Marel A/S

Company registration number (CVR): 25 01 37 19

P.O. Pedersens Vej 18, 8200 Aarhus N

Annual report for 2018

Approved at the Company's annual general meeting on 31/5 2019

Chairman of the meeting

Contents

Statement by the Board of Directors and the Management Board

The Board of Directors and the Management Board have today discussed and approved the annual report of Marel A/S for the financial year 1 January to 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of its operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 17 May 2019

Management Board:

Henrik Skov Ladefoged	Sigurpall Jonsson	Lars Jøker

Board of Directors:

Linda Jonsdottir Chairman	Arni Oddur Thordarson	Kristján Torsteinsson

Independent auditor's report

To the shareholders of Marel A/S

Opinion

We have audited the financial statements of Marel A/S for the financial year 1 January – 31 December 2018 comprising accounting policies, income statement, balance sheet, statement of changes in equity and, notes. 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 Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor' report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

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

Aarhus, 17 May 2019

KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Michael Stenskrog
State Authorised
Public Accountant
MNE no. 26819

Michael Emanuel Kraul Rasmussen
State Authorised
Public Accountant
MNE no. 41364

Management's review

Company details

Marel A/S
P. O. Pedersens Vej 18
DK-8200 Aarhus N

CVR No.: 25 01 37 19

Registered office: Aarhus

Financial year: 01.01 - 31.12

Board of Directors

Linda Jonsdottir, Chairman
Arni Oddur Thordarson
Kristján Thorsteinsson

Management Board

Henrik Skov Ladefoged
Sigurpall Jonsson
Lars Jøker

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
8210 Aarhus N
DK - Denmark

Consolidated financial statements

The financial statements of Marel A/S are included in the consolidated financial statements of Marel hf., Austurhraun 9, 210 Gardabaer, Iceland. The consolidated financial statements can be downloaded at www.marel.com.

Management's review

Financial highlights

(EUR'000)	2018	2017	2016	2015	2014
Income statement:					
Revenue	90,525	85,991	88,070	91,658	73,355
Gross profit	19,462	20,686	23,997	27,859	19,634
Ordinary operating profit/loss	8,002	10,008	14,180	18,242	10,719
Financial income and expenses, net	7,184	5,093	-1,773	821	1,392
Profit/loss for the year	13,688	13,340	9,659	15,212	9,903
Balance sheet:					
Total assets	89,165	85,076	91,347	94,923	87,234
Equity	25,650	27,007	33,130	36,403	30,235
Gross investments in property, plant and equipment	324	2,788	2,729	339	115
Financial ratios %:					
Gross margin	21.5	24.1	27.2	30.4	27.3
Operating margin	8.8	11.5	16.1	19.9	16.7
Return on investment (yearly basis)	15.5	18.8	24.5	32.9	23.4
Solvency ratio	28.8	31.7	36.3	38.4	34.7

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". The financial ratios are defined as follows:

Gross margin $$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$$

Operating margin $$\frac{\text{Ordinary operating profit/loss x 100}}{\text{Revenue}}$$

Return on investment $$\frac{\text{Ordinary operating profit/loss}}{\text{Average number of operating assets}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at 31 December}}$$

Management's review

Operating review

Business model

Marel provide advanced equipment and systems to the poultry, fish and meat and industries around the world. Our customers are predominantly companies using advanced and high-end equipment and we serve producers looking to increase the automatization of their production process.

We are defined by our dedication to innovation, reflected in our extensive R&D investments, and we invest around 6% of revenues in research and development annually. Our approach to innovation is not limited to mechanical engineering to optimize performance of each application, but also encompasses integrated technologies and connectivity. Data analytics and software control are becoming increasingly important.

At Marel we focus our efforts on our three main industries of operation, fish, meat and poultry, and are constantly working on new ways to improve existing processes, increase automation and streamlining product processing.

Our strong and long lasting relationship with our customers forms the bedrock of our business model. We are here to partner with our customers, and together we innovate and create products that set new benchmarks in the industry and archive continuous improvements in line with our customer needs.

Marel's extensive sales and service network, spread out across more than 30 countries, is a key competitive edge. The network is Marel's first line of contact for customers at the local level, and it brings first-rate service, consistency and continuity to our partnership with our clients.

Development during the financial year

In 2018 the revenue has increased by 5% ending with total revenue of EUR 90.5 million. The growth in revenue was mainly driven by larger projects and spare parts. The change in product mix has, on the other hand led to a decrease in our gross profit margin, as the normal gross margin differs between our different product groups.

Marel as a global company is operating with an ambitious growth strategy, and are right now in a build-up phase with large investments in production equipment, common IT platforms and hiring new employees to drive the growth. This means that we have seen an increase in the operating cost for most functions affecting the net result negatively.

The cost base has also been affected by the upcoming SAP implementation in Marel A/S, with an expected go-live 1st April 2019. All local cost connected to the project has been taken through the profit and loss statement for a total of EUR 1.4 million.

Management's review

Operating review

Development during the financial year, continued

The profit for the year after tax totalled DKK 13.7 million, which is EUR 348,000 more than 2017. Equity totalled EUR 25.7 million at the end of the year, corresponding to a solvency ratio of 29%. The equity has been reduced by paying out dividend for a total of EUR 15 million during 2018.

The profit was in line with the expectations disclosed in the latest published annual report, and is considered as being satisfactory.

Capital resources

The Company's capital resources total EUR 3.3 million, corresponding to the Company's cash and cash equivalents.

Particular risks

In addition to the general socio-economic trends, the Company is also affected by particular risks in relation to the competitive environment and diseases in the production chain.

In general, the food product industry saw increasing competition in most countries. Combined with strongly increasing competition between countries and regions within agriculture, the production chain is continuously concentrated. At the same time, a number of work processes related to agriculture and food production are transferred from high-income countries to countries with lower production costs.

Likewise the industry for production of advanced food processing solutions is undergoing a rapid process of consolidation in these years and we see an intense competition.

Diseases such as bird flu, BSE or foot-and-mouth disease are risks which, in case of breakout, may affect the Company's sales in the countries and regions that are affected.

Due to its substantial export transactions, the Company is exposed to changes in foreign currencies and interest level. It is group policy to manage financial risks, and no speculation is made in this respect.

Intellectual capital

The primary business foundation is to provide competitive products, solutions and technology for the food industry improving its competitiveness. Accordingly, the Company must be able to develop and retain intellectual capital and know-how on products and business processes. The Company therefore regularly develops policies and procedures for recruiting, training and retaining employees and for developing and documenting products and business processes.

Management's review

Operating review

Research and development activities

The Company's research and development activities comprise regular development of new and existing products and processes for the food industry. Approximately EUR 8.6 million was capitalized and expensed on development projects and activities during the financial year equivalent to 9.5% of revenue. Development activities for the coming years are expected to be in the same level.

Branches in Uruguay

The company has an established Branch in Uruguay operating under the name Marel A/S Sucursal Uruguay performing sales and service activities in the local market. In 2018 the branch had an operating profit of EUR 59.000 before taxes.

Disclosure on social responsibility requirements (§99 a)

Marel A/S is part of the global Marel Group that has signed the United Nations Global Compact. The official CSR reporting for the group can be found in the annual report for Marel on the website www.marel.com.

The statutory report on corporate social responsibility for Marel A/S covers the financial period 1 January – 31 December 2018 and relates to the annual report for 2018.

Corporate social responsibility

Social and staff matters

Marel's human resources mission is to engage competent employees and provide them with a supportive and ambitious work environment that motivates and encourages them to make Marel's vision their own. To do this, we provide excellent training and opportunities for further education and job development. We work hard to promote a spirit of teamwork and co-operation throughout the whole organization.

One of the biggest risks is the employee's retention, which we manage through our development trainings and employee satisfaction surveys that guide us to improve ourselves as employer and continue delivering value to our employees.

The Management has an ongoing focus on ensuring that Marel A/S is an attractive workplace for its employees. We do this by supporting a number of employee activities, e.g. sports, social events and a good and healthy canteen. We have a policy of open communication as well as promoting a culture that seeks a healthy balance between work and personal life.

Management's review

Operating review

Corporate social responsibility

Employee satisfaction is measured in annual surveys and employee interviews upon which operational changes are implemented. The employee survey for 2017 showed a total score of 3.87 (with 5 being the maximum score) which is an improvement of 0.08 over 2016. Based on the survey the management team defined improvement projects to be worked on during 2018, among other things increasing the quality of our performance reviews and feedback and improve on praise and recognition. The survey for 2018 is expected to be published in Q2 2019.

Our engagement with the local community is mainly focused on educational outreach in collaboration with local educational institutions, using internships and trainee programs to assist talented young professionals entering the workforce.

Anti-corruption and bribery

Marel's reputation is critical to the company's success; therefore, compliance with global anti-bribery and anti-corruption laws is taken very seriously. An anti-bribery and anti-corruption policy was adopted in January 2017 to reinforce that commitment. It applies to Marel's employees, officers and directors, and any contractors, consultants, agents and other business partners that are engaged in business on behalf of Marel.

The main risk related to our activities include employees and suppliers' violation of our Code of Conduct and our Anti-corruption policies and potential legal and financial consequences hereof. In order to limit such risks, we provide training for both current and new employees.

Furthermore all new customers and vendors are tested in FinScan for sanctions as well as a no cash policy being in place for all transactions made between the company and its customers. No breaches to the anti-corruption and bribery policy were recorded in 2018.

Climate and environment

One of our sustainability goals is to help our customers use less water and energy while minimizing their CO_2 footprint during production. In general, it is the group's policy to reduce this impact to the extent it is considered financially fair and reasonable. A number of projects have been implemented to support precautionary approaches to environmental challenges, and in 2017 we added a sustainability Scorecard to the product development process, which encourages inclusion of sustainable features from the beginning of the product development process.

Management's review

Operating review

Corporate social responsibility

Because we are in the food processing business animal welfare is high on our agenda, particularly for our research and development process, where a number of sustainability indicators on animal welfare is included in the sustainability scorecard. By instituting good animal welfare practices in general, we can increase the quality of products and production while simultaneously reducing the carbon footprint of food processing using Marel solutions.

The main risk to the climate and the environmental impact is the increased carbon emission.

The two largest indirect contributors to our carbon footprint are energy consumption in our facilities and employee air travel. On global scale we see that our carbon emission has risen simply due to the fact that the company continues to expand.

Through our travel policy, we will strive to continue to continuously lower our carbon footprint by actively encouraging employees to use alternative means of meeting and communicating with each other and our customers.

On local level we have been changing our light source to LED during the last couple of years and by now app. 95% of all lights are changed. We have also been upgrading our production equipment to more energy efficient machinery.

Human rights

In Marel we have a zero-tolerance policy concerning human rights violations including child labor, forced labor or illegal labor conditions. All Marel employees are required to have reached legal working age in the country they work in and no Marel facilities are allowed to be associated with illegal labor conditions or forced labor.

We are committed to respecting all employees' freedom of association and right to collective bargaining without discrimination.

No human rights violations were recorded in 2018.

The main risk related to our activities includes work accidents especially for our operational staff.

Marel is dedicated in providing a safe and healthy working environment, and we do our utmost to make sure our employees have the necessary competences, tools and instructions to perform their work professionally and safely. A Mare Safety, Health and Environment (SHE) Support team monitors compliance with the Marel SHE Policy and facilitates the process for improvement.

Management's review

Operating review

Corporate social responsibility

The reported number of accidents and the correspondent number of sick days has developed like this:

	2016	2017	2018
Accidents	3	5	10
Number of sick days	10	7	12

Even though the numbers are increasing year over year, the background is that we are more and more aware to report even small incidents, and from 2019 we will start reporting on near misses. In 2018 no serious accidents were reported.

A global diversity policy was adopted in 2017, and has been implemented from 2018 and onwards. Its objective is to insure that equality and diversity within Marel as well as increasing job satisfaction and well-being in the workplace.

The diversity policy rests on four, equally important, pillars:

1. Ensuring equal opportunity
2. Promoting a company culture of tolerance and integration
3. Acting strong and decisively against any bullying, violence or harassment
4. Increasing the visibility of Marel

We aim to make sure that employees are not discriminated against on the grounds of their gender, beliefs, nationality, race, sexual orientation, religion, color, personal finances, family, age or on any other grounds.

Disclosure on Gender diversity requirements (§99 b)

Policy for the gender quota on the Management Board

Under section 99b of the Danish Companies Act, the Board of Directors of Marel A/S has laid down the Company's policy to increase the share of the underrepresented gender in the Company's Management in general.

The Board of Directors has an even distribution of the gender quota. The board members of Marel A/S are now two men and one woman. Therefore, no additional targets have been set for the underrepresented gender.

Management's review

Operating review

Policy for other management levels

Marel A/S wishes that the gender quota of society between men and women is reflected in the Company's management level. Through this policy, the Company will create an equal distribution of sexes at management level.

Managers of the Company should be elected / employed based on their overall qualifications, and it is essential that the managers have the right qualifications, irrespective of their sex. The Board of Directors, however, acknowledges the advantages of a broad-based management at all levels taking into consideration experience, specialized knowledge, culture and sex, etc.

Marel A/S is in a branch, which has a predominance of male employees. The present management team in Marel A/S comprises seven persons of which one is female. The Company aims at increasing the number of female managers, and initiatives will be taken to attract more females that are qualified when changes are made in the present management team. Marel A/S will aim at having one female candidate among the final applicants for the job when a vacant position is to be filled.

The measures initiated have not yet implied any changes in the gender quota of the management team during 2018.

Outlook

For 2019 the Company expects to be able to realise an increase in revenue, as we continue to bring new products to the market and at the same time expand our market share on product releases from previous years.

The Company's order book is quite satisfactory, there are, however, still large geographic differences in the development on the markets, and the sales of capital goods will still depend on the general economic climate in the different markets. Expectations therefore involve some uncertainty.

In 2019 we will implement SAP with an expected go-live date 1st April 2019. With the immense preparation taking place over the last 2 years, we don't expect any major business interruptions, and we foresee a drop in operating cost linked to the reduced need for backup in the preparation face.

Based on these assumptions the result for 2019 is expected to be at the same or even a higher level compared to 2018.

Financial statements for the period 1 January – 31 December

Accounting policies

The annual report of Marel A/S for 2018 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year except for the early adoption of IFRS 15 Revenue from Contracts with customers and IFRS 16 Leased assets from 1. January 2018.

The implementation of IFRS 15 has no impact on the financial figures for 2018 or the retained earnings 1. January 2018.

As a lessee Marel A/S has applied IFRS 16 on 1. January 2018, using the cumulative catch up approach and measuring the amount equal to liability at adoption, with no restatement of comparative information.

As of 1. January 2018 the additional assets and liabilities on the balance sheet amounted to EUR 4.4 million. In addition, the nature of expenses related to those leases will now change, as the straight line operation lease expense is replaced with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Non-current assets acquired in foreign currencies are measured at the exchange rate at the transaction date.

Consolidated financial statements

In accordance with section 112 (1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements, as the Company is a subsidiary and as the financial statements of the Company and its subsidiaries are included in the consolidated financial statements of the parent company, Marel hf., Iceland.

Financial statements for the period 1 January – 31 December

Accounting policies

Income statement

Revenue

Revenue from the sale of goods and services is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year-end and that the income can be reliably measured and is expected to be received. Contract work in progress is recognised at the selling price of the work performed. Revenue is measured excl. VAT and taxes and less discounts granted in connection with the sale.

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials, goods for resale and consumables, wages and salaries, rent and leases, and depreciation of production plant and other assets used for production purposes. Write-down for inventories and write-down in connection with anticipated bad debt losses on contract work in progress are also included. Production costs also comprise development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising and depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for Company management and administration, including expenses for administrative staff, management, office premises, insurance and office expenses, etc. and depreciation.

Other operating income or operating cost

Other operating income and cost comprises items secondary to the activities of the Company, including gains and losses on the disposal of non-current assets.

Financial statements for the period 1 January – 31 December

Accounting policies

Financial income and expenses

Financial income and expenses comprise interest income and expense, finance charges in respect of finance leases, realised and unrealised gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Dividends from equity investments in group entities and associates measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary.

Tax on profit/loss for the year

Tax for the year comprises current tax for the year end and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Balance sheet

Intangible assets

Development projects comprise costs directly and indirectly attributable to the Company's development activities and which comply with the criteria for recognition under the Danish Financial Statements Act. Capitalised development projects are measured at cost less accumulated amortisation or at recoverable amount if the latter is lower. Capitalised development projects are amortised on a straight-line basis of the estimated useful lives after completion of the development project. The amortisation period is usually five years.

Goodwill is measured at cost less accumulated amortisation and impairment losses. Goodwill is amortized on a straight-line basis over the remaining life.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Goodwill	10 years
Software	3 - 5 years

Financial statements for the period 1 January – 31 December

Accounting policies

Property, plant and equipment

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

The basis of depreciation is cost less expected residual value at the end of the useful life.
Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	20 - 40 years
Leasehold improvements	Max. 10 years
Fixtures, fittings and other equipment	4 - 6 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or operating costs.

Leased assets

Leased assets is depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term. The estimated useful lives of the assets are determined on the same basis as those of property and equipment.

The capitalised residual lease obligation is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

Financial statements for the period 1 January – 31 December

Accounting policies

Short term leases and leases of low-value assets

Short term leases that have a lease term of 12 month or less and leases of low-value assets are not recognized as right of use assets and lease liability and the lease payments associated with these leases are expensed as a straight line base over the lease term.

The Company's obligation relating to these leases is disclosed in contingent liabilities.

Equity investments

Equity investments in subsidiaries are recognised in the balance sheet at cost. Write-down is made to the lower of cost and recoverable amount.

Cost is reduced by dividends received that exceed accumulated earnings after the date of acquisition.

For subsidiaries where the parent company has a legal or constructive obligation to cover the deficit equity investments are written down corresponding to the parent company's share of negative equity. Any receivable from these enterprises is written down by the parent company's share of the negative net asset value. If the net asset value exceeds the amount owed, the residual amount is recognised under provisions.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests of individual assets or groups of assets are conducted when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets.

Previously recognised write-downs are reversed when the basis for the write-down no longer exists. Write-down of goodwill is not reversed.

Financial statements for the period 1 January – 31 December

Accounting policies

Inventories

Inventories are measured at cost in accordance with the average cost formula. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as direct and indirect production overheads.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected sales price.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a receivable portfolio has been impaired. If there is objective evidence that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily composed on the basis of the country of domicile and credit ratings of the debtors in accordance with the credit risk management policy of the Company. The objective indicators used in relation to portfolios are determined based on historical loss experience.

Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the work. The degree of completion is computed as the proportion between resources spent and total estimated resources for the completion of the contract. When it is probable that contract work in progress will result in losses, the estimated loss is recognised in the income statement.

Financial statements for the period 1 January – 31 December

Accounting policies

Contract work in progress, continued

When the selling price of contract work in progress cannot be measured reliably, the contract work in progress is measured at the lower of costs incurred and net realisable value.

The individual work in progress is recognised in the balance sheet as receivables or payables depending on the net value of the sales amount less on-account invoicing and prepayments. Selling costs and costs incurred in securing contracts are recognised in the income statement as incurred.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years, such as office rent, insurance premiums and licences.

Equity

Dividends
The expected dividend payment for the year is disclosed as a separate item under equity.

Reserve for development costs
The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividend, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, e.g. regarding shares, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Financial statements for the period 1 January – 31 December

Accounting policies

Corporation tax and deferred tax, continued

Deferred tax assets, including the tax value of tax loss carryforwards, are measured at the expected value of their realisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable values.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in tax rates are recognised in the income statement.

The Company is jointly taxed with other Danish subsidiaries and affiliated companies. Current Danish corporation tax is settled by the parent company, which is the administrative company, and allocated between the jointly taxed companies in proportion to their taxable income.

Provisions

Provisions comprise expected costs of warranties, losses on work in progress, restructurings, etc.

Liabilities other than provisions

Financial liabilities comprising amounts owed to credit institutions, trade payables and payables to group enterprises are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Segment information

Segment information is provided on business segments and geographical markets. The segment information is in line with the Company's accounting policies, risks and internal financial management.

Financial statements for the period 1 January – 31 December

Accounting policies

Applied exemption clauses in the Danish Financial Statements Act

In accordance with section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement, as this is included in the consolidated cash flow statement of the parent company, Marel hf., Iceland.

Pursuant to section 96(3) of the Danish Financial Statements Act, the Company has not disclosed the fee to the auditors appointed at the annual general meeting.

Pursuant to section 98b(3) of the Danish Financial Statements Act, the Company has not disclosed remuneration of Management as only one member of the Management Board is remunerated.

The financial statements of Marel A/S are included in the consolidated financial statements of Marel hf., Austurhraun 9, 210 Gardabaer, Iceland. The consolidated financial statements can be downloaded at www.marel.com.

Financial statements 1 January - 31 December

Income statement

	Note	2018 (EUR'000)	2017 (EUR'000)
Revenue	1	90.525	85.991
Production costs	2	-71.063	-65.305
Gross profit		**19.462**	**20.686**
Distribution costs	2	-6.564	-6.323
Administrative expenses	2	-4.896	-4.355
Ordinary operating profit		**8.002**	**10.008**
Financial income	3	8.594	7.603
Financial expenses	4	-1.410	-2.510
Profit before tax		**15.186**	**15.101**
Tax on profit for the year	5	-1.498	-1.762
Profit for the year	6	**13.688**	**13.340**

Financial statements 1 January - 31 December

Balance sheet

	Note	2018	2017
ASSETS		(EUR'000)	(EUR'000)
Non-current assets			
Intangible assets			
Goodwill	7	2.906	3.442
Development projects	7	6.628	7.271
Software	7	12	2
		9.546	**10.715**
Property, plant and equipment			
Land and buildings	8	13.395	9.716
Leasehold improvements	8	285	312
Fixtures, fittings and other equipment	8	1.326	785
		15.006	**10.813**
Equity investments			
Equity investments in group enterprises	9	35.378	35.388
Receivables from group enterprises		0	0
Other securities and equity investments		0	7
		35.378	**35.395**
Total non-current assets		**59.930**	**56.923**
Current assets			
Inventories	10	10.725	9.996
Receivables			
Trade receivables		1.964	1.795
Contract work in progress	11	2.667	1.063
Receivables from group enterprises		8.860	6.146
Corporation tax		919	0
Other receivables		490	259
Prepayments		309	210
		15.209	**9.473**
Cash at bank and in hand		3.301	8.682
Total current assets		**29.235**	**28.151**
TOTAL ASSETS		**89.165**	**85.074**

Financial statements 1 January - 31 December

Balance sheet

	Note	2018	2017
		(EUR'000)	(EUR'000)
EQUITY AND LIABILITIES			
Equity	12		
Share capital		1.342	1.342
Reserve for development costs		2.793	2.101
Retained earnings		13.515	11.564
Proposed dividends		8.000	12.000
Total equity		**25.650**	**27.007**
Provisions			
Deferred tax	13	3.094	2.953
Warranties	14	430	453
Other provision	15	0	29
		3.524	**3.435**
Non-current liabilities other than provisions			
Lease liabillities	16	3.650	0
Payables to group enterprises	16	35.845	35.845
		39.495	**35.845**
Current liabilities other than provisions			
Lease liabillities	16	714	13
Prepayments from customers	11	1.641	610
Trade payables		5.958	5.521
Payables to group enterprises	16	6.605	5.265
Corporation tax		0	25
Other payables		5.577	7.353
Total current liabilities other than provisions		**20.495**	**18.787**
Total liabilities other than provisions		**59.990**	**54.632**
TOTAL EQUITY AND LIABILITIES		**89.165**	**85.074**
Related parties	17		
Collateral, contingent liabilities and lease liabilities	18		

Financial statements 1 January - 31 December 2018

Statement of changes in equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividends	Total
Balance at 1 January 2017	1.342	1.293	16.495	14.000	33.130
Foreign exc. adj. of equity			-86		-86
Net profit for the year		808	12.532		13.340
Interim dividends paid			-5.377		-5.377
Dividends paid				-14.000	-14.000
Proposed dividends			-12.000	12.000	0
Equity at 1 January 2018	**1.342**	**2.101**	**11.564**	**12.000**	**27.007**
Foreign exc. adj. of equity			-45		-45
Net profit for the year		692	12.996		13.688
Dividends paid				-12.000	-12.000
Interim dividends paid			-3.000		-3.000
Proposed dividends			-8.000	8.000	0
Equity at 31 December 2018	**1.342**	**2.793**	**13.515**	**8.000**	**25.650**

Financial statements 1 January - 31 December 2018

Notes

1 Segment information

Operating segments
The identified operating segments comprise the three industries, which are the reporting segments. These operating segments form the basis for managerial decision taking.

The segment information for the period ended 31 December 2018 is as follows:

	Poultry	Fish	Meat	Others	Total
Revenue	43.249	18.019	26.537	2.720	90.525

Geographical information
The Companys operating segments operate in four main geographical areas

	2018	2017
Revenue	(EUR'000)	(EUR'000)
Denmark	3.530	4.004
Europe other	48.575	45.177
North America	22.989	22.398
Other countries	15.431	14.413
Total	**90.525**	**85.991**

2 Staff costs

Wages and salaries, etc.	21.115	18.045
Pensions	1.177	994
Other social security costs	367	359
	22.659	**19.398**

Staff costs are recognised as follows:

Production	15.499	13.347
Distribution	4.384	3.794
Administration	2.776	2.257
	22.659	**19.398**
Average number of employees	263	247

Incentive schemes

Pursuant to section 98b(3) of the Danish Financial Statements Act, the Company has not disclosed remuneration of Management as only one member of the Management Board is remunerated.

Financial statements 1 January - 31 December 2018

Notes

		2018	2017
		(EUR'000)	(EUR'000)
3	**Financial income**		
	Dividends from group enterprises	8.473	6.361
	Profit from the sale of subsidiary shares	0	1.210
	Other financial income	121	32
		8.594	**7.603**
4	**Financial expenses**		
	Interest expense, group companies	1.180	1.508
	Loss from the sale of subsidiary shares	0	380
	Write-down of equity investments in group entities	0	113
	Other financial expenses	230	509
		1.410	**2.510**
5	**Tax**		
	Tax on profit for the year is specified as follows:		
	Current tax	-1.361	-1.799
	Correction tax prior years	1	-34
	Deferred tax	-138	71
		-1.498	**-1.762**
6	**Proposed profit appropriation**		
	Profit for the year	13.688	13.340
	Reserve for development costs	-692	-808
	Proposed dividends	-8.000	-12.000
	Transferred to next year	**4.996**	**532**

Notes

7 Intangible assets

	Completed development projects	Ongoing development projects	Total development projects
Cost at 1 January	18.551	4.183	22.734
Additions		1.198	1.198
Transferred	2.043	-2.043	0
Disposals			0
Cost at 31 December	20.594	3.338	23.932
Impairment loss and amortisation at 1 January	15.463		15.463
Amortisation and impairment for the year	1.841		1.841
Impairment loss and amortisation at 31 December	17.304	0	17.304
Carrying amount at 31 December	**3.290**	**3.338**	**6.628**

Completed development projects relate to the deveopment and test of machines for the food processing industry and are usually amortised over five years.

Ongoing development projects relate to the development and test of machines for the food processing industry and the majority of the projects are expected to be completed within 1-3 years where considerable economic benefits are expected.

	Software	Goodwill
Cost at 1 January	716	8.295
Foreign exchange adjustments at 1 January	-3	0
Additions during the year	11	0
Cost at 31 December	724	8.295
Impairment loss and amortisation at 1 January	714	4.853
Foreign exchange adjustments at 1 January	-3	0
Amortisation for the year	1	536
Impairment loss and amortisation at 31 December	712	5.389
Carrying amount at 31 December	**12**	**2.906**

Goodwill is amortized over 10 years, as the service business is linked to equipment with a long lifespan.

Financial statements 1 January - 31 December 2018

Notes

8 Property, plant and equipment

Own assets	Land and buildings	Fixtures and fittings, etc.	Leasehold improve-ments
Cost at 1 January	11.663	2.089	423
Foreign exchange adjustments at 1 January	0	-10	-1
Additions due to implementation of IFRS16	0	0	0
Additions	44	280	0
Transferred	0	0	0
Disposals	-66	-335	0
Cost at 31 December	11.641	2.024	422
Impairment loss and depreciation at 1 January	1.946	1.304	111
Foreign exchange adjustments at 1 January	0	-10	-1
Transferred			
Disposals	-66	-269	
Depreciation for the year	134	263	27
Impairment loss and depreciation at 31 December	2.014	1.288	137
Carrying amount at 31 December	**9.627**	**736**	**285**
Leased assets			
Cost at 1 January	0	0	
Additions due to implementation of IFRS16	3.785	621	
Foreign exchange adjustments	0	-2	
Value ajustments	423	0	
Additions	0	297	
Disposals	0	-48	
Cost at 31 December	4.208	868	0
Impairment loss and depreciation at 1 January	0	0	
Disposals	0	-21	
Depreciation for the year	440	300	
Foreign exchange adjustments	0	-1	
	440	278	0
Carrying amount at 31 December	**3.768**	**590**	**0**
Total	**13.395**	**1.326**	**285**

Financial statements 1 January - 31 December 2018

9 Equity investments

	2018 (EUR'000)	2017 (EUR'000)
Equity investments in group companies		
Cost at 1 January	35.388	35.834
Additions for the year		2.524
Disposals for the year	-10	-2.447
Cost at 31 December	**35.378**	**35.911**
Impairment loss at 1 January		-826
Impairment for the year		-113
Disposals for the year		416
Impairment loss at 31 December	**0**	**-523**
Carrying amount at 31 December	**35.378**	**35.388**

Specification of subsidiaries see latest published financial statements	Registered office	Owner-ship	Profit/ loss (EUR'000)	Equity (EUR'000)
Marel Salmon A/S	Denmark	100%	6.389	16.517
Marel New Zealand Limited	New Zealand	100%	187	554
Marel GB Ltd.	England	100%	848	2.574
Marel Food Systems Ltd.	Ireland	100%	134	1.194
Marel Polska Sp. z.o.o.	Poland	100%	287	520
Marel Chile SPA	Chile	100%	-209	441
Marel Equipameintos Industriales S.A.	Uruguay	100%	11	-158
Marel Food Systems Lda.	Portugal	0%	Liquidated	

10 Inventories

	2018 (EUR'000)	2017 (EUR'000)
Finished goods	3.286	3.263
Work in progress	7.431	6.725
Raw materials and consumables	8	8
	10.725	**9.996**

11 Contract work in progress

	2018	2017
	(EUR'000)	(EUR'000)
Contract work in progress	2.668	1.384
Progress billings	-1.642	-931
Net value at 31 December	**1.026**	**453**
- recognised as follows:		
Contract work in progress	2.667	1.063
Prepayments from customers	-1.641	-610
Net value at 31 December	**1.026**	**453**

In the above numbers are intercompany projects included with a sales value of EUR 1.757 thousand and progress billings of EUR 0 thousand or a net value of EUR 1.757 thousand wiht EUR 1.757 thousand reported under assets.

12 Equity

The share capital comprises 10 shares of DKK 1 million each.
There have been no movements in share capital during the past five years.

13 Deferred tax

	2018	2017
Deferred tax at 1 January	2.953	3.024
Deferred tax for the year recognised in profit for the year	141	-71
Adjustment of deferred tax due to change in tax rate	0	0
Deferred tax at 31 December	**3.094**	**2.953**

Deferred tax relates to:

	2018	2017
Intangible assets	1.758	1.850
Property, plant and equipment	886	848
Retaxation obligation, foreign entities	50	50
Current assets	402	230
Provisions	-1	-24
Leased assets and liabilities	-1	0
	3.094	**2.953**

Notes

		2018	2017
		(EUR'000)	(EUR'000)
14	**Warranties**		
	Balance at 1 January	453	494
	Adjustments for the year	-23	-41
	Balance at 31 December	**430**	**453**

Date of maturity is expected to be 0-1 year

		2018	2017
15	**Other provisions**		
	Provision for loss on financial leased cars	0	29
		0	**29**

Date of maturity is expected to be 0-1 year

16 Non-current liabilities

	Current portion	Non-current portion	Total	Hereof falling due after more than five years
Finance leases	714	3.650	4.364	1.452
Payables to group enterprises	6.605	35.845	42.450	0
	7.319	**39.495**	**46.814**	**1.452**

Financial statements 1 January - 31 December 2018

Notes

17 Related parties

Marel A/S' related parties comprise the following:

Control:
Marel hf., Austurhraun 9, Gardabaer, Iceland
Marel hf. Holds the majority of the share capital in the Company

Marel A/S is part of the consolidated financial statements of Marel hf. Austurhraun 9, Gardabaer, Iceland, which is the smallest and largest group in which the Company is included as a subsidiary

The consolidated financial statements of Marel hf. can be obtained by contacting the Company or at the following website: www.marel.com

	2018	2017
	(EUR'000)	(EUR'000)
Related party transactions		
Group		
Sale of goods	-74.997	-69.732
Purchase of goods	29.475	29.417
Production costs	-818	-759
Distribution costs	896	627
Administrative expenses	2.208	2.909
Total	**-43.236**	**-37.538**
Parent Company		
Dividend	15.000	19.377
Total	**15.000**	**19.377**

Payables and receivables to group enterprises are disclosed in the balance sheet and in note 16, and expensed interest and received dividend is disclosed in note 3 and 4.

18 Collateral, contingent liabilities and lease liabilities

The Company is jointly taxed with other Danish group companies. As the administrative company, together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. Corporation taxes payable and withholding taxes within the joint taxation unit totalled EUR 485 thousand at 31 December 2018. Any subsequent corrections to the taxable joint taxation income or withholding taxes may imply that the Company's liability will increase.

Cash at bank and in hand amounting to EUR 2.889 thousand has been pledged as security for a group cash pool.

In January 2016, Marel hf., entered into a restated Facility Agreement. In relation to this, the shares in Marel Salmon A/S amounting to EUR 12,248 thousand have been provided as collateral to the lenders