HKScan Denmark A/S

CVR No 25 17 75 09

Annual Report for 1.1 – 31.12.2018

Tværmosevej 10
DK-7830 Vinderup

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 28/5 2019

Chairman

Markku Suvanto

Contents

Management's Statement and Auditor's Report

Management's Statement

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

The Annual Report was prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the estimates made reasonable. Furthermore, we consider the overall annual report presentation true and fair. Therefore, in our opinion the Annual Report gives a true and fair view of the financial position of the Company and of the results of the Company's operations.

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

Vinderup, 28-5-2019

Executive Board

Jukka Nikkinen
CEO

Michael Jørgensen
CFO

Board of Directors

Markku Suvanto
Chairman

Jyrki Paappa

Jukka Nikkinen

Birthe Juul

Ditlev Baunsgaard
Employee representative

Ellen Marie Moeskjær
Employee representative

Claus Bengtsson
Elected substitute for Ditlev Baunsgaard

Independent Auditor's Report

To the shareholders of HKScan Denmark A/S

Opinion

We have audited the financial statements of HKScan Denmark A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, and notes, including 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 financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows 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 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 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and 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 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.

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 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, 28 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

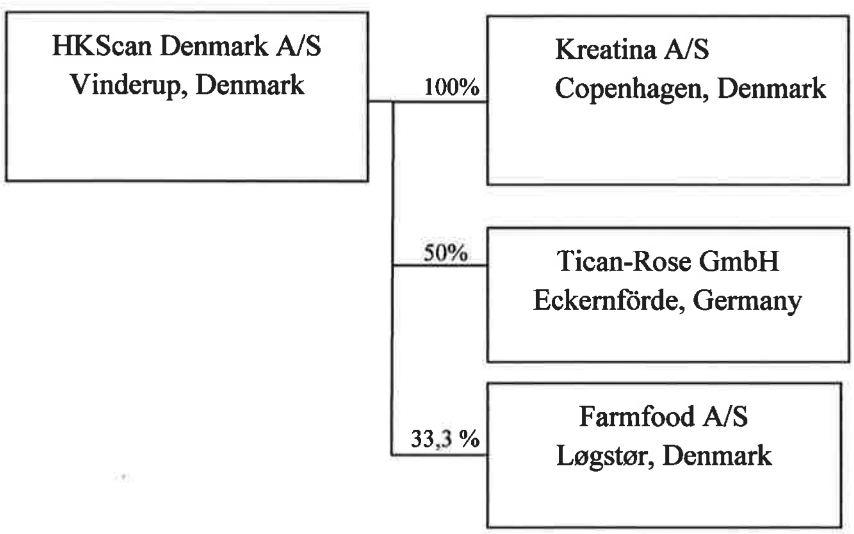
Morten Friis
State Authorised
Public Accountant
mne32732

Management's Review

Company Information

The Company	HKScan Denmark A/S Tværmosevej 10 DK-7830 Vinderup Denmark Telephone: + 45 99 95 95 95 Facsimile: + 45 99 95 95 40 Website: www.rosekylling.dk CVR No 25 17 75 09 Financial period: 1 January – 31 December Financial year: 19th financial year Municipality of reg. office: Holstebro
Board of Directors	Markku Suvanto Jyrki Paappa Jukka Nikkinen Ditlev Baunsgaard Ellen Marie Moeskjær Birthe Juul
Executive Board	Jukka Nikkinen Michael Jørgensen
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab Værkmestergade 25 DK-8000 Aarhus C Denmark

Group Chart


HKScan Denmark A/S
Vinderup, Denmark
100%
Kreatina A/S
Copenhagen, Denmark
50%
Tican-Rose GmbH
Eckernförde, Germany
33,3 %
Farmfood A/S
Løgstør, Denmark

Financial Highlights of HKScan Denmark A/S

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

	2018	2017	2016	2015	2014
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Key figures					
Profit/loss					
Revenue	1.287.559	1.273.252	1.253.549	1.268.391	1.481.928
Gross profit/loss	-9.728	-6.245	-368	1.254	-24.021
EBITDA	2.953	18.995	-1.398	5.882	20.363
Profit/loss before financial income and expenses	-74.178	-71.189	-70.412	-61.962	-87.379
Net profit/loss for the year	-84.115	-99.163	-102.639	-62.603	-80.188
Balance sheet					
Balance sheet total	479.495	542.208	625.277	716.239	754.434
Equity	108.015	192.130	67.946	170.585	233.188
Average number of employees	601	616	644	666	817
Ratios					
Gross margin	-0,8%	-0,5%	0,0%	0,1%	-1,6%
Profit margin	-5,8%	-5,6%	-5,6%	-4,9%	-5,9%
Return on net assets	-15,5%	-13,1%	-11,3%	-8,7%	-11,6%
Solvency ratio	22,5%	35,4%	10,9%	23,8%	30,9%
Return on equity	-39,9%	-45,3%	-65,4%	-30,1%	-33,5%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Review

The Annual Report of HKScan Denmark A/S ("Company") for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.
The Financial Statements have been prepared under the same accounting policies as the previous year. In accordance with section 112 of the Danish Financial Statements Act, consolidated financial statements have not been prepared as the Company is included in the HKScan Corporation ("Parent Company"). The Consolidated Financial Statements may be obtained at the Parent Company.

Market overview

As in previous years, the Company's main activity has comprised slaughtering, processing and sale of poultry products both in Denmark and in the export markets.

Development in the year

The past year and follow-up on development expectations from last year

The results for the year show a loss before tax of DKK 84,1 million.

Net sales increased slightly from 2017 to 2018. The increase in net sales was attributed to boosted export volumes, while domestic retail sales decreased slightly due to fierce price competition.

EBIT increase from the previous year was driven by lower depreciation and impairments losses. The development in operational efficiency was positive and administration costs were lowered. Branded sales in retail were kept under pressure by fierce price competition, which decreased margins together with increased raw material costs and changes in the sales mix. The share of the fresh chicken category in domestic retail continued its increase compared to the frozen category.

Results for the year are considered unsatisfactory.

Capital resources

Current loans and credit facilities are considered adequate to cover the Company's operations and planned investments. The Financial Statements show that a significant part of the Company's financing has been raised as intercompany loans from the Parent Company.
The Parent Company will support the Company's activities and has issued a Letter of Financial Support to enable HKScan Denmark A/S to meet its ongoing financial obligations as and when they fall due for the foreseeable future and in any event in the period of 1 January to 31 December 2019.

Subsequent events

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

Review

Special risks

Operating and market risks

The Company's most material operating risks relate to the development in market prices on the global market, including fluctuations in exchange rates, and incidence of poultry disease both in Denmark and abroad, which also constitutes a general business risk.

The supply of raw materials, which is in all material respects based on multiannual contracts with producers is sensitive to the market-oriented settlement price.

Foreign exchange risks

A material export share implies that results, cash flows and equity are affected by the development of the exchange rate of especially SEK, USD and GBP. It is the Company's policy to hedge against commercial foreign exchange exposure. The Company does not enter into foreign exchange positions for speculative purposes. Hedging mainly takes place by means of forward exchange contracts.

Interest rate risks

The Company's interest-bearing debt are generally raised with a floating interest rate.

Credit risks

The Company's credit risks relate primarily to financial assets recognised in the balance sheet. The Company does not have any material risks relating to a single customer or business partner. According to the Company's policy for assuming credit risks, all customers are credit rated regularly.

Statutory statement of corporate social responsibility and environmental responsibility

For reporting on corporate responsibility, including human rights, environmental issues, climate issues, social and employee conditions and anticorruption, HKScan Denmark A/S refers to its parent company, HKScan Oyj's, statement on corporate responsibility, which can be accessed at
https://www.hkscan.com/en/investors-information/Releases-and-publications/annual-report-2018/

A summary of the policies stated in HKScan Oyj CSR from the annual report of 2018 is outlined below.

Policies for corporate social responsibility

Corporate responsibility is an integral part of HKScan's From Farm to Fork strategy. HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment.

Policies for environmental responsibility

HKScan assumes responsibility for the environment throughout the value chain and continuously decreases the environmental impacts of its processes. HKScan manages its operations so that guidelines, regulations and requirements for environmental permits are fulfilled. HKScan's aim is for its environmental work to align also with the goals of society. This is ensured, e.g., through collaboration with authorities. The company sets environment-related requirements also for its suppliers as part of HKScan's Supplier Guidelines.

More information about corporate social responsibility and environmental responsibility may be obtained at Parent Company homepage www.hkscan.com.

Composition of the Board of Directors

The members elected at the general meeting are mainly recruited among the Company's Executive Board and the Executive Board of the Parent Company. The gender representation thus depends on the gender representation in the relevant positions from time to time.

Employee representatives on the Board of Directors are elected among all employees.
The representation of female members on the Board of Directors is presently 33% (2017: 33 %).

In the long run, HKScan Denmark A/S intends to achieve a more equal gender representation on the Board of Directors. HKScan Denmark A/S' goal is that the underrepresented gender in the Board of Directors is at least 33%.

Currently the ratio of female executives in management team is approximately 29 %. HKScan Denmark A/S also intends to achieve a more equal gender representation among management.
HKScan Denmark A/S will through recruitment internally and externally attempt to increase the ratio of the underrepresented gender in the management in the next 12-24 months.

Expectations for the year ahead

The initiated strategic review during spring 2018 is expected to result in an improved financial performance.

Financial Statements

Income statement 1 January – 31 December

	Note	2018 DKK '000	2017 DKK '000
Revenue	1	**1.287.559**	**1.273.252**
Production costs		-1.297.287	-1.279.783
Other operation income		0	286
Gross profit/loss		**-9.728**	**-6.245**
Distribution costs		-27.664	-27.825
Administrative expenses		-36.787	-37.119
Profit/loss before financial income and expenses		**-74.178**	**-71.189**
Income from investments in subsidiaries	2	0	0
Income from investments in associates	3	3.693	-4.593
Financial income	4	3.851	6.141
Financial expenses	5	-17.481	-29.522
Profit/loss before tax		**-84.115**	**-99.163**
Corporation tax	6	0	0
Net profit/loss for the year		**-84.115**	**-99.163**

Distribution of Profit/loss

Proposed distribution of profit/loss

Reserve for net revaluation under the equity method	2.249	3.361
Retained earnings	-86.364	-102.524
	-84.115	**-99.163**

Balance Sheet at 31 December

Assets

	Note	2018	2017
		DKK '000	DKK '000
Intangible assets		2.405	617
Intangible assets	7	**2.405**	**617**
Land and buildings		83.840	113.280
Plant and machinery		90.033	119.152
Other fixtures and fittings, tools and equipment		346	174
Property, plant and equipment in progress		11.906	13.176
Property, plant and equipment	8	**186.125**	**245.782**
Investments in associates		28.451	26.202
Other securities		612	724
Fixed asset investments	9	**29.063**	**26.926**
Fixed assets		**217.594**	**273.325**
Inventories	10	**99.169**	**120.593**
Trade receivables		123.687	113.755
Receivables from affiliates		11.016	17.709
Receivables from associates		4.429	3.608
Other receivables		19.325	12.120
Corporation Tax		116	116
Prepayments		4.096	871
Receivables		**162.669**	**148.179**
Cash at bank and in hand		**64**	**111**
Current assets		**261.902**	**268.883**
Assets		**479.495**	**542.208**

Balance Sheet at 31 December

Liabilities and equity

	Note	2018 DKK '000	2017 DKK '000
Share capital	11	10.250	10.250
Reserved for revaluation		21.772	21.772
Reserve for net revaluation under the equity method		12.703	10.454
Reserve for development costs		1.876	481
Retained earnings		61.414	149.173
Equity		**108.015**	**192.130**
Other provisions	13	400	400
Provisions		**400**	**400**
Payables to group enterprises		206.653	196.653
Long-term debt	14	**206.653**	**196.653**
Trade payables		82.991	72.687
Payables to group enterprises		16.663	10.319
Other payables		64.773	70.019
Short-term debt		**164.427**	**153.025**
Debt		**371.080**	**349.678**
Liabilities and equity		**479.495**	**542.208**
Contingent assets, liabilities and other financial obligations	15		
Fee to auditors appointed at the general meeting	16		
Staff	17		
Related parties	18		
Accounting Policies	19		

Statement of Changes in Equity

	Share capital	Reserve for revaluation	Reserve for net revaluation under the equity method	Reserve for development cost	Retained earnings	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Equity at 1 January 2018	10.250	21.772	10.454	481	149.654	192.130
Debt cancellation	0	0	0	0	0	0
Transferred to reserves	0	0	0	1.395	-1.395	0
Net profit/loss for the year	0	0	2.249	0	-86.364	-84.115
Equity at 31 December 2018	**10.250**	**21.772**	**12.703**	**1.876**	**61.414**	**108.015**
Equity at 1 January 2017	10.250	21.772	7.093	0	28.831	67.946
Debt cancellation	0	0	0	0	223.347	223.347
Transferred to reserves	0	0	0	481	-481	0
Net profit/loss for the year	0	0	3.361	0	-102.524	-99.163
Equity at 31 December 2017	**10.250**	**21.772**	**10.454**	**481**	**149.173**	**192.130**

Notes to the Annual Report

		2018	2017
		DKK '000	DKK '000
1	**Revenue**		
	Geographical segments		
	Domestic market	723.465	742.758
	EU	421.174	392.625
	Other countries	142.920	137.869
		1.287.559	**1.273.252**
2	**Income from investments in subsidiaries**		
	Share of losses of subsidiaries	0	0
		0	**0**
3	**Income from investments in associates**		
	Share of profits of associates	3.693	1.274
	Share of losses of associates	0	-5.867
		3.693	**-4.593**
4	**Financial income**		
	Exchange adjustments	3.687	5.842
	Other financial income	163	299
		3.851	**6.141**
5	**Financial expenses**		
	Interest paid to group enterprises	11.198	23.821
	Exchange adjustments	5.036	4.467
	Other financial expenses	1.248	1.234
		17.481	**29.522**

Notes to the Annual Report

		2018	2017
		DKK '000	DKK '000
6	**Corporation tax**		
	Deferred tax for the year	0	0
	Adjustment of tax, previous years	0	0
	Total tax for the year	**0**	**0**

		2018
		DKK '000
7	**Intangible assets**	
	Cost at 1 January 2018	629
	Additions of the year	2.023
	Reclassifications	0
	Disposals of the year	0
	Cost at 31 December 2018	2.652
	Depreciation and impairment losses at 1 January 2018	12
	Depreciation and impairment losses for the year	234
	Reclassification of depreciation and impairment losses	0
	Reversal of depreciation and impairment of sold assets	0
	Depreciation and impairment losses at 1 January 2018	246
	Carrying amount at 31 December 2018	**2.405**
	Depreciation and impairment of intangible assets are expensed in the following items:	
	Production costs	0
	Distribution costs	0
	Administrative expenses	234
		234

Notes to the Annual Report

		Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
		DKK '000	DKK '000	DKK '000	DKK '000
8	**Property, plant and equipment**				
	Cost at 1 January 2018	347.728	793.813	19.348	13.176
	Additions for the year	0	0	202	17.274
	Disposals for the year	0	0	0	0
	Reclassification	0	0	-629	0
	Transfers for the year	999	17.544	0	-18.544
	Cost at 31 December 2018	348.727	811.357	18.921	11.906
	Revaluation at 1 January 2018	21.555	0	0	0
	Revaluation for the year	-21.555	0	0	0
	Revaluation at 31 December 2018	0	0	0	0
	Depreciation and impairment losses at 1 January 2018	256.003	674.661	18.557	0
	Depreciation and impairment losses for the year	8.884	46.663	30	0
	Reclassification of depreciation and impairment losses	0	0	-12	0
	Reversal of depreciation and impairment of sold assets	0	0	0	0
	Depreciation and impairment losses at 1 January 2018	264.887	721.324	18.575	0
	Carrying amount at 31 December 2018	**83.840**	**90.033**	**346**	**11.906**
	Depreciated over	20-25 years	5-15 years	3-10 years	-

Notes to the Annual Report

	2018	2017
	DKK '000	DKK '000
8 Property, plant and equipment (continued)		
Depreciation and impairment of property, plant and equipment amount to:		
Depreciation and impairment losses	77.131	90.184
Loss on sale	-123	-25
New acquisitions below DKK 20,000	644	517
	77.653	**90.676**
Depreciation and impairment of property, plant and equipment are expensed in the following items:		
Production costs	77.218	90.337
Distribution costs	0	0
Administrative expenses	434	339
	77.653	**90.676**

The calculation of the carrying amount of some assets and liabilities requires estimation of the way in which future events will affect the value of such assets and liabilities at the balance sheet date. Such an estimate which is material to the financial reporting is made by e.g. performing an impairment test of the Company's assets.

The impairment test is based on the future current operating income from the business. The calculation of the current operating income includes income and expenses recognised in the Company's budgets and forecasts. It is also based on a required return determined on the basis of e.g. the interest-rate level of the risk-free interest rate.

The impairment test performed did show an indication of impairment with respect to the Company's fixed assets. The impairment test has led to a write-down of DKK 22.2 million being recognised in the fixed assets.

The estimates made are based on assumptions that Management considers reasonable, but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and contingencies or unexpected circumstances may arise. The Company is moreover exposed to risks and uncertainties that may result in the actual performance deviating from these estimates.

Notes to the Annual Report

		2018	2017
		DKK '000	DKK '000
9	**Fixed asset investments**		
	Investments in subsidiaries		
	Cost at 1 January 2018	0	0
	Disposals of the year	0	0
	Cost at 31 December 2018	0	0
	Revaluation at 1 January 2018	0	0
	Net profit/loss for the year	0	0
	Disposal	0	0
	Revaluation at 31 January 2018	0	0
	Carrying amount at 31 December 2018	**0**	**0**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share Capital	Votes and ownership
Kreatina A/S	Holstebro, Denmark	DKK 3,000k	100%

Notes to the Annual Report

	2018	2017
	DKK '000	DKK '000
9 Fixed asset investments (continued)		
Investments in associates		
Cost at 1 January 2018	15.748	23.848
Additions of the year	0	0
Disposals of the year	0	-8.100
Cost at 31 December 2018	15.748	15.748
Value adjustments at 1 January 2018	10.454	13.897
Adjustments former years	7	0
Net profit/loss for the year	3.693	-4.593
Dividends for the year	-1.451	-148
Disposals for the year	0	1.298
Value adjustments at 31 January 2018	12.703	10.454
Carrying amount at 31 December 2018	**28.451**	**26.202**

Investments in associates are specified as follows:

Name	Place of registered office	Share Capital	Votes and ownership
Tican-Rose GmbH	Eckernförde, Germany	EUR 51k	50%
Farmfood A/S	Løgstør, Denmark	DKK 30,000k	33%

	2018	2017
	DKK '000	DKK '000
Other securities and investments		
Cost at 1 January 2018	724	616
Additions for the year	0	108
Disposals of the year	-112	0
Cost at 31 December 2018	612	724
Carrying amount at 31 December 2018	**612**	**724**

Notes to the Annual Report

		2018	2017
		DKK '000	DKK '000
10	**Inventories**		
	Raw materials and consumables	13.972	14.736
	Work in progress	6.111	5.532
	Finished goods and goods for resale	79.086	100.325
		99.169	**120.593**

11 Equity

The share capital consists of 10,000 shares of a nominal value of DKK 1,000 each, 2,500 shares of a nominal value of DKK 100 each and one share of DKK 200. No shares carry any special rights.

Development in share capital:
2012: The share capital was increased by a nominal amount of DKK 50,000
2011: The share capital was increased by a nominal amount of DKK 100,000

		2018	2017
		DKK '000	DKK '000
12	**Provision for deferred tax**		
	Property, plant and equipment	-44.035	-43.832
	Trade receivables	-44	-220
	Tax loss	-18.247	-16.476
	Write-down	62.326	60.528
		0	**0**
	Tax asset	**0**	**0**
13	**Other provisions**		
	Other provisions	400	400
		400	**400**

Notes to the Annual Report

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2018	2017
	DKK '000	DKK '000
Payables to group enterprises		
Between 1 and 5 years	206.653	196.653
Long-term part	206.653	196.653
Within 1 year	16.663	10.319
	223.316	**206.972**

15 Contingent assets, liabilities and other financial obligations

Rental agreements and leases

	2018	2017
Lease commitments under operating leases. Total future lease payments:		
Within 1 year	13.547	10.252
Between 1 and 5 years	11.335	16.960
After 5 years	687	1.287
	25.569	**28.499**

Security

	2018	2017
The following assets have been placed as security with mortgage credit institutes:		
Land and buildings with a carrying amount of	**99.380**	**113.280**

The Company has issued mortgage deeds registered to the mortgagor and letters of indemnity totalling DKK 258,696k secured on land and buildings and other property, plant and equipment providing security for mortgage loans and debt to the Parent Company.

Securities with at carrying amount of DKK 177k have been provided as security for restoration obligations towards the Danish Coastal Authority.

Notes to the Annual Report

15 Contingent assets, liabilities and other financial obligations (continued)

Contingent liabilities

The Company has provided a bank guarantee of DKK 30,000k as a producer guarantee.

The Company is under a contractual obligation to supply waste and by-products from the poultry production to the associate Farmfood A/S for the next two years.

The Company is jointly taxed with the subsidiary Kreatina A/S. The companies in the joint taxation are jointly and separately liable for Danish corporation taxes arising in the jointly taxed group.

	2018	2017
	DKK '000	DKK '000
16 Fee to auditors appointed at the general meeting		
Audit fee to EY	321	0
Other services EY	62	0
Audit fee to PriceWaterhouseCoopers	253	437
Other services PriceWaterhouseCoopers	55	189
	691	**626**

Notes to the Annual Report

		2018	2017
		DKK '000	DKK '000
17	**Staff**		
	Wages and salaries	225.664	234.460
	Pensions	17.779	18.074
	Other social security expenses	10.031	5.720
		253.474	**258.254**
	Which have been expensed as follows:		
	Production costs	222.561	224.024
	Distribution costs	15.785	15.494
	Administrative costs	15.128	18.736
		253.474	**258.254**
	Including remuneration to the Executive Board and the Board of Directors:		
	Executive Board and Board of Directors	**4.130**	**4.949**
	Average number of employees	**601**	**616**

18 Related parties

Members of the Executive Board and the Board of Directors of HK Scan Denmark A/S are considered related parties.

The Group's associates are considered related parties.

HKScan Denmark A/S reports transactions which are not on regular market terms. All transactions are on market terms.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company HKScan Oyj, Finland.

19 Accounting Policies

Basis of Preparation

The Annual Report of HKScan Denmark A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report for 2018 is presented in DKK thousands.

The accounting policies applied remain unchanged from previous years.

Recognition and measurement

The financial statements have been prepared under the historical cost method.

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

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

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

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

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

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Basis of consolidation

Consolidated financial statements of HKScan Denmark A/S are not prepared as HKScan Denmark A/S is included in the Financial Statements of HKScan Corporation Group, which comprise Consolidated Financial Statements of the entire Group.

19 Accounting Policies

Leases

Leases in respect of property, plant and equipment in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the fair value of the leased asset, if measurable. Alternatively, the net present value, if lower, of future lease payments at the inception of the lease is applied. When computing the net present value, the interest rate implicit in the lease is applied as the discount rate or an approximated value. Assets acquired under finance leases are depreciated and written down for impairment like the other property, plant and equipment of the Company.

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

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

Translation policies

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

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

Exchange adjustments arising on the translation of the opening equity of separate foreign legal entities and exchange adjustments arising from the translation at average exchange rates of the income statements of separate foreign legal entities are recognised directly in equity. Exchange adjustments arising on the translation of income statements and balance sheets of integrated foreign entities are recognised in financial income and expenses in the income statement.

Exchange adjustments of loans in foreign currencies contracted for the hedging of investments in foreign subsidiaries or loans considered to be derived from the investment are recognised directly in equity. If the hedge is not effective, the ineffective portion is reported immediately in net profit or loss.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are included as prepayments and deferred income, respectively.

19 Accounting Policies

Derivative financial instruments (continued)

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions relating to purchases and sales in foreign currencies are recognised in prepayments/deferred income or in retained earnings under equity, respectively. If the expected future transaction results in the recognition of assets or liabilities, amounts deferred in equity are transferred from equity and recognised in the cost of the asset or the liability, respectively. Amounts deferred in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

Changes in the fair values of derivative financial instruments applied for the purpose of hedging net investments in separate foreign legal subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is reported immediately in net profit or loss.

Segment reporting

Segment information is presented in respect of the breakdown of revenue on geographical segments.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that the general criteria have been met, including that delivery and transfer of risk have been made to the buyer by year end and the amount can be reliably measured and is expected to be received. Revenue is recognised exclusive of VAT and duties and net of discounts relating to sales.

Production costs

Production costs comprise costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

19 Accounting Policies

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and expenses comprise items of a secondary nature to the core activities of the Company.

Financial income and expenses

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

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity. The tax recognised in the income statement is classified as tax on ordinary activities and tax on extraordinary items, respectively.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with certain wholly owned Danish and foreign subsidiaries and with Danish fellow subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses). The jointly taxed enterprises have adopted the on-account taxation scheme.

Balance Sheet

Intangible assets

Intangible assets comprise acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

19 Accounting Policies

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation of property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. The amortisation periods used are 3 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement. The amortisation periods used are 3-7 years.

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

Property, plant and equipment

Land is measured at cost. Land is not depreciated. Other property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use, including setup costs.

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

Buildings	20 - 25 years
Plant and machinery	5 - 15 years
Other fixtures and fittings, tools and equipment	3 - 10 years

Assets costing less than DKK 20,000 are expensed in the year of acquisition.

Gains and losses on sale of fixed assets are recognised in the income statement in production costs, distribution expenses and administrative expenses, respectively.

19 Accounting Policies

Impairment of fixed assets

The carrying amounts of both intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by ordinary amortisation and depreciation. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a recoverable amount can be determined.

Head office buildings and other assets for which a value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method in the Company's Annual Report.

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit after tax for the year of the subsidiaries less goodwill amortisation.

The item "Income from investments in associates" in the income statement includes the proportionate share of the profit after tax for the year of the associates less goodwill amortisation.

The items "Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated under the accounting policies of the Company with deduction or addition of unrealised intercompany profits or losses and with addition or deduction of any remaining value of positive or negative differences (goodwill or negative goodwill).

Subsidiaries and associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity.

Positive and negative differences from equity investments made in subsidiaries and associates are stated to the effect that any differences are recognised in the Company's balance sheet under the item "Investments in subsidiaries".

19 Accounting Policies

Investments in subsidiaries and associates (continued)

On acquisition of subsidiaries, the difference between cost of acquisition and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method) and allowing for the recognition of any restructuring provisions relating to the enterprise acquired. Positive and negative differences from the acquisition are recognised in the Company's balance sheet under the item "Investments in subsidiaries".

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Listed securities are measured at market value. Unlisted securities are measured at the selling price based on calculated value in use.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value. The net realisable value of inventories is calculated as the total of future sales revenues expected, at the balance sheet date, to be generated by inventories in the process of normal operations and determined allowing for marketability, obsolescence and development in expected sales sum less the estimated expenses necessary to make the sale.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Any borrowing expenses in the period of production are not recognised.

Receivables

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

Equity

Dividend

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Dividend expected to be distributed for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

19 Accounting Policies

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

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

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial debts

Fixed-interest loans, such as mortgage loans and loans from credit institutions, intended held to maturity are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost equal to the capitalised value using the effective interest method; the difference between the proceeds and the nominal value (the capital loss) is recognised in the income statement over the loan period.

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

19 Accounting Policies

Prepayments

Prepayments include expenses incurred in respect of subsequent financial years, including fair value adjustments of derivative financial instruments with a positive fair value. Such expenses are typically prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred income includes payments received in respect of income in subsequent years as well as fair value adjustments of derivative financial instruments with a negative fair value.

Cash flow statement

No cash flow statement is prepared for HKScan Denmark A/S as HKScan Denmark A/S is included in the Financial Statements of HKScan Corporation which include a consolidated cash flow statement.

Financial ratios

Explanation of ratios

Gross margin $= \dfrac{\text{Gross profit x 100}}{\text{Revenue}}$

Profit margin $= \dfrac{\text{Profit before financials x 100}}{\text{Revenue}}$

Return on net assets $= \dfrac{\text{Profit before financials x 100}}{\text{Total assets}}$

Solvency ratio $= \dfrac{\text{Equity at year end x 100}}{\text{Total assets}}$

Return on equity $= \dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$