	**(1.240)**

	Due within 12 months 2018 DKK'000	Due after more than 12 months 2018 DKK'000
17. Liabilities other than provisions		
Mortgage debt	3.662	14.833
	3.662	**14.833**

	2018 DKK'000	2017 DKK'000
18. Change in working capital		
Increase/decrease in inventories	(8.307)	(12.678)
Increase/decrease in receivables	70.118	26.447
Increase/decrease in trade payables etc	(60.717)	6.730
	1.094	**20.499**

19. Assets charged and collateral
Payment guarantees provided amount to DKK 500k (2017: DKK 500k).

Notes

A charge of DKK 85,000k on land and buildings at a carrying amount of DKK 72,747k has been provided as security for mortgage debt of DKK 18,495k.

Rental and lease commitments total DKK 12,005k. (2017: DKK 15,543k).

Rynkeby Foods A/S is still liable for former joint taxation with other Danish companies in the Arla Group. The liability expires on 19.05.2019.

20. Related parties with controlling interest
Related parties with a controlling interest in Rynkeby Foods A/S:

Eckes-Granini Group GmbH, Ludwig-Platz 1, 55268 Nieder-Olm, Germany.

The above company holds the entire share capital of the Company, and is the ultimate owner of the Company.

Eckes-Granini Group GmbH, Ludwig-Platz 1, 55268 Nieder-Olm, Germany, is preparing consolidated financial statements of the Group.

	Parent DKK'000	Other related parties. DKK'000
21. Transactions with related parties		
Gross sale	799	340.459
Raw material	210.267	0
Admin fee and royalties	0	2.807
IT costs	9.751	0
Interest	1.623	0
Purchase of fixed assets	0	95.057
Receivables	0	45.669
Liabilities other than provisions	132.922	17.107

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied to these financial statements are consistent with those applied last year.

Non-comparability

A minor reclassification has been made between cost of sales, other external expenses and staff costs. The comparative figures have been restated. A minor reclassification between other payables and trade payables have also been made, and comparative figures have been restated.

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.

Uncertainty relating to recognition and measurement

Goodwill is measured at cost less accumulated amortisation and impairment. Management has assessed impairment of goodwill based on expected free cash flow and estimated cost of capital. The expected free cash flow and cost of capital is based on estimates as well as expected future events and thus subject to uncertainty.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction 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.

Accounting policies

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.

Fixed assets that have been purchased in foreign currencies are translated using the exchange rate in effect at the transaction data.

Income statement

Revenue

Income from sale of manufactured goods and goods for resale is recognised in revenue when the most significant risks and rewards have been transferred to the buyer, and the income can be calculated reliably and is likely to be received. The time of transfer of the most significant risks and rewards is based on standard terms of delivery.

Revenue is measured at fair value of the payment agreed exclusive of VAT and other levies collected for third parties. All types of discounts are recognised in revenue.

Other operating income

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

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory write-downs.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income

Other financial income comprises interest income, net capital gains on securities, payables and transactions in foreign currencies, as well as tax relief under the Danish Tax Prepayment Scheme etc.

Accounting policies

Other financial expenses
Other financial expenses comprise interest expenses, net capital losses on securities, payables and transactions in foreign currencies, as well as tax surcharge under the Danish Tax Prepayment Scheme 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.

Balance sheet
Goodwill
Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile, the level of the employee turnover rate and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets.

The amortisation periods used are 25 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc
Intellectual property rights etc. comprise acquired trademarks, software and know-how.

Trademarks
Intellectual property rights acquired are measured at cost less accumulated amortisation. Trademarks are amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each trademark. Although trademarks are valued based on an infinite useful life, the useful life for accounting purposes are qualified to have a finite useful life. Useful life is further determined based on an assessment of whether the trademark are strategically, the marked position and a long-term earnings history.

The amortisation periods used are 50 years.

Software
Acquired intangible assets comprise acquired software services. Acquired intangible assets are measured at cost less accumulated amortisation. Software is amortised straight-line over its estimated useful life.

The amortisation periods used are 3 years.

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

Accounting policies

Property, plant and equipment
Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

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. For self-constructed assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labour costs.

Interest expenses on loans for the financing of the manufacture of property, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

Cost of a combined asset is divided into small components depreciated individually if their useful lives vary.

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:

Buildings	20 years
Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	5 years

Profits and losses from the sale of property, plant and equipment are calculated as the difference between selling price less selling costs and carrying amount at the time of sale. Profits or losses are recognised in depreciation in the income statement.

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

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

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.

Inventories
Inventories are measured at cost based on weighted average prices comprising both direct and indirect production costs, and is written down to a net realisable value if assessed to be lower.

Cost of goods for resale, raw materials and consumables 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 and depreciation of machinery, factory buildings and equipment applied for the

Accounting policies

manufacturing process as well as costs of factory administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the selling price less costs of completion and costs incurred to execute sale and is determined allowing for marketability, obsolescence and development of the expected selling price.

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

Write-downs for bad and doubtful debts is made when objective evidence of impairment is deemed to exist that an amount receivable or a portfolio of receivables is impaired. If such objective evidence of impairment of an individual amount receivable exists, a write-down for impairment is made on an individual level.

Receivables for which no objective evidence of impairment exists on an individual level are reviewed for impairment on a portfolio level. Portfolios are primarily based on the debtors' registered office and a credit rating of such debtors in accordance with the Company's and the Group's credit risk management policy. The objective indicators applied to portfolios have been defined based on historical loss experience.

Impairment losses are determined as the difference between the carrying amount of receivables and the present value of estimated cash flows, including the realisable value of any collateral received. The effective interest rate for each amount receivable or a portfolio of receivables is used as a discount rate.

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

Deferred tax is measured in accordance with the balance-sheet liability method of all temporary differences between the carrying amount and tax-based value of assets and liabilities. However, deferred tax on temporary differences regaring non-amotisable goodwill and other items for which temporary differences have occurred at the time of acquisition without affecting the results or taxable income is not recognised. Where the computation of the tax base can be made according to varying tax rules, deferred tax is measured on the basis of Management’s planned use of the asset of settlement of the liability.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised at the amount at which they are expected to be used, either by setting off tax on future earnings or by a set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Adjustments are made for deferred tax on eliminations of unrealised intercompany profits and losses.

Deferred tax is measured based on the tax regulations and tax rates of the relevant countries that will be in effect according to law at the balance sheet date when the deferred tax is estimated to crystallise as current tax.

Accounting policies

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

Cash
Cash comprises cash in hand and bank deposits.

Mortgage debt
At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

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

Dividend
Proposed dividend is recognised as a liability at the time of adoption at the general meeting (time of declaration). Dividend expected to be paid for the year is disclosed as a separate line item in equity.

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 indirect 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, repayments of interest-bearing debt, change in group financing agreements and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.