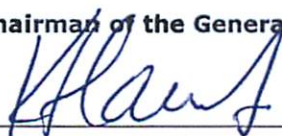


Arcus Denmark A/S
Århusgade 88
2100 Copenhagen Ø
Central Business Registration No
21409677

Annual report 2018

The Annual General Meeting adopted the annual report on 25.06.2019

Chairman of the General Meeting



Name: Kenneth Hamnes

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Entity details

Entity

Arcus Denmark A/S
Århusgade 88
2100 Copenhagen Ø

Central Business Registration No: 21409677

Founded: 01.10.1998

Registered in: Copenhagen

Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Erlendur Stefan Stefansson, Chairman

Erik Bern

Lars Kragelund Jensen

Claus Toftkjær

Executive Board

Henrik Bodekær Thomsen

Entity auditors

Ernst & Young Godkendt Revisionspartnerselskab

Osvald Helmuths Vej 4

P O Box 250

2000 Frederiksberg

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Arcus Denmark 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 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.

Copenhagen, 25.06.2019

Executive Board



Henrik Bodekær Thomsen

Board of Directors

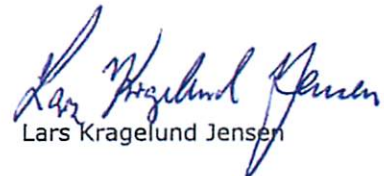


Erlendur Stefan Stefansson

Chairman



Erik Bern



Lars Kragelund Jensen



Claus Poffkjær

Independent auditor's report

To the shareholders of Arcus Denmark A/S

Opinion

We have audited the financial statements of Arcus Denmark A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity 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 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the 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.

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 exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- 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.

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

Independent auditor's report

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

Copenhagen, 25.06.2019

Ernst & Young

Godkendt Revisionspartnerselskab

Central Business Registration No: 30700228



Lars Hansen

State Authorised Public Accountant

mne24828

Management commentary

	2018	2017	2016	2015	2014
	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>	<u>DKK'000</u>
Financial highlights					
Key figures					
Gross profit	30.461	23.991	25.268	47.150	62.848
Operating profit/loss	25.009	20.949	21.750	33.095	41.760
Net financials	(579)	(492)	(31)	(294)	(545)
Profit/loss for the year	19.029	15.927	16.839	24.786	30.544
Total assets	65.418	49.326	58.990	86.539	110.773
Equity	30.108	27.079	31.152	39.313	44.527
Employees in average	4	5	6	16	17
Ratios					
Return on equity (%)	66,6	54,7	47,8	59,1	21,1
Equity ratio (%)	46,0	54,9	52,8	45,4	40,2

Financial highlights are defined and calculated in accordance with recommendations & ratios issued by the Danish Society of Financial Analysts, as defined below:

Ratios	Calculation formula	Ratios
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The Primary activities of Arcus Denmark A/S are marketing and sale of Danish brands and spirits with proud traditions on the domestic market as well as sales of Norwegian and Swedish brands on the domestic market through associated companies. Arcus Denmark A/S is also responsible for marketing the Danish brands for export purposes and receives royalties as brand owner from all sales to other markets through other Group companies.

Development in activities and finances

The company's income statement for the year ended 31.12.2018 shows a profit of DKK 19.029 thousand while the balance sheet shows equity of DKK 30.108 thousand at 31.12.2018.

2018 has been a challenging year, but where gross profit increased from 24 MDKK to 30 MDKK. The main reason for the increase is due to increased royalty from foreign markets. The domestic market of our main category aquavit has declined also during 2018, but Arcus Denmark has gained market shares in a declining market. Sales of Aalborg and Gammel Dansk has declined also internationally, by 12% and 2% respectively. Royalties for 2018 is higher than 2017, in spite of the international decline in sales. This is due to updated transfer prices applied between the group companies. Cost of materials and consumables are down from 71 MDKK to 64 MDKK (-9%), other external expenses are down from 19 MDKK to 17 MDKK (-10%), while personnel cost are stable.

Uncertain tax position

The Danish tax authorities (SKAT) has initiated an audit of the Company's transfer pricing arrangements for the period 2013-2017. This could lead to changes also for subsequent years. At this point, the company have not received a final reassessment of the transfer prices for the period under audit. Management does currently not anticipate significant changes.

Risk from external factors

Management is concerned about the market development, but this considered, we are satisfied with the financial performance in the year. Management is working hard on strategies to change the negative trend in the aquavit market, and strategies to grow in other categories than aquavit on both domestic and international markets.

Outlook

Arcus Denmark A/S operates in non-cyclical spirits markets with moderate growth historically, but with some variations between the different categories and countries. In particular, the Danish market for aquavit has been in consistent decline for many years. In spite of a challenging year, Arcus Denmark A/S and the rest of the Group have strong Brands, and are well positioned to face the future.

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

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Gross profit		30.461	23.991
Staff costs	1	(5.417)	(3.007)
Depreciation, amortisation and impairment losses	2	<u>(35)</u>	<u>(35)</u>
Operating profit/loss		25.009	20.949
Other financial income		236	175
Other financial expenses	3	<u>(815)</u>	<u>(667)</u>
Profit/loss before tax		24.430	20.457
Tax on profit/loss for the year	4	<u>(5.401)</u>	<u>(4.530)</u>
Profit/loss for the year	5	<u>19.029</u>	<u>15.927</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018 DKK'000</u>	<u>2017 DKK'000</u>
Plant and machinery		204	239
Property, plant and equipment	6	<u>204</u>	<u>239</u>
Deferred tax		296	402
Fixed asset investments	7	<u>296</u>	<u>402</u>
Fixed assets		<u>500</u>	<u>641</u>
Work in progress		0	130
Manufactured goods and goods for resale		13.612	13.210
Inventories		<u>13.612</u>	<u>13.340</u>
Trade receivables		22	497
Receivables from group enterprises		51.270	33.876
Other receivables		14	972
Receivables		<u>51.306</u>	<u>35.345</u>
Current assets		<u>64.918</u>	<u>48.685</u>
Assets		<u>65.418</u>	<u>49.326</u>

Balance sheet at 31.12.2018

	<u>Notes</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Contributed capital	8	10.324	10.324
Retained earnings		784	755
Proposed dividend		19.000	16.000
Equity		<u>30.108</u>	<u>27.079</u>
Trade payables		0	3.390
Payables to group enterprises		25.393	9.857
Income tax payable		5.131	3.901
Other payables		4.786	5.099
Current liabilities other than provisions		<u>35.310</u>	<u>22.247</u>
Liabilities other than provisions		<u>35.310</u>	<u>22.247</u>
Equity and liabilities		<u>65.418</u>	<u>49.326</u>
Unrecognised rental and lease commitments	9		
Contingent liabilities	10		
Mortgages and securities	11		
Related parties with controlling interest	12		
Transactions with related parties	13		
Group relations	14		

Statement of changes in equity for 2018

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	10.324	755	16.000	27.079
Ordinary dividend paid	0	0	(16.000)	(16.000)
Profit/loss for the year	0	29	19.000	19.029
Equity end of year	10.324	784	19.000	30.108

Notes

	2018	2017
	DKK'000	DKK'000
1. Staff costs		
Wages and salaries	4.563	3.884
Pension costs	463	426
Other staff costs	391	(1.303)
	5.417	3.007
Average number of employees	4	5

Persuant to Section 98 (b) (3) of the Danish Financial Statements Act, remuneration of the Executive Board has not been disclosed.

	2018	2017
	DKK'000	DKK'000
2. Depreciation, amortisation and impairment losses		
Depreciation of property, plant and equipment	35	35
	35	35

	2018	2017
	DKK'000	DKK'000
3. Other financial expenses		
Interest expenses	694	532
Interest regarding tax paid on account	121	135
	815	667

	2018	2017
	DKK'000	DKK'000
4. Tax on profit/loss for the year		
Tax on current year taxable income	5.295	3.901
Change in deferred tax for the year	106	630
Adjustment concerning previous years	0	(1)
	5.401	4.530

Notes

	2018	2017
	DKK'000	DKK'000
5. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	19.000	16.000
Retained earnings	<u>29</u>	<u>(73)</u>
	<u>19.029</u>	<u>15.927</u>
		<u>Plant and machinery</u>
		<u>DKK'000</u>
6. Property, plant and equipment		
Cost beginning of year		<u>856</u>
Cost end of year		<u>856</u>
Depreciation and impairment losses beginning of the year		(617)
Depreciation for the year		<u>(35)</u>
Depreciation and impairment losses end of the year		<u>(652)</u>
Carrying amount end of year		<u>204</u>
		<u>Deferred tax</u>
		<u>DKK'000</u>
7. Fixed asset investments		
Cost beginning of year		402
Disposals		<u>(106)</u>
Cost end of year		<u>296</u>
Carrying amount end of year		<u>296</u>
The deferred tax assets relates to timing differences on fixed asset, inventories and debts.		
8. Contributed capital		
The share capital consists of the 10.324 shares of DKK 1.000 each. The share capital have not been changed for the last 5 years.		
	2018	2017
	DKK'000	DKK'000
9. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	<u>21.300</u>	<u>211</u>

Notes

10. Contingent liabilities

The entity participates in a Danish joint taxation arrangement with Det Danske Spiritus Company A/S, where it serves as the administrative company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable from the financial year 2017 for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities.

The Company participated in a Danish joint taxation arrangement until 01.12.2016. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable from the financial year 2013 for income taxes etc for the jointly taxed entities, and from 01.07.2012 for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities until 01.12.2016.

The Danish tax authorities (Skattestyrelsen) has initiated an audit of the Company's transfer pricing arrangements for the period 2013-2017. This could lead to changes also for subsequent years. At this point, the company have not received a final reassessment of the transfer prices for the period under audit. Management does currently not anticipate significant changes.

11. Mortgages and securities

SEB has first ranking security interest over all the shares in Arcus Denmark A/S.

12. Related parties with controlling interest

The following shareholder is registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of share capital - Arcus-Gruppen AS, Norway.

	Parent	Associates
	DKK'000	DKK'000
13. Transactions with related parties		
Sales revenue, internal	0	88.284
Royalty income	0	23.122
Cost of goods, internal	0	49.825
Other indirects costs	1.482	797
Royalty costs	0	3.029
Receivables	0	51.270
Liabilities other than provisions	19.122	6.272

14. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Arcus-Gruppen AS, Norway

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Arcus-Gruppen AS, Norway

The consolidated annual report can be obtain on <https://www.arcus.no/en/investor/>

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 (medium-size).

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

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.

Foreign currency translation

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

Income statement

Gross profit or loss

Gross profit or loss comprises of revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed. The Company has chosen IAS 18 as interpretation for revenue recognition.

Accounting policies

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories.

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 writedowns 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 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 plant and equipment.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, transactions in foreign currencies, and tax relief 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

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-constructed assets, cost comprises direct and indirect costs of materials, components, suppliers and labour costs.

Accounting policies

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:

Other fixtures and fittings, tools and equipment	3-7 years
--	-----------

Estimated useful lives and residual values are reassessed annually.

Items of 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 the lower of cost using the FIFO method and net realisable value.

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

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

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

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts. The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly in equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

Other financial liabilities

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

Accounting policies

Income tax receivable or payable

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

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement for the company is prepared, as the company's cash flows are part of the consolidated cash flow statement of Arcus Gruppen AS, Norway.