Arcus Denmark A/S

Århusgade 88
2100 Copenhagen Ø
Central Business Registration No
21409677

Annual report 2016

The Annual General Meeting adopted the annual report on 31.05.2017

Chairman of the General Meeting

Name: Kenneth Hamnes

Contents

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: 01.01.2016 - 31.12.2016

Board of Directors
Erlendur Stefan Stefansson, Chairman
Erik Bern
Lars Kragelund Jensen
Claus Toftkjær

Executive Board
Christian Alsing

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 01.01.2016 - 31.12.2016.

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 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016.

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, 31.05.2017

Executive Board

Christian Alsing

Board of Directors

Erlendur Stefan Stefansson Chairman	Erik Bern	Lars Kragelund Jensen
Claus Toftkjær		

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 01.01.2016 - 31.12.2016, 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 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016 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.

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, 31.05.2017

Ernst & Young
Godkendt Revisionspartnerselskab
Central Business Registration No: 30700228

Lisa Hagedorn
State Authorised Public Accountant

Management commentary

	2016	2015	2014	2013	2012
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Revenue	132.368	190.289	199.745	427.572	391.926
Gross profit/loss	25.268	47.150	62.848	224.687	132.133
Operating profit/loss	21.750	33.095	41.760	153.361	52.204
Net financials	(31)	(294)	(545)	5.237	14.232
Profit/loss for the year	16.839	24.786	30.544	127.456	48.619
Total assets	58.989	86.539	110.773	313.036	969.413
Investments in property, plant and equipment	0	0	0	428	5.892
Equity	31.152	39.313	44.527	244.983	847.835
Employees in average	4	16	17	27	103
Ratios					
Gross margin (%)	19,1	24,8	31,5	52,5	33,7
Net margin (%)	12,7	13,0	15,3	29,8	12,4
Return on equity (%)	47,8	59,1	21,1	23,3	5,8
Equity ratio (%)	52,8	45,4	40,2	78,3	87,5

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

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

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. 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
2016 was the first whole year where production was outsourced to the sister company in Norway, Arcus Norway AS. Total revenues are down from 190 mDKK to 132 mDKK (-30%), as revenues in 2016 are only reflecting domestic sales and royalty from international sales, while the revenues in 2015 also reflected total international sales. Accordingly, cost of raw materials and consumables are down from 119mDKK to 84 mDKK (-30%), other external expenses are down from 30 mDKK to 23 mDKK (-21%) and personnel cost are down from 8 mDKK to 3 mDKK (-58%).

2016 was a challenging year, where volume and net sales on the domestic market showed a weak decline. Internationally, sale of the Danish brands have shown a positive trend during 2016. Management is working hard on strategies to change the trend on the domestic market, and to keep up the positive trend on the international markets.

Management considers the Company’s financial performance in the year satisfactory, and in accordance with Management’s expectations.

Outlook
Arcus Denmark A/S operates in non-cyclical spirits markets with moderate and steady growth, but with some variations between the different categories and countries. In these markets, Arcus Denmark A/S and the rest of the Group have strong Brands, and are well positioned to face the future. The company expects the results for the year ended 2017 to be on a par with those reported for the year 2016.

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 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue		132.368	190.289
Other operating income		92	5.317
Costs of raw materials and consumables		(83.774)	(118.886)
Other external expenses		(23.418)	(29.570)
Gross profit/loss		**25.268**	**47.150**
Staff costs	1	(3.483)	(8.201)
Depreciation, amortisation and impairment losses	2	(35)	(5.854)
Operating profit/loss		**21.750**	**33.095**
Other financial income		197	96
Other financial expenses	3	(228)	(390)
Profit/loss before tax		**21.719**	**32.801**
Tax on profit/loss for the year	4	(4.880)	(8.015)
Profit/loss for the year	5	**16.839**	**24.786**

Balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Plant and machinery		274	309
Property, plant and equipment	6	**274**	**309**
Deferred tax		1.032	1.878
Fixed asset investments	7	**1.032**	**1.878**
Fixed assets		**1.306**	**2.187**
Work in progress		940	177
Manufactured goods and goods for resale		15.604	11.946
Inventories		**16.544**	**12.123**
Trade receivables		17.254	14.679
Receivables from group enterprises		22.870	53.192
Receivables		**40.124**	**67.871**
Cash	8	**1.015**	**4.358**
Current assets		**57.683**	**84.352**
Assets		**58.989**	**86.539**

Balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital	9	10.324	10.324
Retained earnings		828	3.989
Proposed dividend		20.000	25.000
Equity		**31.152**	**39.313**
Trade payables		3.349	5.765
Payables to group enterprises		7.401	7.107
Income tax payable		3.978	10.407
Other payables		13.109	23.947
Current liabilities other than provisions		**27.837**	**47.226**
Liabilities other than provisions		**27.837**	**47.226**
Equity and liabilities		**58.989**	**86.539**

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Statement of changes in equity for 2016

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	10.324	3.989	25.000	39.313
Ordinary dividend paid	0	0	(25.000)	(25.000)
Profit/loss for the year	0	(3.161)	20.000	16.839
Equity end of year	**10.324**	**828**	**20.000**	**31.152**

Notes

	2016 DKK'000	2015 DKK'000
1. Staff costs		
Wages and salaries	5.767	9.475
Pension costs	463	934
Other staff costs	(2.747)	(2.208)
	3.483	**8.201**
Average number of employees	**4**	**16**

Staff costs include remuneration to the Executive Board, totalling DKK 0 (2015: DKK 0) and directors' fees to the members of the Board of Directors, totalling DKK 0 (2015: DKK 0).

	2016 DKK'000	2015 DKK'000
2. Depreciation, amortisation and impairment losses		
Depreciation of property, plant and equipment	35	5.854
	35	**5.854**

	2016 DKK'000	2015 DKK'000
3. Other financial expenses		
Interest expenses	25	390
Interest regarding tax paid on account	203	0
	228	**390**

	2016 DKK'000	2015 DKK'000
4. Tax on profit/loss for the year		
Tax on current year taxable income	3.978	7.073
Change in deferred tax for the year	846	942
Adjustment concerning previous years	56	0
	4.880	**8.015**

Notes

	2016 DKK'000	2015 DKK'000
5. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	20.000	25.000
Retained earnings	(3.161)	(214)
	16.839	**24.786**

	Plant and machinery DKK'000
6. Property, plant and equipment	
Cost beginning of year	856
Cost end of year	**856**
Depreciation and impairment losses beginning of the year	(547)
Depreciation for the year	(35)
Depreciation and impairment losses end of the year	**(582)**
Carrying amount end of year	**274**

	Deferred tax DKK'000
7. Fixed asset investments	
Cost beginning of year	1.878
Disposals	(846)
Cost end of year	**1.032**
Carrying amount end of year	**1.032**

The deferred tax assets relates to timing differences on fixed asset, inventories and debts.

8. Cash

The Company has restricted cash amounting to DKK 951 thousand.

9. Contributed capital

The share capital consists of the 10.324 shares of DKK 1.000 each.

Notes

	2016 DKK'000	2015 DKK'000
10. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	**41**	**41**

11. Contingent liabilities

The Entity 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.

12. Mortgages and securities

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

13. Related parties with controlling interest

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

	Parent DKK'000	Associates DKK'000
14. Transactions with related parties		
Sales revenue, internal	2.858	103.911
Royalties, received	22.921	0
Cost of goods, internal	74.821	0
Management fee	2.983	0
Receivables	22.870	0
Liabilities other than provisions	7.401	0

15. 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

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).

Change to presentation and disclosures only

Effective 1 January 2016, the Company has implemented act no 738 of 1 June 2015 with amendments to the Danish Financial Statement Act. As the implementation of the amedment act has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures, the financial statements have been prepared based on the same accounting policies as last year.

The amendment act has solely implied new or changed presentation and disclosure requirements, which have been incorporated in the financial statements.

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.

Accounting policies

Income statement

Revenue

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

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities, including rental income and gains from the sale of intangible assets and property, plant and equipment.

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.

Accounting policies

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, subsuppliers and labour costs.

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.

Accounting policies

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

Cash
Cash comprises cash in hand and bank deposits.

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.

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 parent company is prepared, as the parent company’s cash flows are part of the consolidated cash flow statement.