# *HKScan Denmark A/S*

**CVR No 25 17 75 09**

## Annual Report for 2016

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21/4 2017

**Chairman**
Lene Meidahl Højen

Tværmosevej 10, 7830 Vinderup

# 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 2016.

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.

In our opinion, Management's Review includes a true and fair amount of the matters addressed in the Review.

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

Vinderup, 21 April 2017

**Executive Board**

| | |
|---|---|
| Svend Schou Borch | Michael Jørgensen |

**Board of Directors**

| | | |
|---|---|---|
| Tuomo Kalevi Valkonen<br>Chairman | Markku Suvanto | Svend Schou Borch |
| Lene Meidahl Højen | Jette Vinther Nielsen | Brian Sloth |

# Independent Auditor's Report

To the Shareholders of HKScan Denmark A/S

## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016, and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of HKScan Denmark A/S for the financial year 1 January - 31 December 2016, which comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

## 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

## Independent Auditor's Report

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

### 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 International Financial Reporting Standards as adopted by the EU and further requirements in 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 about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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.

# Independent Auditor's Report

- 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.

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.

Skive, 21 April 2017
**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab

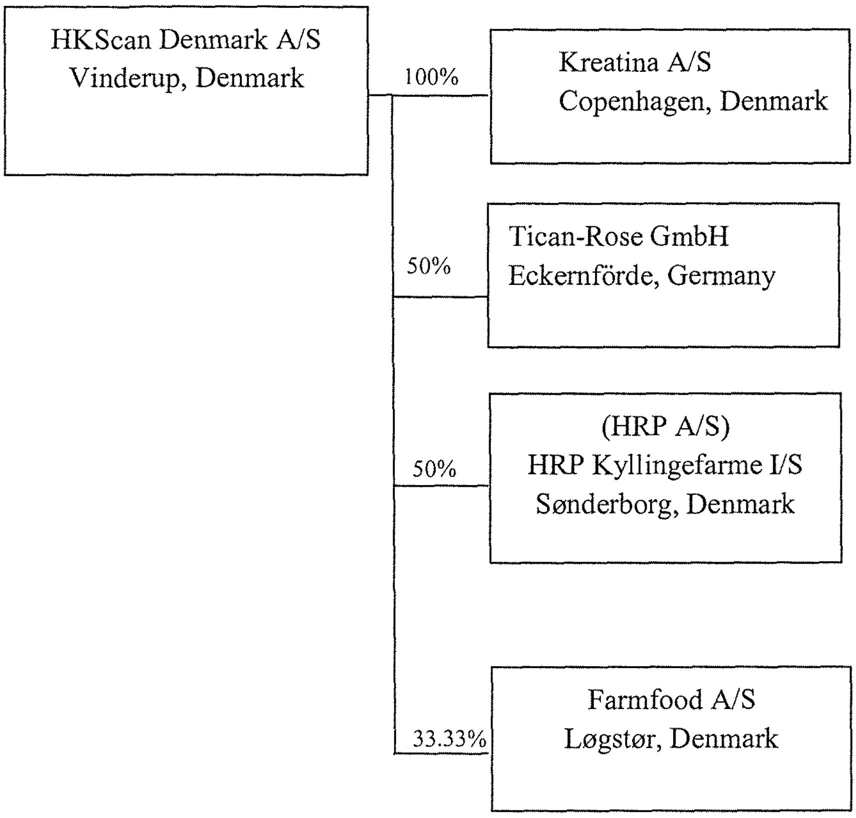
| | |
|---|---|
| Bjørn Jakobsen | Michael Laursen |
| State Authorised Public Accountant | State Authorised Public Accountant |

# Management's Review

## Company Information

| | |
|---|---|
| **The Company** | HKScan Denmark A/S<br>Tværmosevej 10<br>DK-7830 Vinderup<br>Denmark<br><br>Telephone: + 45 99 95 95 95<br>Facsimile: + 45 99 95 95 40<br>Website: www.rosepoultry.dk<br><br>CVR No 25 17 75 09<br>Financial period: 1 January – 31 December<br>Financial year: 18th financial year<br>Municipality of reg. office: Holstebro |
| **Board of Directors** | Tuomo Kalevi Valkonen<br>Markku Juhani Suvanto<br>Svend Schou Borch<br>Lene Meidahl Højen<br>Jette Vinther Nielsen<br>Brian Sloth |
| **Executive Board** | Svend Schou Borch<br>Michael Jørgensen |
| **Auditors** | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Resenvej 81<br>DK-7800 Skive<br>Denmark |

# Group Chart


HKScan Denmark A/S
Vinderup, Denmark
100%
Kreatina A/S
Copenhagen, Denmark
50%
Tican-Rose GmbH
Eckernförde, Germany
50%
(HRP A/S)
HRP Kyllingefarme I/S
Sønderborg, Denmark
33.33%
Farmfood A/S
Løgstør, Denmark

# Financial Highlights of HKScan Denmark A/S

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **Key figures** | | | | | |
| **Profit/loss** | | | | | |
| Revenue | 1.253.549 | 1.268.391 | 1.481.928 | 1.624.549 | 1.508.895 |
| Gross profit/loss | -368 | 1.254 | -24.021 | 160.818 | 117.432 |
| EBITDA | -1.398 | 5.882 | 20.363 | 169.567 | 160.869 |
| Profit/loss before financial income and expenses | -70.412 | -61.962 | -87.379 | 98.500 | 57.003 |
| Net profit/loss for the year | -102.639 | -62.603 | -80.188 | 67.382 | 20.785 |
| **Balance sheet** | | | | | |
| Balance sheet total | 625.277 | 716.239 | 754.434 | 803.196 | 873.501 |
| Equity | 67.946 | 170.585 | 233.188 | 313.376 | 245.994 |
| Average number of employees | 644 | 666 | 817 | 852 | 799 |
| **Ratios** | | | | | |
| Gross margin | 0,0% | 0,1% | -1,6% | 9,9% | 7,8% |
| Profit margin | -5,6% | -4,9% | -5,9% | 6,1% | 3,8% |
| Return on net assets | -11,3% | -8,7% | -11,6% | 12,3% | 6,5% |
| Solvency ratio | 10,9% | 23,8% | 30,9% | 39,0% | 28,2% |
| Return on equity | -65,4% | -30,1% | -33,5% | 24,1% | 11,3% |

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 2016 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 from 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 82.1 million. The results are considered unsatisfactory.

The competition in HKScan Denmark A/S's main markets remained fierce throughout 2016.
On the Danish home market, however, overall consumer demand for poultry remained positive. The sales trend in fresh products was positive, leading to higher volumes, improved margins and gained market shares.

The market situation in export markets was difficult throughout the year, and HKScan Denmark A/S's performance in these markets was negative both as regards price and volumes. Towards the end of the year, the performance was further impacted by the closure of key Asian markets due to an outbreak of avian flu in Denmark during November.

HKScan Denmark A/S's investments in the ROSE brand have brought positive results, ie improved market share and brand awareness.

## 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.

## 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 incidences 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 approximately 65 chicken producers, is sensitive to the market-oriented settlement price. The level of the settlement price was stable until November, but after the outbreak of avian flu in Denmark, the settlement price was reduced due to closed export markets.

### *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 is generally subject to 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

## Policies for corporate social responsibility

HKScan has defined its priority areas in corporate responsibility as economic responsibility, social responsibility, animal welfare and the environment.

The Group retained its good status regarding animal diseases both in its contract production and in its own primary production. In all HKScan countries, the use of antibiotics in the treatment of animals is significantly lower than in other European countries on average.

HKScan is making an ongoing effort to monitor and reduce the environmental impacts of its operations. These impacts are currently associated with energy efficiency and greenhouse gas emissions, wastewater, use of water, use of chemicals and treatment of waste. The Group launched an energy efficiency project in 2015, which continued in 2016 on multiple fronts. The target is to reduce the Group's overall consumption of energy by 10 per cent from the 2014 level by 2017.

# Review

HKScan operates in countries where responsible practices are widely embraced, automatically bringing us a number of valuable strengths in global comparison. These include high standards of hygiene, healthy animals, clean soil as well as rich and clean water reserves. In 2016, HKScan participated in a number of cooperation projects and studies focusing on the environmental impacts of meat production and their mitigation.

In 2016, HKScan carried out its second employee engagement survey. The results confirmed that the improvement actions taken on the basis of the previous survey (in 2014) have brought results in terms of better information flow and increased opportunities for involvement and taking initiative. Overall awareness of values and targets has strengthened. Towards the end of the year, new improvement plans were made, and the actions will be initiated during 2017. These include workplace/personnel safety improvements, which were in focus across the Group during 2016.

## Composition of the Board of Directors

The members elected at the General Meeting are mainly recruited from 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 at present 25% of the generally elected members. The representation of female members with respect to employee representatives is 50%.

In the long run, HKScan Denmark A/S intends to achieve a more equal gender representation on the Board of Directors. There are however no specific plans to increase the number of board members in the near future and, therefore, no target is set at the present time.

The Company's policy for gender representation at the Company's other executive levels comprises an overall wish to have 30% female executives. The Company will attempt to achieve this target over a 10-year period through active new recruitment. At the present time, the ratio of female executives is approximately 30%.

### Expectations for the year ahead

Market conditions in all HKScan Denmark A/S's strategic markets remain fierce with growing competition from Denmark, Germany, Holland and Eastern Europe. However, HKScan Denmark expects to maintain its stronghold in the domestic Danish retail market for fresh products, as well as increasing its market position in Sweden on frozen products. The Company also expects to increase sales in the UK despite continued uncertainty in the aftermath of Brexit. The export to Asia and South Africa has been difficult since the outbreak of avian flu in November 2016, but HKScan Denmark expects to regain momentum once the avian flu ban is lifted, which is likely to happen in April 2017.

The continuing efficiency improvement and the initiated strategic review during the spring of 2017 are expected to result in improved financial performance in 2017.

# Income Statement 1 January - 31 December 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| **Revenue** | 1 | **1.253.549** | **1.268.391** |
| Production costs | | -1.253.917 | -1.273.051 |
| Other operating income | 2 | 0 | 5.914 |
| **Gross profit/loss** | | **-368** | **1.254** |
| Distribution costs | | -25.144 | -21.744 |
| Administrative expenses | | -44.900 | -41.472 |
| **Profit/loss before financial income and expenses** | | **-70.412** | **-61.962** |
| Income from investments in subsidiaries | 2 | -393 | -152 |
| Income from investments in associates | 3 | 8.814 | 3.750 |
| Financial income | 4 | 3.924 | 3.944 |
| Financial expenses | 5 | -24.006 | -26.849 |
| **Profit/loss before tax** | | **-82.073** | **-81.269** |
| Corporation tax | 6 | -20.566 | 18.666 |
| **Net profit/loss for the year** | | **-102.639** | **-62.603** |

# Distribution of profit/loss

**Proposed distribution of profit/loss**

| | 2016 | 2015 |
|---|---|---|
| Reserve for net revaluation under the equity method | 2.787 | -1.443 |
| Retained earnings | -105.426 | -61.160 |
| | **-102.639** | **-62.603** |

# Balance Sheet at 31 December 2016

## Assets

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| Land and buildings | | 128.476 | 135.452 |
| Plant and machinery | | 186.787 | 234.086 |
| Other fixtures and fittings, tools and equipment | | 209 | 259 |
| Property, plant and equipment in progress | | 12.056 | 4.159 |
| **Property, plant and equipment** | 7 | **327.528** | **373.956** |
| Investments in subsidiaries | | 0 | 3.301 |
| Investments in associates | | 37.745 | 34.931 |
| Other securities | | 616 | 523 |
| **Fixed asset investments** | 8 | **38.361** | **38.755** |
| **Fixed assets** | | **365.889** | **412.711** |
| **Inventories** | 9 | **130.680** | **128.208** |
| Trade receivables | | 104.704 | 114.646 |
| Receivables from affiliates | | 13.864 | 23.794 |
| Receivables from associates | | 3.890 | 3.846 |
| Other receivables | | 5.072 | 10.559 |
| Corporation Tax | | 116 | 0 |
| Prepayments | | 892 | 1.440 |
| Deferred tax asset | | 0 | 21.006 |
| **Receivables** | | **128.538** | **175.291** |
| **Cash at bank and in hand** | | **170** | **151** |
| **Current assets** | | **259.388** | **303.650** |
| **Assets** | | **625.277** | **716.361** |

# Balance Sheet at 31 December 2016

## Liabilities and equity

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| Share capital | 10 | 10.250 | 10.250 |
| Reserve for revaluation | | 21.772 | 21.772 |
| Reserve for net revaluation under the equity method | | 7.093 | 4.306 |
| Retained earnings | | 28.831 | 134.257 |
| **Equity** | | **67.946** | **170.585** |
| Other provisions | 12 | 7.204 | 7.204 |
| **Provisions** | | **7.204** | **7.204** |
| Mortgage loans | | 0 | 1.218 |
| Payables to group enterprises | | 405.000 | 380.000 |
| **Long-term debt** | 13 | **405.000** | **381.218** |
| Mortgage loans | 13 | 0 | 278 |
| Credit institutions | 13 | 0 | 122 |
| Trade payables | | 63.133 | 82.361 |
| Payables to group enterprises | 13 | 6.929 | 11.138 |
| Other payables | | 75.065 | 63.333 |
| **Short-term debt** | | **145.127** | **157.232** |
| **Debt** | | **550.127** | **538.450** |
| **Liabilities and equity** | | **625.277** | **716.239** |

| | |
|---|---|
| Contingent assets, liabilities and other financial obligations | 14 |
| Fee to auditors appointed at the general meeting | 15 |
| Staff | 16 |
| Related parties | 17 |
| Accounting Polices | 18 |

# Statement of Changes in Equity

| | Share capital | Reserve for revaluation | Reserve under the equity method | Retained earnings | Total |
|---|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| Equity at 1 January 2016 | 10.250 | 21.772 | 4.306 | 134.257 | 170.585 |
| Net profit/loss for the year | | | 2.787 | -105.426 | -102.639 |
| **Equity at 31 December 2016** | **10.250** | **21.772** | **7.093** | **28.831** | **67.946** |
| Equity at 1 January 2015 | 10.250 | 21.772 | 5.749 | 195.417 | 233.188 |
| Net profit/loss for the year | | | -1.443 | -61.160 | -62.603 |
| **Equity at 31 December 2015** | **10.250** | **21.772** | **4.306** | **134.257** | **170.585** |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 1 | **Revenue** | | |
| | **Geographical segments** | | |
| | Domestic market | 828.614 | 693.607 |
| | EU | 320.750 | 425.613 |
| | Other countries | 104.186 | 149.172 |
| | | **1.253.549** | **1.268.391** |
| 2 | **Income from investments in subsidiaries** | | |
| | Share of losses of subsidiaries | -393 | -152 |
| | | **-393** | **-152** |
| 3 | **Income from investments in associates** | | |
| | Share of profits of associates | 8.814 | 3.942 |
| | Share of losses of associates | 0 | -192 |
| | | **8.814** | **3.750** |
| 4 | **Financial income** | | |
| | Income from fixed asset investments | 0 | 14 |
| | Exchange adjustments | 3.646 | 3.621 |
| | Other financial income | 278 | 309 |
| | | **3.924** | **3.944** |
| 5 | **Financial expenses** | | |
| | Interest paid to group enterprises | 19.787 | 18.328 |
| | Exchange adjustments | 2.756 | 7.646 |
| | Other financial expenses | 1.463 | 875 |
| | | **24.006** | **26.849** |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 6 | **Corporation tax** | | |
| | Deferred tax for the year | 21.006 | -18.666 |
| | Adjustment of tax, previous years | -440 | 0 |
| | **Total tax for the year** | **20.566** | **-18.666** |

| | | 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 |
| 7 | **Property, plant and equipment** | | | | |
| | Cost at 1 January 2016 | 355.292 | 830.819 | 21.028 | 4.159 |
| | Additions for the year | 2.013 | 9.777 | 13 | 11.133 |
| | Disposals for the year | -12.888 | -52.241 | -1.798 | 0 |
| | Transfers for the year | 834 | 2.172 | 230 | -3.236 |
| | Cost at 31 December 2016 | 345.251 | 790.527 | 19.473 | 12.056 |
| | Revaluation at 1 January 2016 | 29.685 | 0 | 0 | 0 |
| | Revaluation at 31 December 2016 | 29.685 | 0 | 0 | 0 |
| | Depreciation and impairment losses at 1 January 2016 | 249.525 | 596.733 | 20.768 | 0 |
| | Depreciation and impairment losses for the year | 9.510 | 59.217 | 287 | 0 |
| | Reversal of depreciation and impairment of sold assets | -12.575 | -52.210 | -1.791 | 0 |
| | Depreciation and impairment losses at 31 December 2016 | 246.460 | 603.740 | 19.264 | 0 |
| | **Carrying amount at 31 December 2016** | **128.476** | **186.787** | **209** | **12.056** |
| | Depreciated over | 20-25 years | 5-15 years | 3-10 years | - |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 7 | **Property, plant and equipment** (continued) | | |
| | Depreciation and impairment of property, plant and equipment amount to: | | |
| | Depreciation and impairment losses | 69.014 | 67.844 |
| | Loss on sale | 321 | 1.721 |
| | New acquisitions below DKK 20,000 | 739 | 1.141 |
| | | **70.074** | **70.706** |
| | Depreciation and impairment of property, plant and equipment are expensed in the following items: | | |
| | Production costs | 69.427 | 68.747 |
| | Distribution costs | 9 | 9 |
| | Administrative expenses | 638 | 1.950 |
| | | **70.074** | **70.706** |
| 8 | **Fixed asset investments** | | |
| | **Investments in subsidiaries** | | |
| | Cost at 1 January 2016 | 3.274 | 3.274 |
| | Disposal | -3.274 | 0 |
| | Cost at 31 December 2016 | 0 | 3.274 |
| | Revaluation at 1 January 2016 | 27 | 179 |
| | Net profit/loss for the year | -393 | -152 |
| | Disposal | 366 | 0 |
| | Revaluation at 31 December 2016 | 0 | 27 |
| | **Carrying amount at 31 December 2016** | **0** | **3.301** |

Investments in subsidiaries are specified as follows:

| Name | Place of registered office | Share capital | Votes and ownership |
|---|---|---|---|
| Rose Poultry AB | Gothenburg, Sweden | SEK 1,000k * | 100% |
| Kreatina A/S | Copenhagen, Denmark | DKK 3,000k | 100% |

* Sold in 2016

# Notes to the Annual Report

| | 2016 | 2015 |
|---|---|---|
| | DKK '000 | DKK '000 |
| **8 Fixed asset investments** (continued) | | |
| **Investments in associates** | | |
| Cost at 1 January 2016 | 23.848 | 23.848 |
| Cost at 31 December 2016 | 23.848 | 23.848 |
| Value adjustments at 1 January 2016 | 11.083 | 6.945 |
| Net profit/loss for the year | 8.814 | 3.750 |
| Dividend for the year | -6.000 | 0 |
| Transfer for the year to other provisions | 0 | 388 |
| Value adjustments at 31 December 2016 | 13.897 | 11.083 |
| **Carrying amount at 31 December 2016** | **37.745** | **34.931** |

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% |
| HRP A/S | Sønderborg, Denmark | 1.504 | 50% |
| HRP Kyllingefarme I/S | Sønderborg, Denmark | 200 | 50% |
| Farmfood A/S | Løgstør, Denmark | 30.000 | 33% |

| | 2016 | 2015 |
|---|---|---|
| | DKK '000 | DKK '000 |
| **Other securities and investments** | | |
| Cost at 1 January 2016 | 523 | 1.362 |
| Disposals for the year | 0 | -942 |
| Additions for the year | 93 | 103 |
| Cost at 31 December 2016 | 616 | 523 |
| **Carrying amount at 31 December 2015** | **616** | **523** |

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 9 | **Inventories** | | |
| | Raw materials and consumables | 12.582 | 16.011 |
| | Work in progress | 5.322 | 1.497 |
| | Finished goods and goods for resale | 112.776 | 110.700 |
| | | **130.680** | **128.208** |

**10 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

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 11 | **Provision for deferred tax** | | |
| | Property, plant and equipment | -23.901 | -8.620 |
| | Trade receivables | -165 | -165 |
| | Tax loss | -16.814 | -12.221 |
| | Transferred to deferred tax asset | 0 | 21.006 |
| | Write-down | 40.880 | 0 |
| | | **0** | **0** |
| | Tax asset | **0** | **21.006** |
| 12 | **Other provisions** | | |
| | Provision for negative balance in associates | 6.804 | 6.804 |
| | Other provisions | 400 | 400 |
| | | **7.204** | **7.204** |

# Notes to the Annual Report

## 13 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:

| | 2016 | 2015 |
|---|---|---|
| | DKK '000 | DKK '000 |
| **Mortgage loans** | | |
| Between 1 and 5 years | 0 | 1.218 |
| Long-term part | 0 | 1.218 |
| Within 1 year | 0 | 278 |
| | **0** | **1.496** |

| | Parent Company | |
|---|---|---|
| | 2016 | 2015 |
| | DKK '000 | DKK '000 |
| **Credit institutions** | | |
| Within 1 year | 0 | 122 |
| Short-term part | 0 | 122 |
| | **0** | **122** |
| **Payables to group enterprises** | | |
| Between 1 and 5 years | 405.000 | 380.000 |
| Long-term part | 405.000 | 380.000 |
| Within 1 year | 6.929 | 11.138 |
| | **411.929** | **391.138** |

# Notes to the Annual Report

| | 2016 | 2015 |
|---|---|---|
| | DKK '000 | DKK '000 |
| **14 Contingent assets, liabilities and other financial obligations** | | |
| **Rental agreements and leases** | | |
| Lease commitments under operating leases. Total future lease payments: | | |
| Within 1 year | 9.567 | 12.374 |
| Between 1 and 5 years | 15.812 | 18.621 |
| After 5 years | 181 | 937 |
| | **25.560** | **31.932** |
| **Security** | | |
| The following assets have been placed as security with mortgage credit institutes: | | |
| Land and buildings with a carrying amount of | **128.476** | **135.452** |

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

**Contingent liabilities**

The Company has issued a guarantee in respect of the bank debt of the associates HRP A/S and HRP Kyllingefarme I/S by up to DKK 7,000k pro rata according to ownership share. At 31 December 2016, the bank debt amounts to DKK 2,522k.

The Company has provided a bank guarantee of DKK 34,000k as a producer guarantee.
The Company has provided a bank guarantee of DKK 500k towards the Danish Veterinary and Food Administration.

The Company has issued a letter of intent towards Atradius relating to the associate Tican-Rose GmbH in connection with insurance of debtor risks.

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 sepratly liable for Danish corporation taxes arising in the jointly taxed group.

# Notes to the Annual Report

| | | 2016 | 2015 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| **15** | **Fee to auditors appointed at the general meeting** | | |
| | Audit fee to PricewaterhouseCoopers | 344 | 335 |
| | Other services | 272 | 231 |
| | | **616** | **566** |
| **16** | **Staff** | | |
| | Wages and salaries | 249.313 | 246.820 |
| | Pensions | 18.796 | 18.997 |
| | Other social security expenses | 7.644 | 6.231 |
| | | **275.753** | **272.048** |
| | which have been expensed as follows: | | |
| | Production costs | 233.483 | 238.142 |
| | Distribution costs | 15.693 | 13.693 |
| | Administrative expenses | 26.577 | 20.213 |
| | | **275.753** | **272.048** |
| | Including remuneration to the Executive Board and the Board of Directors: | | |
| | **Executive Board and Board of Directors** | **8.391** | **4.288** |
| | **Average number of employees** | **644** | **666** |

## 17 Related parties

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

The Group's associates are considered related parties.

**Consolidatet Financial Statements**

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

# 18 Accounting Policies

## Basis of Preparation

The Annual Report of HKScan Denmark A/S for 2016 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 2016 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.

# 18 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.

# 18 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 break down 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.

# 18 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

### 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:

# 18 Accounting Policies

**Property, plant and equipment** (continued)

| | |
|---|---|
| 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.

**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.

Goodwill, 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.

# 18 Accounting Policies

**Investments in subsidiaries and associates** (continued)

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".

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.

# 18 Accounting Policies

### 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.

### 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.

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