# Axzon A/S

Vesterbrogade 4 A
1620 Copenhagen V
Central Business Registration No
26438624

# Annual report 2016

The Annual General Meeting adopted the annual report on 26.05.2017

**Chairman of the General Meeting**

Jens Peter Aabyen

# Contents

# Company Details

**Company**

Axzon A/S
Axelborg
Vesterbrogade 4A, 5
DK-1620 Copenhagen V

Central Business Registration No: 26438624

**Board of Directors**

Niels Rauff Hansen, Chairman
Anders Bundgaard, Deputy Chairman
Jens Jørgen Nielsen
Erling Bech Poulsen
Jens Blach
Anders Christen Obel

**Executive Board**

Tom Axelgaard
Hans Henrik Pauk Pedersen
Ole Østergaard Lauritsen

**Company Lawyers**

Spektrum Advokater
Poulsgade 6-8, 3. sal
DK-7400 Herning

**Company Bank**

Handelsbanken A/S
Bredgade 9
DK-7280 Sdr. Felding

**Company Auditors**

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower
Værkmestergade 2
DK-8000 Aarhus C

# Statement by Management on the Annual Report

The Board of Directors and the Executive Board have today considered and approved the annual report of Axzon A/S for the financial year 1 January to 31 December 2016.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016 and of the results of their operations and cash flows for the financial year 2016.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 11 May 2017

**Executive Board**

Tom Axelgaard
Chief Executive Officer

Hans Henrik Pauk Pedersen

Ole Østergaard Lauritsen

**Board of Directors**

Niels Rauff Hansen
Chairman

Anders Bundgaard
Deputy Chairman

Jens Jørgen Nielsen

Anders Christen Obel

Jens Blach

Erling Bech Poulsen

# Independent Auditor's Report

**To the shareholders of Axzon A/S**

**Opinion**

We have audited the consolidated financial statements and the parent financial statements of Axzon A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group’s and the Parent’s financial position at 31-12-2016, and of the results of their operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

**Basis for opinion**

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

**Statement on the management commentary**

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

**Management's responsibilities for the consolidated financial statements and the parent financial statements**

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 Group’s and the Parent’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 consolidated financial statements and the parent 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 Group's and the Parent’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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Aarhus, 11.05.2017

**Deloitte**
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

| | |
|---|---|
| Kim Takata Mücke | Rasmus Brodd Johnsen |
| State-Authorised | State-Authorised |
| Public Accountant | Public Accountant |

# Group Specifications

| | Domicile | Currency | Nominal Capital | Ownership Interest | Equity 31.12.2016 | Net profit 2016 |
|---|---|---|---|---|---|---|
| **Group Enterprises** | | | | | | |
| Poldanor S.A. | Poland | PLN | 11,601 | 100% | 1,169,726 | 79,931 |
| ***Subsidiaries:*** | | | | | | |
| Zegrol sp. z o.o. | Poland | PLN | | 100% | | |
| Kniat Agro sp.z o. o. | Poland | PLN | | 100% | | |
| Rolnik Sp. z o.o. | Poland | PLN | | 100% | | |
| Agro Wlodarski sp. z o.o | Poland | PLN | | 100% | | |
| Bioenergia sp. z o.o. | Poland | PLN | | 100% | | |
| Invest Farm sp.z o.o. | Poland | PLN | | 100% | | |
| L.M.-POL sp. z o.o. | Poland | PLN | | 100% | | |
| Ośrodek Hodowli | | | | | | |
| Zarodowej sp. z o.o. | Poland | PLN | | 100% | | |
| Agro Wiesió}ka sp. z o.o. | Poland | PLN | | 100% | | |
| Agro Pokrzywy sp. z o.o. | Poland | PLN | | 100% | | |
| | | | | | | |
| Prime Food Sp Z.o.o | Poland | PLN | 20,853 | 100% | 96,922 | (4,989) |
| ***Subsidiaries:*** | | | | | | |
| Prime Service Ltd. | Poland | PLN | | 100% | | |
| | | | | | | |
| Danosha Ltd. | Ukraine | UAH | 232,532 | 97%* | 467,369 | (43,120) |
| ***Subsidiaries:*** | | | | | | |
| Daryna Food Ltd. | Ukraine | UA}I | | 100% | | |
| | | | | | | |
| Dan-Invest LLC | Russia | RUB | 362,328 | 100% | 17,940 | 14,184 |
| ***Subsidiaries:*** | | | | | | |
| RASK OOO | Russia | RUB | | 100% | | |
| Dan-Kub ZAO | Russia | RUB | | 100% | | |
| OOO Markor | Russia | RUB | | 100% | | |

*IFU’s 2% of the shares in Danosha Ltd. has been recognised as financial debt in accordance with IFRS.

| | Domicile | Currency | Nominal Capital | Ownership Interest | Equity 31.12.2016 | Net profit 2016 |
|---|---|---|---|---|---|---|
| **Associates** | | | | | | |
| Sevel Slagteri A/S | Denmark | DKK | 2,500 | 40% | 4,037** | 254* |

**The latest financial data available is at 30.06.2016

# Management Review

| | 2016 DKKm | 2015 DKKm | 2014 DKKm | 2013 DKKm | 2012 DKKm |
|---|---|---|---|---|---|
| **Group financial highlights** | | | | | |
| **Key figures** | | | | | |
| Revenue | 1,391 | 1,275 | 1,209 | 1,270 | 1,128 |
| Gross profit/loss | 532 | 465 | 500 | 394 | 453 |
| EBITDA | 344 | 284 | 342 | 251 | 331 |
| Profit/loss before financials | 172 | 163 | 240 | 151 | 246 |
| Net financials | (76) | (118) | (230) | (60) | (15) |
| Profit/loss for the year | 95 | 41 | 23 | 107 | 231 |
| Equity | 1,735 | 1,673 | 1,705 | 1,452 | 1,288 |
| Balance sheet total | 3,163 | 3,129 | 3,124 | 2,763 | 2,173 |
| Financial development: | | | | | |
| Cash flows from: | | | | | |
| - operating activities | 227 | 162 | 204 | 226 | 166 |
| - investing activities | (139) | (254) | (254) | (360) | (194) |
| - financing activities | (71) | 66 | 121 | 111 | 33 |
| Change in cash and cash equivalents for the year | 18 | (26) | 72 | -8 | 6 |
| | | | | | |
| Employees: | | | | | |
| Number of employees | 2,350 | 2,423 | 2,205 | 2,073 | 1,769 |
| | | | | | |
| **Ratios** | | | | | |
| Gross margin (%) | 38 | 36 | 41 | 31 | 40 |
| EBIT margin (%) | 12 | 13 | 20 | 12 | 22 |
| Return on assets (%) | 6 | 5 | 8 | 6 | 12 |
| Solvency ratio (%) | 55 | 53 | 55 | 53 | 59 |
| Return on equity (%) | 6 | 2 | 1 | 8 | 20 |

The ratios have been prepared in accordance with the definitions on the following page.

# Management Review

## Explanation of ratios:

| **Ratios** | | **Calculation formula** |
|---|---|---|
| Gross margin (%) | = | Gross profit x 100 / Revenue |
| Profit margin (%) | = | Profit before financials x 100 / Revenue |
| Return on assets (%) | = | Profit before financials x 100 / Total assets, average |
| Solvency ratio (%) | = | Equity end of year x 100 / Total assets |
| Return on equity (%) | = | Net profit for the year x 100 / Average equity |

# Management Review

## 1. CEO Report

**The recovery in the livestock production industry in the EU is a reality**

For most primary agriculture enterprises in the EU, 2016 will be remembered as the year when the long-awaited recovery in prices and profitability finally arrived, particularly in the milk and pork sectors, and a prolonged period of loss-making production was transformed into reasonable profitability. The many years of poor earnings for livestock producers in the EU have resulted in significant liquidity problems for many farmers, and has left a production system that urgently requires a comprehensive upgrade after many years with little financial scope for maintenance and improvements. It may be hoped, therefore, that the improved profitability will continue for several years to come, so that the majority of farmers can catch up.

The Axzon Group once again experienced a year with both positive and negative circumstances, which is almost always the case for a fully integrated production system within the food sector, where higher prices and improved profits in the primary sector, often lead to more difficult market conditions and lower profitability in the processing sector. When production and markets are also dispersed over a wide geographic area, as in the case of Axzon, such diversified production usually results in more stable earnings, based on an equalization and neutralization of the worst elements of risk.

The year was again marked by major improvements in efficiency in almost all areas of both production and administration, and there was a stable and even decreasing cost level per unit produced, combined with increasing production volumes. While the first 6 month of the year were characterized by very low prices in Russia, Ukraine and Poland, continuing the pattern of historically low prices at the end of 2015, the second half of the year saw the start of a marked increase in pork prices in the EU, while especially in Ukraine, prices remained historically low.

Unfortunately, one of the Group's Russian facilities was affected by African swine fever, just as earnings in Axzon were generally moving in a very positive direction. Apart from the immediate economic losses of about DKK 35 m, this was a terrible experience, both physically and mentally, for the company generally, but of course most of all for the many staff employed at the farm.

As we know, the key earnings parameter in Axzon’s pig production is the conversion ratio between feed and meat. The graph below clearly illustrates that there has been a significant equalisation of the ratio between the three countries, where Ukraine and Russia have experienced a marked deterioration of the ratio, while Poland has seen a strong improvement in 2016, particularly in the last half of the year, when the conversion ratio reached 7.24, which is the highest level achieved in the country in the last 7 years.

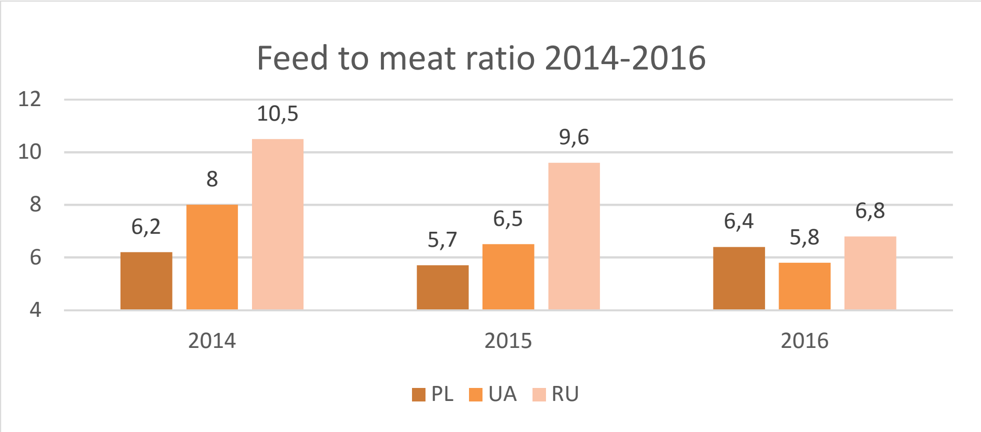


*Fig. 1*

The reason for the sharp increase in the price of pork in the EU, is a sharp slowdown in output growth and a significant increase in exports to the world's largest consumer and producer of pork, namely China. The majority of analysts worldwide had predicted declining production in China as early as 2015. This was based on a significant decrease in the number of pigs in stalls in the country, but surprisingly, the effect was not felt until 2016 and it is expected to continue over the coming months and perhaps years. China produces and consumes about 50% of world pork, and with a price that is currently around twice the average price in the rest of the world, this bodes well for future trends.

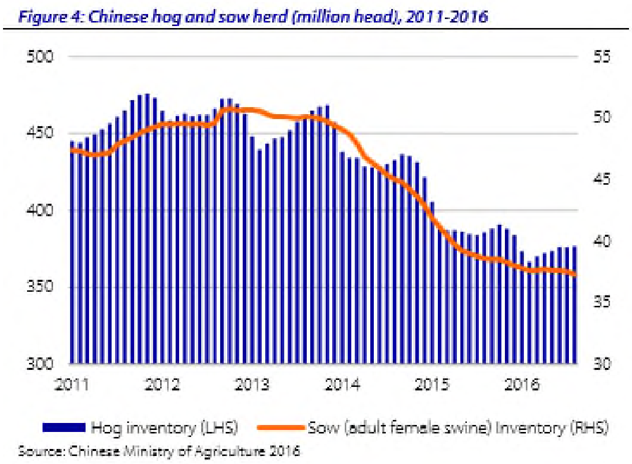


*Fig. 2*

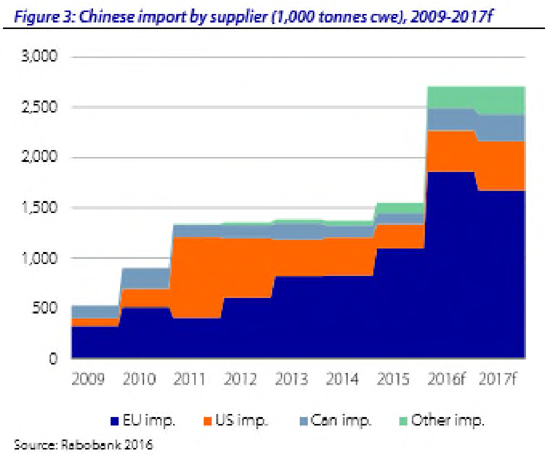


*Fig. 3*


*Fig. 4*

The other significant factor in terms of profitability in the sector is commodity prices, i.e. mainly cereal and protein crops. With the record yields in many parts of the world in recent years, leading to a significant increase in stocks (from about 20% of the annual consumption to over 25%) and falling prices, the most important parameters seem to suggest that the earnings situation in pig production sector will remain stable over the coming years. There will naturally be geographic variations, not least where political developments can have a very big impact.

Unfortunately, there are no signs of any major improvements on the political front, neither regionally in relations between Ukraine and Russia, nor globally, where the political agenda in many of the world's leading economies is dominated by increasing protectionism and calls for restrictions on the free movement of both goods and labour. Even internally within the EU, the trend is clearer than ever, with the UK, France, Holland and especially Poland being the most prominent doubters in relation to the benefits of open borders and economic and cultural integration. These circumstances highlight the value of being represented with production across different countries and regions, both because it encourages integration across the countries, but also because it ensures sales in case of trade disputes. If there are also countries that have large surpluses of cereals and other commodities, then a competitive advantage can be retained, especially compared to countries like China, where domestic production is limited by both the environment and the supply of raw materials. Russia and the Russian embargo is a good example of this. EU producers were left in a sales vacuum by the embargo, whereas Axzon benefited from good price conditions in both Ukraine and Russia. Russia's response to the protracted conflict with Western Europe and the United States has been to work towards a very high level of self-sufficiency, especially in the food sector. This policy has paid off dramatically, and the country is now very close to being self-sufficient in pork, so that prices in future will probably be closer to the international level.

The sanctions against Russia, and the opposing embargo on food, in conjunction with the general conflict between East and West, have left Ukraine in a kind of vacuum between the parties, even though the majority of the country’s population would clearly like to join Western Europe. The ongoing war-like situation in some of the eastern provinces, has had a very negative impact on the country's economy, and thus on the population's purchasing power and living standards. Although over the past year the country has adopted a raft of new laws and regulations based on EU recommendations, which will hopefully make the country more democratic and less corrupt, their implementation in practice has been very slow, and the anticipated improvement in the country's economic development has not yet been realised. The past year has been extremely difficult for the country's pig farmers, and even with a very low level of consumption in the country (under 15 kg per inhabitant), Ukraine is still not self-sufficient in pork, since a large part of the production is in the process of being phased out due to the very poor price conditions. Axzon has in Ukraine the lowest breakeven point in the whole group, despite the poor price conditions, a profit can still be generated in Danosha. Obviously, this looks good for the coming years, where consumption is likely to rise at a somewhat faster pace than production, and where the current restriction on exports from the country due to ASF will hopefully be replaced by the opportunity to export from a country where, assuming a good level of production efficiency, the production costs are exceptionally low.

As we know, Axzon has expanded its production considerably over the past few years, both within and across the geographic area, but also in terms of ensuring the fully integrated production model from filed to table. Due to a slightly tighter liquidity situation, especially in the first half of 2016, there has been a strong focus on prioritizing among the planned investments. Investments were still made across all businesses and production sectors, but the emphasis has been on investments that optimizes the utilization of and earnings from existing production systems, rather than expansion of production levels. It has been a very healthy exercise for the management to prioritize ruthlessly, and also to focus more on investments that promote sales, rather than the typical production-related investments.

A very important investment has been to ensure own production of feed, including in Russia, where a new feed-mill is now ready, together with a significant increase in storage capacity for raw materials, both here and in the other primary companies.

**Increased storage capacity and logistics in Ukraine. The new feed-mill is ready for implementation in Russia**

There was also a great deal of investment dedicated to improving biosecurity in and around all of our production units in relation to preventing the spread of diseases, especially African swine fever. During the past year, the disease spread even further to the west, and it can now also be found in Italy and has therefore almost reached the heart of Europe. There is a major risk, therefore, that it could spread to areas in Europe where the animal density is highest and where, at the same time, the largest populations of wild boar can be found. (For example, in western France, northern Spain and large parts of Germany).

Last but not least, the final phase of the expansion of Prime Food has been completed. In addition to increasing efficiency, the investments have also made it possible to produce more speciality products, thereby differentiating a higher proportion of the products from the typical bulk products. The strategy of expanding the section for pre-packaged fresh meat (MAP) and fully processed products has been implemented as rapidly as possible, and with a significant upgrading of the technical aspects of this production sector, the difference in the gross margin between ordinary de-boned meat and the processed goods has become even larger. (See the graphs).

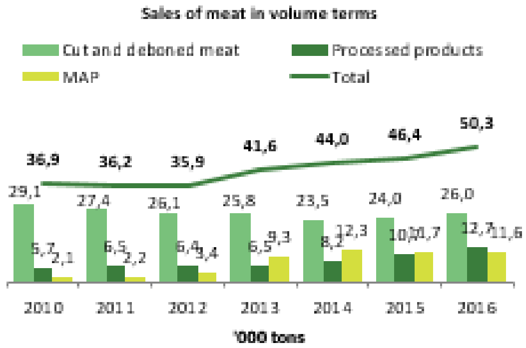


*Fig. 5. Increased share of processed and MAP meat*

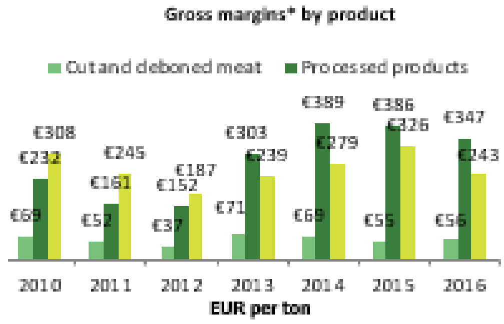


*Fig. 6 The more processed the larger contribution*

The move towards producing a greater number of speciality products has also been a priority for Axzon in the past year, and especially the fully integrated production in Poland, through Poldanor and Prime Food, has made it possible to produce a range of products that clearly differs from the usual bulk products. It is no longer "only" traceability, quality, food security and $CO_2$-neutral production that characterizes the products. Now, speciality products are also produced that are based on pigs that have been fed GMO-free feed or other speciality feed material, pigs bred without the use of antibiotics, and even other genetic compositions of the animals, which produce a different appearance and flavour. Since these special products are also processed and packaged under optimal conditions, for example without additives, they are actually products that differ significantly from the majority of the products currently sold in the retail sector, and products that appeal to consumers who prioritise food safety, animal welfare and environmental impacts.

**The weaners must have optimal conditions in order to avoid treatment with antibiotics, and the sows must have calm environments, free of stress**

It is precisely in these areas that Axzon can and will specialize even more in the coming years. Fully integrated production has proven to be the correct strategy, not just financially, but also in terms of climate and sustainability. It is important now to further differentiate ourselves from the bulk market, also in terms of providing fully processed goods directly to the consumer. This will require additional investments related to slaughtering and processing, certifications and training of staff, but will also require more targeted marketing and the establishment of sales channels closer to particular consumer groups.


There is a tendency among many people to fear the future and the unknown, and the creeping protectionism we see is a further manifestation of this trend. With more than 2,000 employees in four countries, Axzon is working for the opposite view and direction, i.e. greater openness, integration and tolerance. The company invests a great deal of time and energy on training staff in all parts of the organization, not only professional training, but also personal development of managers, as well as discussion and adoption of common attitudes and values across national borders and cultures. A common approach to the development of the company, exciting opportunities and challenges in the future, common values and the ability and the desire to use the most modern and efficient equipment, are precisely what enables the company to achieve optimal results using the fewest resources and with the least possible negative impact on our shared environment.

All of these initiatives have helped bring us all closer together in the company in the past year, and I am personally very proud, both of the fantastic production results that have once again been improved in many of the key areas, but also of the way our common values have been implemented in virtually all branches and localities in the company, despite our very different backgrounds. This has also been noticed and appreciated by society around us, and it characterizes our relationship with most of our business contacts.


*Pic. 1 As in previous years, Poldanor was again awarded the "fair play" trophy*
*Pic. 2 Axzon Ambassadors' trip participants at the Danish West Coast*

With the prospect of an even better year in 2017, when the long-awaited recovery will take hold, not just in Axzon's industry, but generally in the society around us, I would like to thank all our staff, boards of directors, business associates and other Axzon stakeholders for a positive and ambitious year. We are now better equipped than ever before to tackle the exciting challenges ahead.

## 2. Finances

For Axzon, 2016 was the year when the long-term challenges with regard to pork prices were replaced by the long-awaited price increases. Compared to the price levels in 2015, sales of first-class finishers brought in DKK 41 m less than if the same animals had been sold at 2015 prices. The price trend moved in the opposite direction between first and second half of the year. In the first half, sales were DKK 66 m less compared to 2015 prices. In the second half of 2016, the price was DKK 25 m higher if the same comparison to 2015 prices was made. These circumstances, in conjunction with the outbreak of ASF at the DAN KUB farm in Krasnodar, made it difficult to achieve the planned results.
A positive factor, however, was that the price of the green certificates that, under the new legislation in Poland, Axzon can sell in connection with the production of biogas, has again reached a reasonable level. Against this background, Poldanor in Poland managed to produce biogas with a positive result in the second half of the year. It has thus been possible to improve revenue by 9% and EBITDA by 21% before special costs (ASF), and by 15.6% after these costs. This trend bodes well for next year's results.
Depreciation increased by DKK 36 m, despite a reduction in the rate of investment. This was partly due to increased depreciation on the ongoing revaluations, and partly a write down of the plant in Krasnodar by DKK 11 m as a result of the ASF, which together accounted for one third of the increase in depreciation.
The increase in interest expenses of DKK 15 m was partly due to interest rate increases, and partly the growth in debt in 2015. The increase in interest rates was due to both a higher risk premium and to new loans raised at higher interest rates that were used to replace older and less expensive loans.
Movements in currency exchange rates have had a strong impact on Axzon's operating profit over the past two years. With a loss of DKK 13 m, this item had only limited influence this year. Underlying, there has been a small gain in Russia, since RUB has increased, while UAH fell, leading to a loss in Ukraine.

Intercompany loans to Russia are subordinated and considered part of the net investment in the subsidiary. As such the exchange gains on these loans are recognised through other comprehensive income.

2016 has been a positive year for Axzon in terms of cash flow. The cash flow from operating activities amounted to DKK 227 m, of which DKK 139 m was used on investments, DKK 71 m was used to reduce debt, and the remaining DKK 17 m was used to improve the cash balance. The strong cash flow was achieved in a period with challenged pricing for finishers. In 2014, the price for finishers was generally regarded as being too low and below profitability level, especially in the EU. For comparison, if 1st class finishers had been sold in 2016 at the same price as in 2014, the sale of these pigs would have brought in DKK 283 m extra, and would thereby have increased the cash flow from operations by the same amount, or by 147%. Due to the falling prices, Axzon has broken some of the covenants that the Group is subject to in relation to agreements with some of its lenders, which are based on a very steep repayment profile. Subsequent waivers from the same lenders, however, have solved this problem. Since the arrangement was not formally in place at year end, IFRS require that loans from key lenders should be recorded as short-term liabilities, regardless of the agreed repayment horizon. For this reason, the accounts show that Axzon has a current ratio of 70, whereas it should be 130 according to the concluded agreements. Without this reclassification of the loans, the current ratio would have been 150. Based on the strong underlying cash flow, however, this situation has never caused any problems.

The equity increased during the year from DKK 1.673 m to DKK 1.735 m. In terms of profit, DKK 95 m has been added, but an exchange rate depreciation on the subsidiaries' equity has reduced the equity by DKK 28 m, and a reversal of revaluations directly in the equity as a result of ASF in Krasnodar, has reduced equity by another DKK 9 m.

A net profit of less than DKK 100 m is below what is expected for Axzon, but especially considering the poor pig prices in the first half of the year, and the costs associated with the ASF outbreak in Krasnodar, the results must be considered highly satisfactory.

Key Figures:

- **EBITDA rose from TDKK 283,604 to TDKK 343,793, equivalent to 21%.**
- **EBT rose from TDKK 45,316 to TDKK 95,140, equivalent to 110%.**
- **The number of sows fell from 44,122 to 41,547, equivalent to - 6%.**
- **The number of pigs in stables fell from 557,564 to 546,273, equivalent to - 2%.**
- **The number of pigs sold increased from 1,129,974 to 1,281,089, equivalent to 13%.**
- **Tonnes of pigs sold, live weight, increased from 110,534 to 120,590, equivalent to 9%.**
- **Tonnes of pork from slaughterhouses sold increased from 51,249 to 54,750, equivalent to 7%.**
- **The harvested area rose from 26,987 ha to 27,526 ha, equivalent to 2%.**
- **Biogas electricity production fell from 61,918 KWh to 57,764 KWh, equivalent to - 7%.**
- **The total production capacity at biogas plants remains at 8.56 MW**

## 3. Market situation in Axzon

After a generally declining price level throughout 2015, prices had an upward trend in 2016. The lowest prices were in January 2016 and the highest price of DKK 11.67 occurred in September, although this was not as high as the maximum price in 2015 of DKK 12.75. As the graph (Fig. 7) illustrates, however, the price spread between countries has been reduced, and there have not been many significant or sudden changes in the price at Axzon level. The difference between the highest and lowest price in 2016 decreased by 2.58 percentage points from 41.21 to 38.63. The final price was still DKK higher in 2016 than in 2015 (Fig. 8). The higher price was primarily due to higher demand in EU in general, driven by export to China.

At the beginning of 2016, Axzon benefited from the high Russian price, since Dan-Invest's share of all the pigs sold in the group increased from 11.6% in 2015 to 15.6% in 2016. When DAN KUB was hit by ASF, the share decreased again to about 10%.

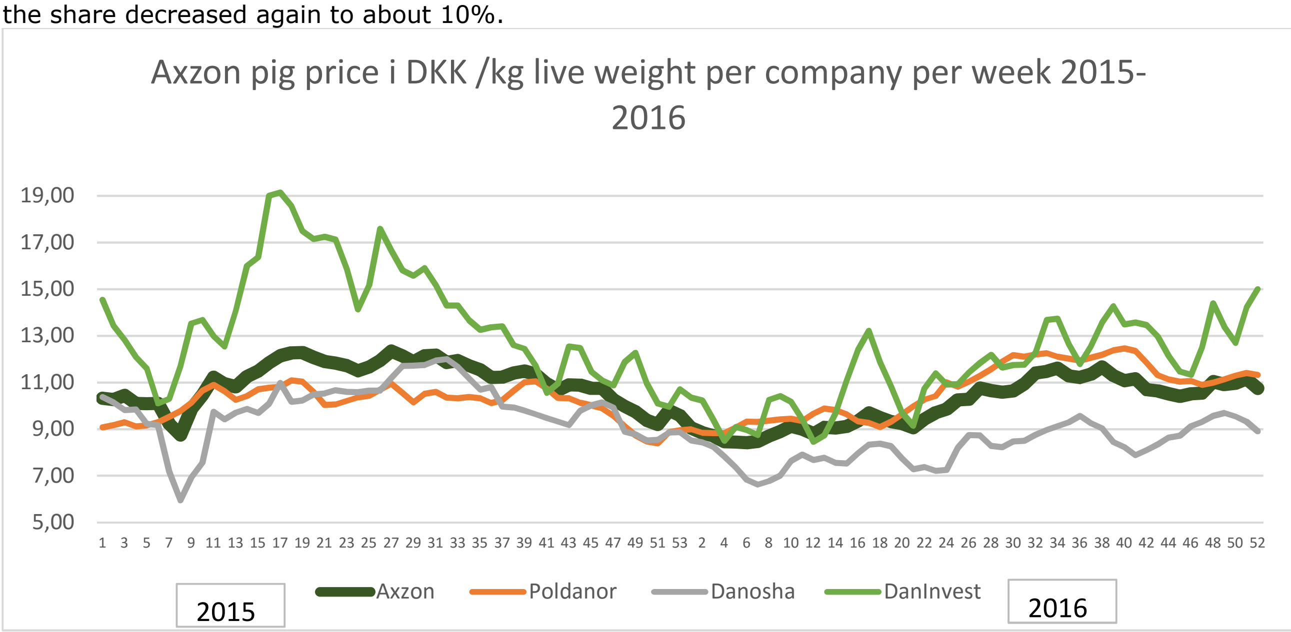


*Fig. 7*

| Company | Period | Currency | Min.price in dkk | Max price in dkk | Difference in % from min. to max. price in dkk | Ultimo price in dkk |
|---|---|---|---|---|---|---|
| Poldanor | 2016 | Dkk | 8.83 | 12.46 | 41.11 | 11.33 |
| Danosha | 2016 | Dkk | 6.63 | 9.69 | 46.22 | 8.92 |
| Dan-Invest | 2016 | Dkk | 8.46 | 15.00 | 77.33 | 15.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Axzon | 2016 | Dkk | 8.42 | 11.67 | 38.63 | 10.74 |
| | 2015 | Dkk | 8.75 | 12.35 | 41.21 | 11.84 |
| | Difference | | -0.33 | -0.68 | | -0.74 |
| | Index 2015 to 2016 | | 96 | 94 | | 94 |

*Fig. 8*

The pork prices in Poldanor experienced less fluctuation over the year, only 41.11%. The price remained relatively stable from January to May, when there was a sudden and large increase. This increase was expected but was more marked than anticipated. This increase was caused by the increasing demand from China and a decline in production in the EU. The price ended at DKK 11.33 per kilo HDW, which is nevertheless a significant improvement compared to the final price in 2015 of DKK 9.34 (Fig. 8).

The price in Danosha was also somewhat more stable than in the previous year, but at a significantly lower level, with a lowest price in 2016 of DKK 6.63. The price at the end of 2016 was DKK 8.92, which is DKK 0.45 lower than the closing price in 2015. Unlike in 2015, there were no major fluctuations in the currency, so the price graph is mostly a reflection of supply and demand. Meat consumption is usually affected by a weakened currency and a generally poor economy. This, in conjunction with the generally poor economy in pig production, has caused the pig population and thus production to decline significantly. Similarly, outbreaks of African Swine Fewer (ASF) reduced the Ukrainian pig population.

In Russia, prices have also been more stable than in 2015, with a fluctuation of only about 77%, compared to 92.4% in 2015. ASF also caused prices to rise here. A total of 233,000 pigs were culled due to ASF in Russia, and since these pigs were a mixture of both finishers and sows, it impacted the increase in production, which ended up at a modest 2.4% compared to the previous year. The Russian currency remained relatively stable, so that as in Ukraine, the higher price is a reflection of other factors, such as ASF.

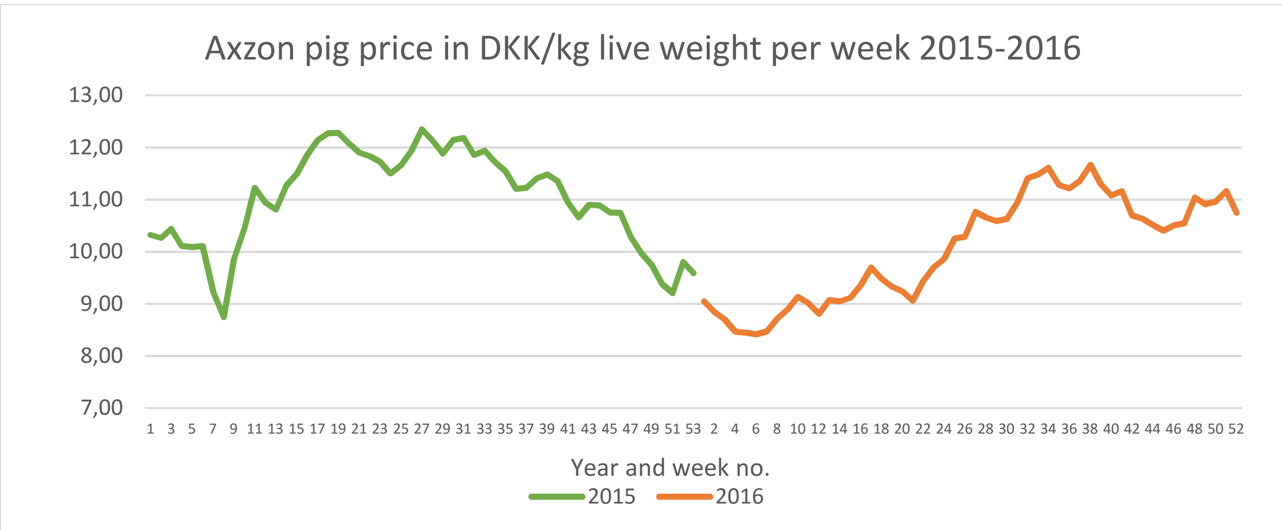


*Fig. 9*

### 3.1 The market situation in Poland

Prices in Poland were very low from mid-2014 to mid-2016, partly because of the Russian ban on imports, and partly due to increasing levels of production in the EU. After 2 years of low prices, however, pork prices improved in the second half of 2016. The Polish price in October 2016 was PLN 5.02, which was about 15% higher than at the same time last year. In both 2015 and 2016, the Polish price remained slightly below the German price by about EUR 0.06/kg live weight, although this was mostly based on a changed exchange rate between PLN and EUR. There was greater international demand for pork in 2016, mainly driven by China. This caused prices to rise in May, when there was a very rapid and steep increase. This lasted until

October, when there was a slight decline that mainly resulted from normal seasonal fluctuations. Prices then remained stable for the rest of the year, and even showed a slight increase towards the end of the year.

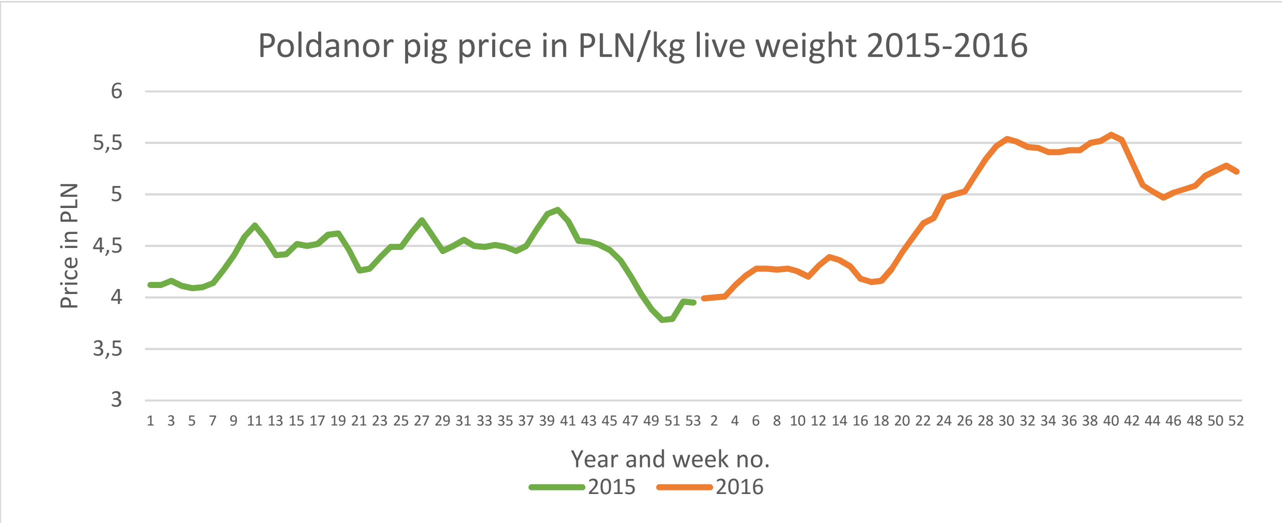


*Fig. 10*

### 3.2 The market situation in Ukraine

The year started with a decrease in prices due to a normal seasonal fluctuation and higher levels of production from the small producers. From 1 January 2016, the Ukrainian parliament also cancelled the import duties of 5% and 10% respectively. Due to the Russian ban on imports from Ukraine, exports fell sharply early in the year to about 10% of the normal level, to 3,000 tonnes for the year. This meant that large producers, who had previously sold for export, were forced to sell their pigs on the local market with low prices as a consequence. In addition to these circumstances, there were about 80 outbreaks of swine fever, which had a significant impact on prices over the year. The rising value of the EUR relative to the UAH, and the resulting decline in imports, resulted in prices starting to rise again in February and they reached about 23 UAH/kg in May. After a slight decline, prices began to increase again due to preparations for the holiday season.

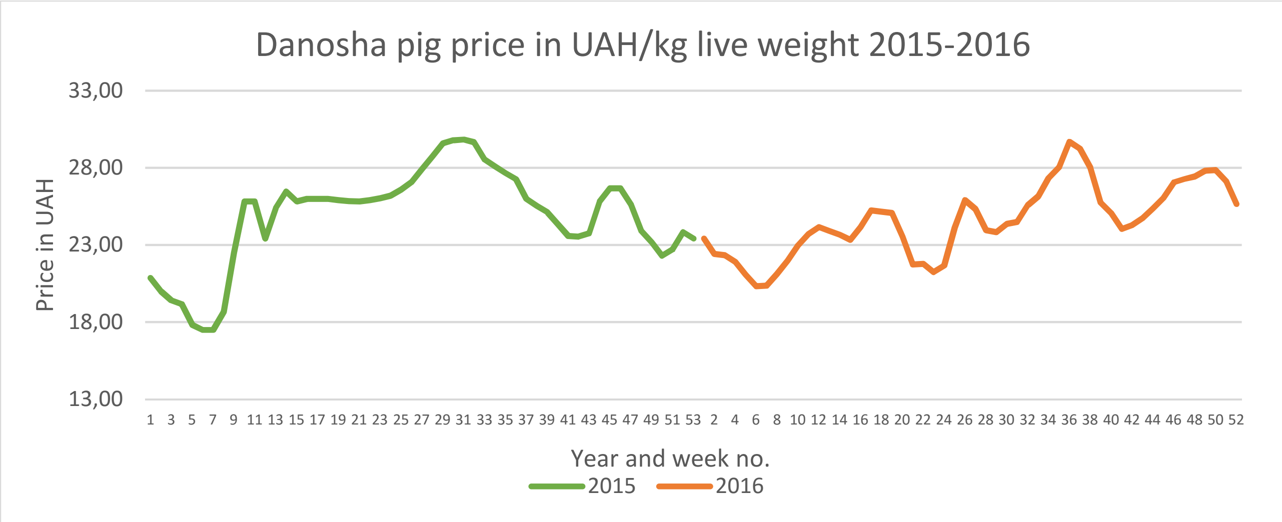


*Fig. 11*

The good weather, and thus the good barbecue season, caused prices to remain high over the summer and they even reached 29.68 UAH/kg, which was very close to the peak price for the same period in the year before. Prices fell again after the summer season, but the price began to rise again already in October because many processing companies purchased early for the Christmas shopping season in 2016, presumably because they feared a shortage during the Christmas season. This subsequently caused the price to fall just before Christmas as stocks were already full.

The political turmoil, the ongoing conflict with Russia and the fluctuations in both pig prices and exchange rates makes it hard to predict the timing and level of future profit in Danosha. These uncertainties are also relevant when assessing the fair values of PP&E, which are further elaborated in disclosure 3. Despite these uncertainties, the Management still considers Ukraine as an attractive market for pig production in the future, when prices are expected to reach the European levels based on stabilization in the country and access to the export markets.

### 3.3 The market situation in Russia

Pork prices displayed the same large fluctuations from week to week throughout 2016 as in 2015. The large volatility was due in part to the live weight price being determined based on the price of half-carcases, and since there are significant imports to Russia from countries such as Brazil, this practice causes the price to drop markedly when large shipments of meat suddenly arrive in the country. The large slaughterhouses, who often own substantial processing facilities, will therefore usually refrain from purchasing live pigs while there is cheap meat in the cold stores. The price of live pigs was generally increasing during the first part of the year due to a lack of pigs. This was in part caused by the many outbreaks of ASF, which reduced supply.

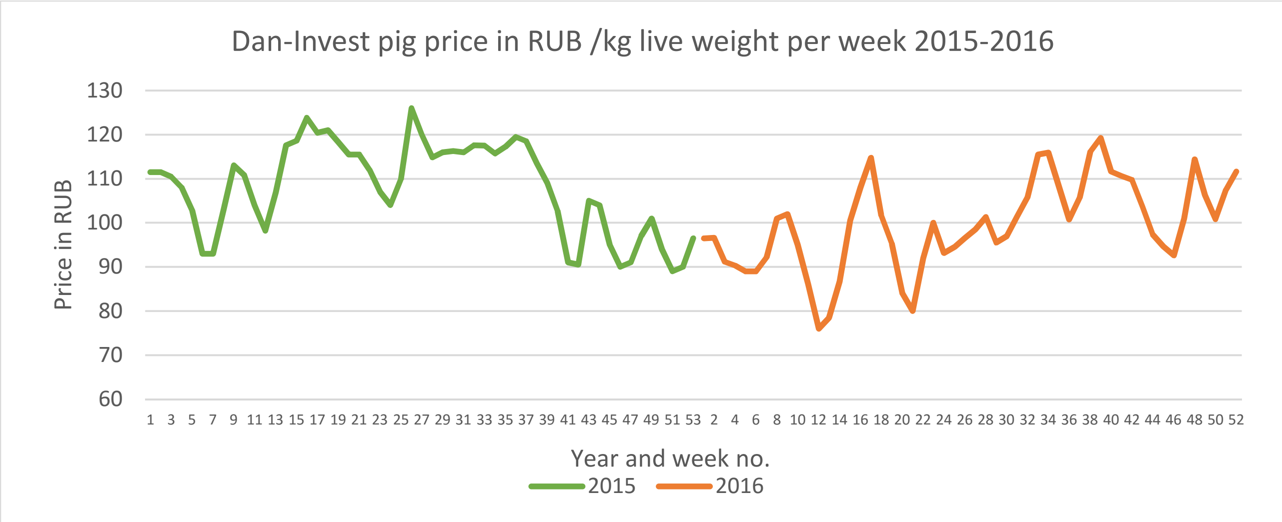


*Fig. 12*

Consumption continued to decline over the year due to a generally tight Russian economy, which meant that prices decreased during spring. The summer weather caused prices to increase in May, which unusually maintained their level over the summer and into the autumn and early winter, partly as a result of the many ASF outbreaks in late summer.

# 4. Production

## 4.1 Pig production

For the first time, ever in Axzon, the number of sows (Fig. 13) declined by more than 5% over a full year. Since Poldanor and Danosha combined have the same number as the year before, the entire decrease came from DAN KUB alone, where the full sow population of 2,700 sows was destroyed as a result of the ASF outbreak.

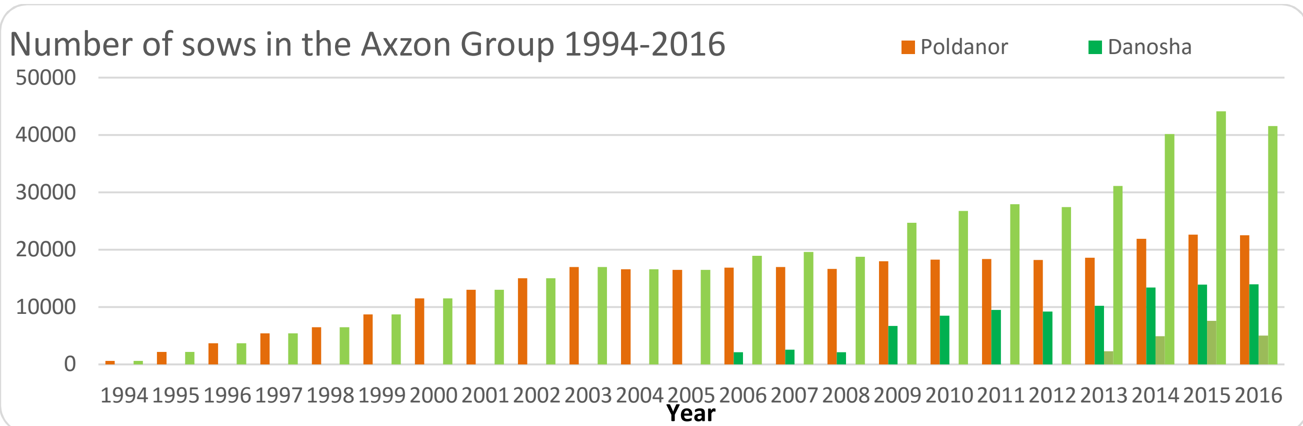


*Fig. 13*

Productivity improvements meant that Poldanor was able to maintain a share of approximately 53% of all meat sold in Axzon, despite the fact that Dan-Invest contributed approximately 6,000 tonnes of pigs more in 2016 than in 2015. (Fig. 14)

Danosha delivered a very stable output performance, and combined with the increase from Dan-Invest, this means that the company's relative share of pigs produced fell slightly. Danosha also sold a larger number of pigs as piglets (Fig. 15), which explains why the share of 7-30 kg pigs increased in 2016. Poldanor experienced both increased productivity and rising prices in 2016.

| **Distribution of sales between companies in tonnes and %** | | | **Y1 2016** |
|---|---|---|---|
| **Company** | **Period** | **Tonnes sold** | **Share in % of Axzon total** |
| **Poldanor** | 2016 | 63,503 | 52.7 |
| | 2015 | 59,273 | 53.6 |
| | Difference | 4,230 | -1.0 |
| | Index 2015 to 2016 | 107 | 98 |
| **Danosha** | 2016 | 38,320 | 31.8 |
| | 2015 | 38,441 | 34.8 |
| | Difference | -120 | -3.0 |
| | Index 2015 to 2016 | 100 | 91 |
| **Dan-Invest** | 2016 | 18,767 | 15.6 |
| | 2015 | 12,820 | 11.6 |
| | Difference | 5,947 | 4.0 |
| | Index 2015 to 2016 | 146 | 134 |
| **AXZON** | 2016 | 120,590 | |
| | 2015 | 110,534 | |
| | Difference | 10,056 | |
| | Index 2015 to 2016 | 109 | |
| | | | |

*Fig. 14*

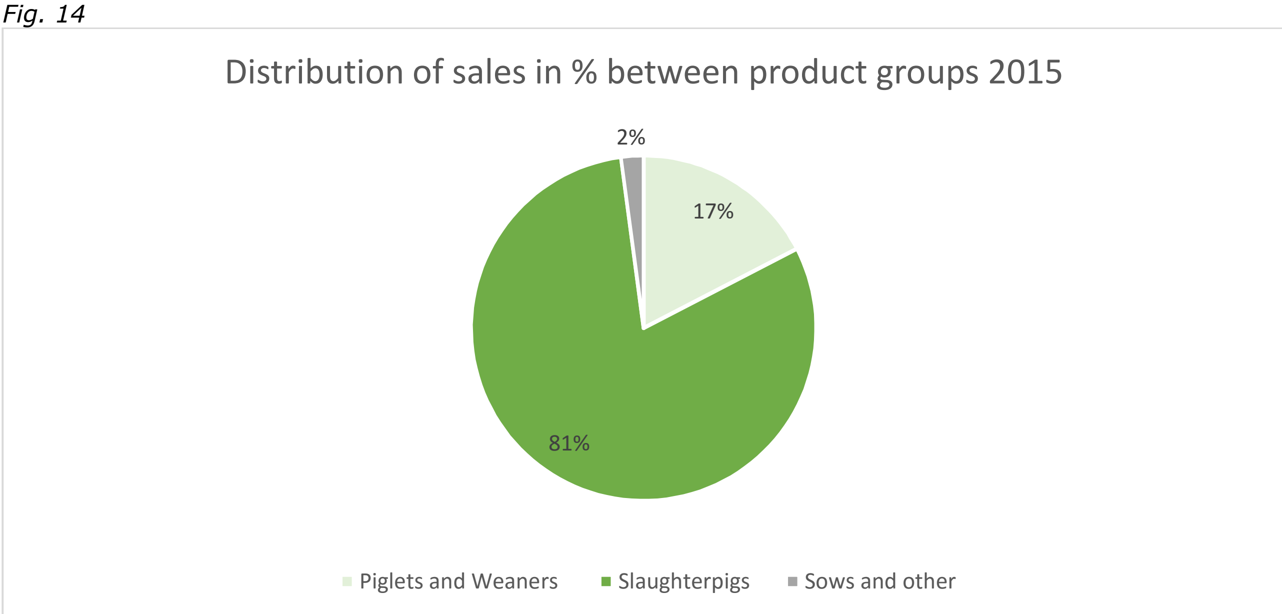


*Fig. 15*

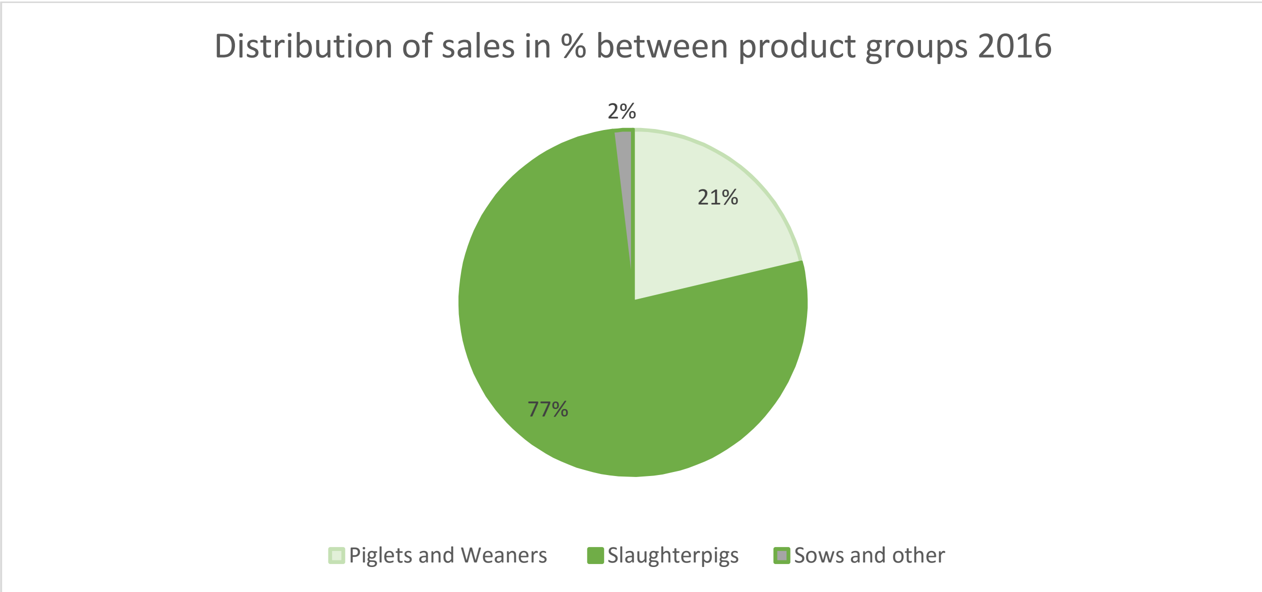


*Fig. 16*

Overall, there was an increase in pigs sold in Axzon of 151,115 pigs, of which 91,475 come from Poldanor and 7,774 from Danosha. Both companies had a stable number of sows throughout the year, and the higher number of sold pigs is therefore a reflection of efficiency improvements in both countries. Dan-Invest accounted for the remaining 51,886 additional sold pigs, due both to efficiency improvements at the Rask farm, and the expansion of the re-launch of the DAN KUB farm in Krasnodar.

The share of piglets and weaners sold increased from 17% in 2015, to 21% in 2016 (Fig. 15 and 16). The number of slaughtered sows remained stable throughout the year, so the increased proportion of piglets has almost only been deducted from the percentage of finishers, which declined from 81% to 77% (Fig. 15 and 16).

The number of pigs in stables dropped from 557,564 to 546,273 (Fig. 21), mainly due to increased sales of piglets in Poldanor and the ASF outbreak in DAN KUB.

The number of liveborn per litter (Fig. 17), weaned piglets per sow (Fig. 18) and pigs sold per sow (Fig. 19) have all increased steadily in recent years. This trend was broken in the course of 2016, however, when most of the key parameters have now stabilized and the Group overall has about 16 liveborn piglets per litter, about 31-32 weaned pigs and about 30-31 pigs sold per sow.

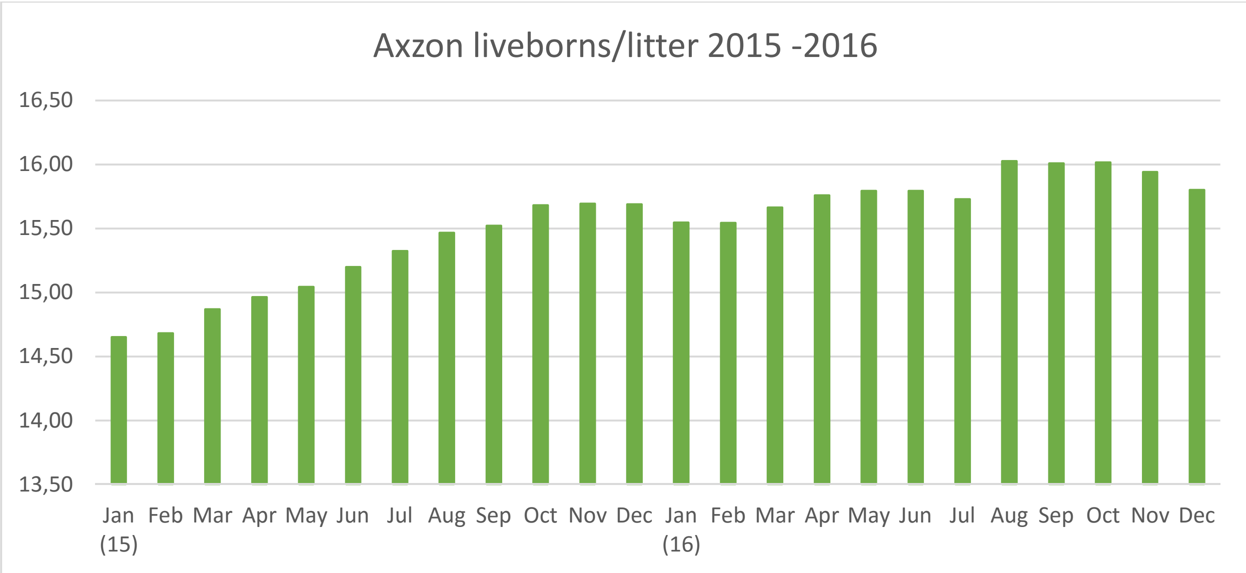


*Fig. 17*

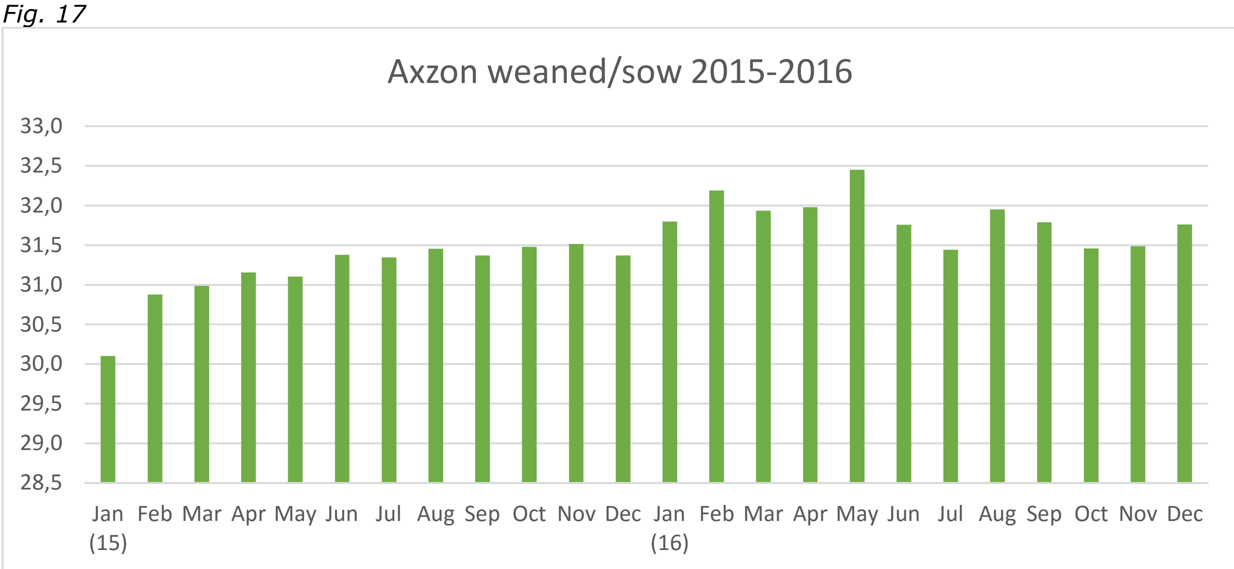


*Fig. 18*

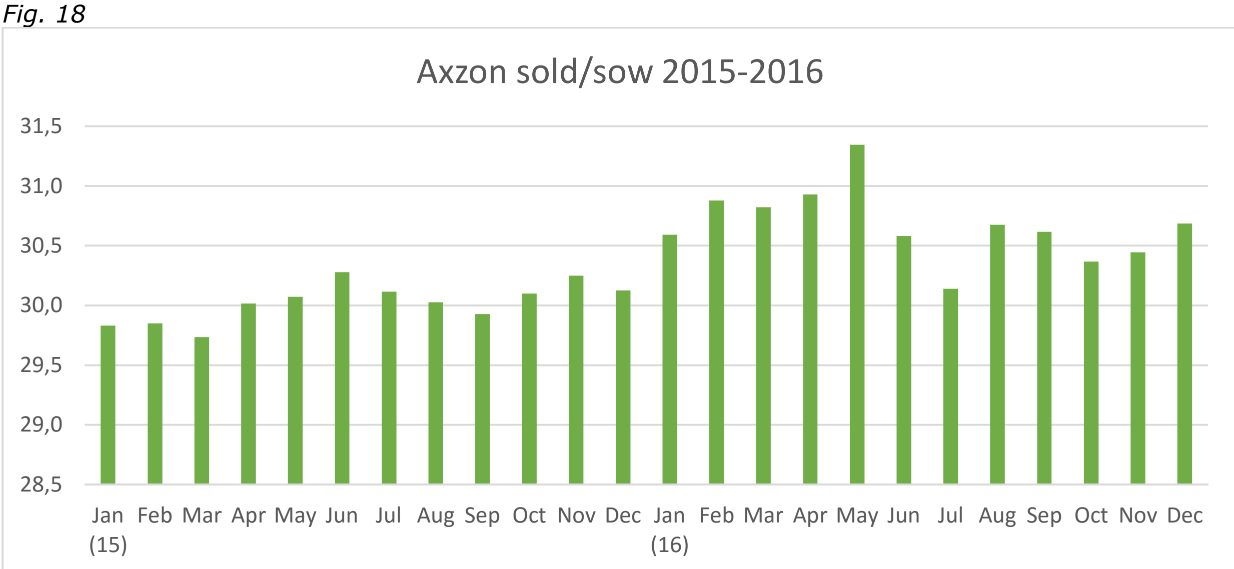


*Fig. 19*

Despite the stagnating and slightly declining results at the end of the year, there were increases in the number of liveborn, weaned and sold pigs per year compared to the last 4 years (Fig. 20), and Axzon set new records on all three parameters in 2016.

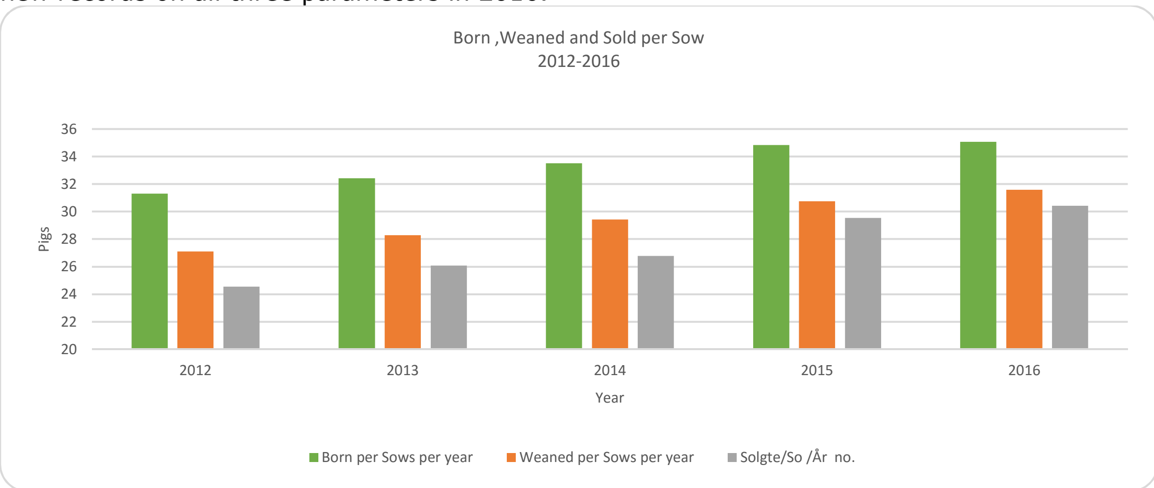


*Fig. 20*

| Pigs | | Tonnes and numbers of pigs | | | | |
|---|---|---|---|---|---|---|
| Company | Period | Number of Sows | Pigs in stables | Sold pigs live weight '000 tons | Market share in Axzon in % | Total number of pigs sold |
| Poldanor | 2016 | 22.530 | 288.544 | 63.503 | 52,7 | 684.568 |
| | 2015 | 22.637 | 300.978 | 59.273 | 53,6 | 593.093 |
| | Difference | -107 | -12.434 | 4.230 | -1,0 | 91.475 |
| | **Index 2016 to 2015** | **100** | **96** | **107** | **98** | **115** |
| Danosha | 2016 | 13.965 | 186.028 | 38.320 | 31,1 | 428.102 |
| | 2015 | 13.887 | 173.640 | 38.441 | 35,2 | 420.328 |
| | Difference | 78 | 12.388 | -120 | -4,1 | 7.774 |
| | **Index 2016 to 2015** | **101** | **107** | **100** | **88** | **102** |
| Dan-Invest | 2016 | 5.052 | 71.701 | 18.767 | 15,9 | 168.419 |
| | 2015 | 7.598 | 82.946 | 12.820 | 10,4 | 116.554 |
| | Difference | -2.546 | -11.245 | 5.947 | 5,5 | 51.866 |
| | **Index 2016 to 2015** | **66** | **86** | **146** | **152** | **144** |
| Axzon | 2016 | 41.547 | 546.273 | 120.590 | 0,0 | 1.281.089 |
| | 2015 | 44.122 | 557.564 | 110.534 | 0,0 | 1.129.975 |
| | Difference | -2.575 | -11.291 | 10.056 | 0,0 | 151.115 |
| | **Index 2016 to 2015** | **94** | **98** | **109** | **0** | **113** |

*Fig. 21*

Feed consumption calculated according to how many kg of feed is used per kg of pigs sold, including population displacement, remained relatively stable in 2016, with only a slight increase from 2.68 kg to a level of approximately 2.78 for 2016. This is primarily because a greater number of piglets were sold than in the previous year, which means there was a larger proportion of finishers with higher feed consumption in the calculation. The higher feed consumption is therefore not in itself a reflection of poorer feed conversion, but simply the consequence of a different sales strategy.

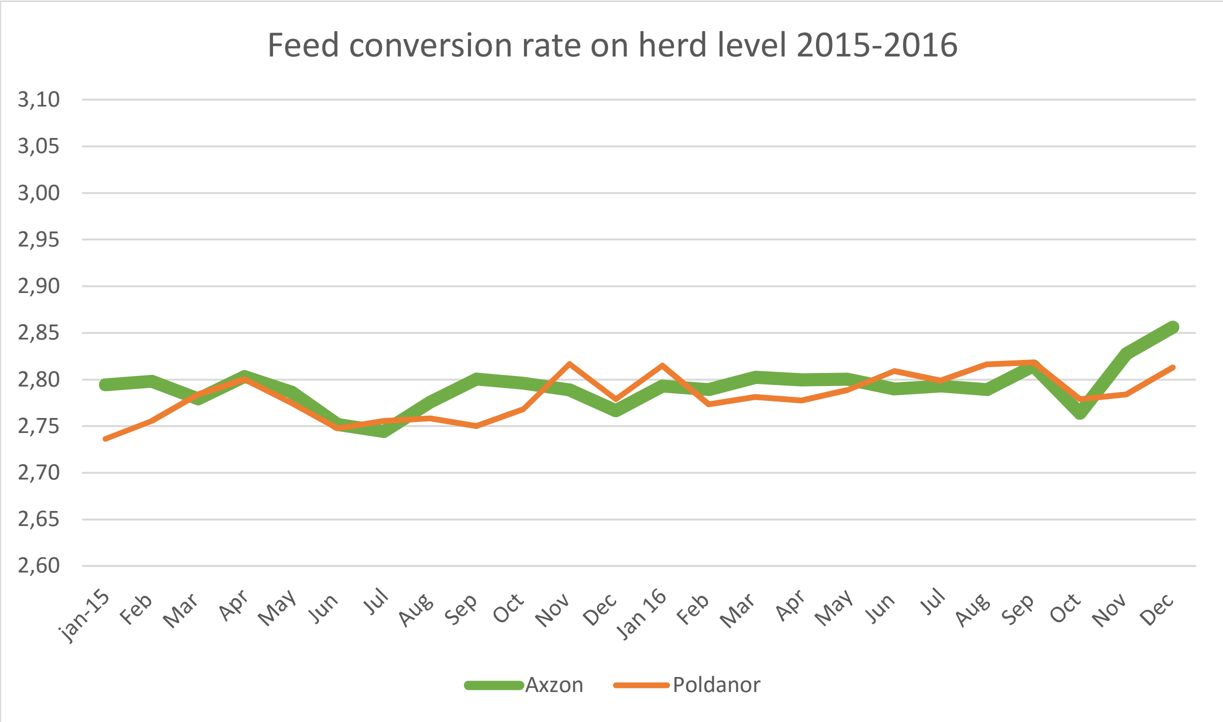


*Fig. 22*

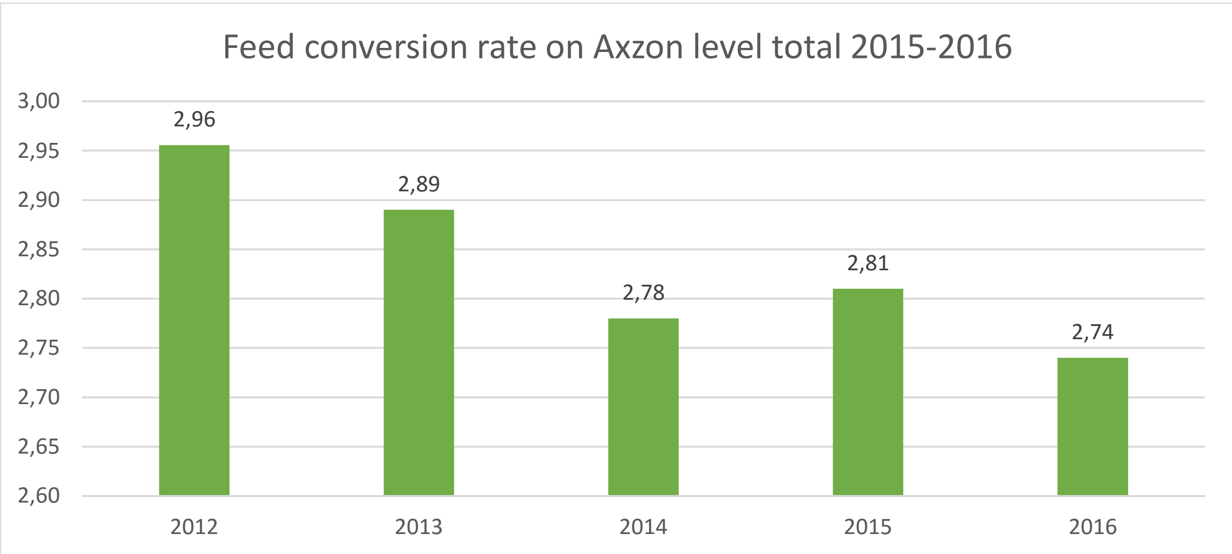


*Fig. 23*

| Pigs | | Efficiency | | |
|---|---|---|---|---|
| Company | Period | Yield in kg sold pork/sow/year | Pigs sold/sow in units | Feed consumption in kg/kg growth at company level |
| Poldanor | 2016 | 2,820 | 29.95 | 2.79 |
| | 2015 | 2,898 | 29.74 | 2.81 |
| | Difference | -79 | 0.21 | -0.02 |
| | **Index 2015 to 2016** | **97** | **101** | **99** |
| Danosha | 2016 | 2,738 | 31.23 | 2.56 |
| | 2015 | 3,009 | 31.08 | 2.54 |
| | Difference | -271 | 0.14 | 0.02 |
| | **Index 2015 to 2016** | **91** | **100** | **101** |
| Dan-Invest | 2016 | 2,877 | 32.35 | 2.94 |
| | 2015 | 3,429 | 30.26 | 3.01 |
| | Difference | -552 | 2.09 | -0.07 |
| | **Index 2015 to 2016** | **84** | **107** | **98** |
| Axzon | 2016 | 2,802 | 30.69 | 2.78 |
| | 2015 | 2,999 | 30.13 | 2.68 |
| | Difference | -197 | 0.56 | 0.10 |
| | **Index 2015 to 2016** | **93** | **102** | **104** |

*Fig. 24*

Overall, 2016 was a good year for pig production. Despite declining results in the final months of the year, Axzon achieved improvements for all key parameters on an annual basis.

### 4.2 Biogas

The biogas section has faced some challenges over the years, mainly because this section, unlike other segments of production in Axzon, is very dependent on various political measures and support schemes.

Purely in terms of production, efficiency in the biogas section declined from 86% to 77%. This was primarily due to a technical breakdown at the plant in Danosha. Mechanical damage to the gas generator meant that the plant was at a standstill for several months and therefore achieved an efficiency rate of only 26% for the full year. Efficiency at Poldanor was approximately 85%, which is about 4% lower than the previous year and about 1.5% below expectations.

On the financial side, Poland provided a positive surprise in July, when the Polish parliament passed legislation that industrial energy producers are obliged to purchase a certain percentage of their power from biogas plants. This regulation meant that the financial results were better than expected in Poldanor; The second half of the year reached profitability, whereas the first half of the year was lossmaking, meaning that the full year still ended with a loss of approximately PLN 0.49 m.

| Biogas and Energy | | Number of plants | Total plants' capacity in MWh | Total production capacity in KWh | Total production in KWh | Efficiency level in % |
|---|---|---|---|---|---|---|
| Company | Period | | | | | |
| Poldanor | 2016 | 8 | 7.40 | 65028 | 55129 | 85 |
| | 2015 | 8 | 7.4 | 62197 | 55121 | 89 |
| | Difference | 0.0 | 0.0 | 2831 | 8 | -3.8 |
| | **Index 2015 to 2016** | **100** | **100** | **105** | **100** | **96** |
| Danosha | 2016 | 1 | 1.16 | 10214 | 2635 | 26 |
| | 2015 | 1 | 1.16 | 10214 | 6797 | 67 |
| | Difference | 0.0 | 0.0 | 0.0 | -4162 | -40.7 |
| | **Index 2015 to 2016** | **100** | **100** | **100** | **39** | **39** |
| Axzon | 2016 | 9 | 8.56 | 75242 | 57764 | 77 |
| | 2015 | 9 | 8.56 | 72411 | 61918 | 86 |
| | Difference | 0.0 | 0.0 | 2831 | -4154 | -8.7 |
| | **Index 2015 to 2016** | **100** | **100** | **104** | **93** | **90** |

*Fig. 25*

### 4.3 Arable farming

Overall, Axzon had a reasonable average harvest of cereals and oil crops, with a yield in tonnes per hectare of 5.10 t against 4.71 t the year before, although with significant variations between countries.

The cultivated area for Axzon of 27,526 ha represents a modest increase of 539 ha, mostly from Danosha in Ukraine. Similarly, the distribution between cereals and oil crops was almost unchanged, with about 6% more cereal crops than last year, about 8% fewer hectares of oil crops, and 1% fewer hectares of silage.

The winter weather of 2015-2016 and circumstances related to sowing posed major challenges in all of Axzon’s production countries. In some places, these weather challenges continued over the summer with heavy rainfall.

The cereal and oil harvests were long with required many harvest hours, but the quality of the crops was good nevertheless. The average yield of cereal crops was 5.68 t/ha, which was an improvement on the previous year, which stood at approximately 5.13 t/ha, an increase of approximately 11%. The oil crops produced an average yield of 2.94 t/ha against 3.37t/ha the year before, a decrease of approximately 13%.

As mentioned above, however, there was an overall total increase from 4.71 t/ha to 5.10 t/ha for oil and cereal crops combined, while corn silage provided a yield increase of 46% above the level the year before to 33.89 t/ha.

| Arable | | Cereals (grain, peas, corn) | | Oil seeds (sun-flower, rape, soya) | | Silage (corn, hay) | | Axzon total | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Com-pany | Period | Har-vested ha | Tonnes/ha | Har-vested ha | Tonnes/ha | Har-vested ha | Tonnes/ha | Har-vested ha grain, oil, corn | Har-vested tonnes grain, oil, corn | Yield/ha grain, oil, corn |
| Pol-danor | 2016 | 6107 | 5 | 1112 | 2.46 | 5404 | 34.04 | 12622 | 216509 | 4.51 |
| | 2015 | 5519 | 5 | 1986 | 3.19 | 5157 | 22.68 | 12662 | 152345 | 4.72 |
| | Difference | 588 | 0 | -874 | -0.73 | 247 | 11.36 | -40 | 64164 | -0.21 |
| | **Index 2016 to 2015** | **111** | **93** | **56** | **77** | **105** | **150** | **100** | **92** | **96** |
| Da-nosha | 2016 | 8155 | 7 | 2788 | 3.21 | 301 | 31.13 | 11244 | 75373 | 6.03 |
| | 2015 | 7815 | 6 | 2396 | 3.64 | 593 | 27.40 | 10804 | 70253 | 5.29 |
| | Difference | 341 | 1 | 392 | -0.43 | -292 | 3.73 | 440 | 5120 | 0.74 |
| | **Index 2016 to 2015** | **104** | **121** | **116** | **88** | **51** | **114** | **104** | **122** | **114** |
| Dan-Invest | 2016 | 2919 | 4 | 741 | 2.62 | | | 3660 | 10802 | 3.48 |
| | 2015 | 2828 | 3 | 636 | 2.92 | | | 3464 | 10364 | 2.99 |
| | Difference | 91 | 1 | 105 | -0.30 | | | 196 | 2382 | 0.49 |
| | **Index 2016 to 2015** | **103** | **123** | **117** | **90** | | | **106** | **123** | **116** |
| Axzon | 2016 | 17181 | 5.68 | 4641 | 2.94 | 5704 | 33.89 | 27526 | 304629 | 5.10 |
| | 2015 | 16162 | 5.13 | 5018 | 3.37 | 5750 | 23.16 | 26930 | 232962 | 4.71 |
| | Difference | 1019 | 0.56 | -377 | -0.43 | -46 | 10.73 | 596 | 71666 | 0.39 |
| | **Index 2016 to 2015** | **106** | **111** | **92** | **87** | **99** | **146** | **102** | **112** | **108** |

*Fig. 26*

In 2016, some organisational changes were implemented in the arable farming sectors in each country, most notably in Danosha, where it was possible to reduce the number of employees in arable production by 28% compared to 2015, without impacting the quality of the work. This was demonstrated by a very satisfactory cereal harvest.

Dan-Invest also implemented some changes, primarily at management level, where a new structure has been introduced.

There was an increased focus at the workshops on the training of employees, who received instruction in the use of equipment for error diagnosis. This has resulted in significantly reduced costs for external service.

There was also a focus on machinery strategy (horsepower, fuel consumption, availability of spare parts and service) in the individual companies, with an emphasis on continuous updating, traction power, spare parts and dealer networks, as well as the use of modern technology, including GPS.

### 4.4 Slaughterhouse

The year began optimistically after the good results at the end of 2015. Everyone expected good results for the full year, both in terms of production and on the financial side. Q1 was also ahead of budget for virtually every parameter and the new MAP hall went into operation in May 2016. The barbecue season started at the same time, so everything looked very positive in May.

Over the following months, however, pork prices increased markedly by about 30% and remained at that level until September, when after a slight adjustment downward, they continued at the same level until the end of the year. Commodity prices are particularly important for producers of private label products such as Prime Food, which was severely affected when this was combined with the supermarkets' reluctance to increase prices in response to a new tax imposed by the authorities. The export restrictions due to the ASF outbreak in Poland in the second half of 2016 also had a detrimental effect.

The number of slaughters increased by 8% compared to the year before, as did the volume measured in tonnes, since the purchased weight remained relatively stable. Generally, therefore, there was an increase on the operational side of approximately 7% on the sales side in tonnes, so that the negative result can almost entirely be attributed to low prices for the sales products.

| **Meat and slaughterings** | | Purchased and slaughtered pigs | Purchased pigs in tonnes slaughtered weight | Purchased meat elements | Average weight purchased pigs | MAP products sold in tonnes | Processed goods sold in tonnes | Prime cuts sold in tonnes | Deboned products sold in tonnes | Bi-products sold in tonnes | Total products sold in tonnes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Period | | | | | | | | | | |
| Prime Food | 2016 | 543980 | 60240 | 2075 | 110.7 | 11119 | 12428 | 308 | 26767 | 4128 | 54750 |
| | 2015 | 505696 | 55788 | 1965 | 110.3 | 11585 | 10661 | 768 | 24071 | 4164 | 51249 |
| | Difference | 38284 | 4452 | 110 | 0.4 | -466 | 1767 | -460 | 2695 | -36 | 3501 |
| | **Index 2015 to 2016** | **108** | **108** | **106** | **100** | **96** | **117** | **40** | **111** | **99** | **107** |

*Fig. 27*

On the sales side, there were several factors that had a negative influence on the result, which only achieved 91.2% of the profits obtained in 2015. These factors included tough negotiations with customers after the commodity prices rose by around 30% in the spring. These negotiations arose primarily from long-term contracts signed with customers at a time when commodity prices were low, and unfortunately this resulted in Prime Food losing good customers. MAP products in particular suffered from this, and sales in this category declined by 40% compared to the first half of 2016. Due to the expanded MAP capacity, however, it was still possible to sell 97% of the volume of MAP sold in 2015.

Sales of processed goods increased by 16.6%, which must be regarded as satisfactory. It is also expected that the share of processed goods will increase further in the future.

2016 generally provided a lower gross margin per kg in both MAP and processed goods, while the gross margin increased for de-boned products and by-products.

Sales of RWA (Raised Without Antibiotics) pigs to a customer in the United States commenced in the autumn, and intense efforts are now underway to expand the customer base for these products into the European market.

As a consequence of the poor sales in 2016, the entire sales department underwent a major restructuring. Seen in conjunction with the new products already available in the shops and the new products in the pipeline, this means that good sales and earnings are expected to return to Prime Food.

## 5. Risk analysis

Axzon's operations and the geographical location of its subsidiaries means that the company is exposed to a number of bio-security, political and economic risks. Axzon utilises a structured approach to risk management, where risks are identified, evaluated and handled in accordance with generally accepted principles in this area.

### 5.1 Bio-security

Ever since Axzon established a more structured approach to risk management several years ago, bio-security, i.e. safeguarding of the company's herds against infectious diseases, now has the highest priority among threat scenarios. The bio-security risk is handled partly by double fencing of all Axzon's farms in order to prevent the population coming into contact with wild animals, especially wild boars and rodents, who may be infection carriers. In addition, all trucks coming from outside are disinfected and checked before they enter the farm area. Furthermore, all the animals are loaded and unloaded in a ramp area far from the production buildings. Strict policies and practices have also been implemented among the employees in relation to personal hygiene, handling of dead animals and 48-hour quarantine after contact with animals in another production unit. It is also strictly forbidden for employees to keep pigs privately.

Notwithstanding the measures above, Axzon's DAN KUB farm in Krasnodar, Russia, was infected with ASF in August 2016. The result was that, in accordance with Russian regulations, about 31,000 animals had to be destroyed in the course of a week. Then, also in accordance with the Russian regulations, the farm was disinfected and must be left empty for 12 months before animals can be kept there again.

Axzon has subsequently analysed why the DAN KUB farm was infected, despite its very high level of bio-security. No definitive conclusion was reached. However, 3 hypotheses are being worked with: Firstly, that the farm was infected through a live, statutory vaccine against classical swine fever, which was supplied by a Russian laboratory, which was infected with ASF and closed down shortly after the outbreak at DAN KUB. The vaccine was only administered in the finisher housing units, and this is where the first and also the only outbreak of ASF occurred at DAN KUB.

The second possible source of infection is considered to be horseflies or mosquitoes that carried infected blood into the stalls and then bit one or more animals, who thus became infected.

The third possible source of infection is thought to be human error, i.e. a breach of the hygiene procedures or a violation of the internal rules regarding the loading of live animals in external trucks. It must be stressed, however, that there is neither evidence nor indications of this. Efforts to determine the source of infection are therefore continuing.

In respect to insurance against ASF, Axzon did not use this option due to the extremely high premium for this type of insurance, as well as from the standpoint that this risk would be managed better by placing production in different countries and in different parts of the countries.

Axzon's fully integrated business model in Poland also inherently promotes biosecurity, because Poldanor's full production of pigs is delivered to and slaughtered at the slaughterhouse in Prime Food, to which they are transported in Poldanor's own trucks. This closed system avoids having external trucks or people involved in the loading or unloading procedures, which are critical from a bio-security perspective. Axzon's strategy is to have its own slaughterhouse in all the producing countries, and the company is therefore at an advanced stage in its plans to establish a slaughterhouse in Ukraine.

### 5.2 Political risk

Axzon operates in countries with political and military turmoil and corruption, where Ukraine in particular continued to be marked by the war in the eastern areas in 2016, and by a consequent general economic downturn, which is continuing. In Russia, the economic downturn resulting in part from the rapidly falling oil prices in 2015 and part of 2016, has been replaced by stability, albeit at a low level. Both countries are characterized by corruption, a lack of transparency and contradictory legislation, as well as a high degree of political interference in business.

Axzon still believes that the most effective insurance against political risks is to maintain a good and trusting relationship to all relevant policy levels, as well as local stakeholders, including neighbours, and to ensure that Axzon makes a positive impression wherever it does business. This is e.g. done by supporting local communities with donations for schools, orphanages, cultural centres and by helping with the building and reconstruction of roads, snow cleaning etc.

Axzon has also secured support at the supranational level by having the World Bank in the form of the International Finance Corporation (IFC) and the Danish Investment Fund for Developing Countries (IFU) as shareholders in the Group's Ukrainian company, Danosha. The European Bank for Reconstruction and Development (EBRD) is also among Axzon's largest lenders. Finally, Axzon is always looking to develop and maintain a close relationship with the official Danish representatives in the countries where the company operates.

### 5.3 Financial risk

Axzon defines the financial risk exposure as primarily related to interest rates and currencies. Losses on customers is a limited risk, since prepayment is widely used.

Loans are primarily raised at variable interest rates, so that the interest rate stays at market level. Fixed-rate loans are used primarily for capital expenditures, if this is deemed appropriate.

The currency risk is minimized by coordinating payments to the extent possible. Axzon still produces products that are primarily priced internationally, and the prices will therefore follow the world market in the long-term. No efforts are made, therefore, to mitigate devaluation risks in individual countries.

In 2016, Axzon decided to invest in a Business Intelligence System that will be implemented in 2017. Among many other benefits, the system will provide more and increasingly advanced options to monitor financial risk factors.

## 6. CSR

CSR has been and remains an essential part of Axzon's DNA, ever since the founding of the first company in the group in 1994. Axzon therefore produces according to the same rules for animal welfare as apply in the EU, even when production takes place in non-EU countries. Axzon also conforms to the Danish or, at a minimum, the local environmental standards applicable in the individual producing countries. CSR at Axzon is defined and measured broadly according to the following main categories: Animal welfare, Environment, Working environment (safety), Food security/quality, Society, HR and Gender. Moreover, a report is prepared each year, with measurements for a number of parameters in relation to the mentioned key categories. Targets are also defined for the following year. Axzon's Group CSR Report can be downloaded from the following link: http://axzon.eu/wp-content/uploads/2017/03/Axzon_CSR_2016.pdf.

In 2016, Axzon launched the implementation of Global GAP (Good Agricultural Practice) certification, which is a recognized international standard for food security, environment and animal welfare. The certifications process is expected to be completed during 2017.

Sustainability is another keyword for Axzon, and it is a concept that is incorporated into everything the company does. The core of Axzon's sustainability concept is the unique farm to fork concept, which not only includes a fully integrated production in the ordinary sense, but also entails the use of pig manure for energy production in the company's biogas plants. These facilities supply energy to the farms, which then use the "degassed" solid manure to fertilize the fields, where feed cereal is planted for the animals. This concept is the reason why, for the fourth consecutive year, Axzon in Poland, where the majority of the company's operations are conducted, has been certified for "Zero $CO_2$ emissions" by the German certification authority, TÜV.

Certification was also obtained in 2016 from the prestigious American Humane Association in connection with a collaboration between Poldanor and Prime Food to produce and market the so-called RWA pig, which was mentioned above.

## 7. Expectations for the future

Due to the low prices in the first half of the year, Axzon delivered results in 2016 that were below expectations for a normal year. At the beginning of 2017, it appears that pig prices are again moving towards a more normal level. In 2016, the result was partly affected by rising pork prices in the second half of the year. In 2017, the same end-adjustment of pig prices is not expected. On the other hand, the average pig price is expected to be higher than in 2016. The DAN KUB farm in Krasnodar is not expected to sell pigs in 2017.

The sale of pigs is expected to be around 1.25 m pigs in 2017.

Turnover is expected to be in the range of DKK 1.75 bn, with an EBITDA of approximately +25% and a net profit of almost 12,5% of turnover. Exchange rate adjustments should be added to or subtracted from this.
In addition to the slightly increasing pork prices, expectations are based on the improved conditions for biogas production in Poland and Ukraine being maintained, on reasonably competitive pressures in the slaughterhouse industry, and on largely unchanged prices for cereals and oilseed crops.

# Consolidated Income Statement 1 January – 31 December

| | Note | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|
| Revenue | 4 | 1,391,385 | 1,275,255 |
| Change in fair value of biological assets | 5 | 48,794 | 52,854 |
| Grants and other income | 6 | 53,396 | 41,903 |
| **Total revenue** | | **1,493,575** | **1,370,012** |
| Changes in inventories of finished goods and work in progress | | 6,427 | 8,581 |
| Cost of materials and services | | (943,138) | (890,968) |
| Other external expenses | | (24,652) | (22,498) |
| **Gross profit/loss** | | **532,212** | **465,127** |
| Staff expenses | 7 | (188,419) | (181,523) |
| **EBITDA excl. special items** | | **343,793** | **283,604** |
| Special items | 8 | (16,029) | 0 |
| **EBITDA incl. special items** | | **327,764** | **283,604** |
| Depreciation and impairment of fixed assets | | (156,162) | (120,519) |
| **Profit/loss before financial expenses and tax** | | **171,602** | **163,085** |
| Financial income | 9 | 1,719 | 4,001 |
| Financial expenses | 10 | (65,130) | (52,263) |
| Exchange adjustments | 11 | (13,051) | (69,507) |
| **Profit/loss before tax** | | **95,140** | **45,316** |
| Corporation tax | 12 | 336 | (4,163) |
| **Net profit/loss for the year** | | **95,476** | **41,153** |

**Distribution of profit for the year**

| | | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|
| Group shareholders | | 95,554 | 41,122 |
| Non-controlling interests | | (78) | 31 |
| | | **95,476** | **41,153** |

# Consolidated Statement of Comprehensive Income 1 January – 31 December

| | Note | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|
| Net profit/loss for the year | | 95,476 | 41,153 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange adjustments of foreign enterprises | | (28,577) | (186,155) |
| **Items that may not be reclassified subsequently to profit or loss** | | | |
| Revaluation of land, buildings, leasehold improvements and plant and machinery | | (8,805) | 113,568 |
| **Total comprehensive income** | | **58,094** | **(31,434)** |
| **Distribution of total comprehensive income** | | | |
| Group shareholders | | 59,336 | (29,986) |
| Non-controlling interests | | (1,242) | (1,448) |
| | | **58,094** | **(31,434)** |

# Consolidated Statement of Financial Position

| | Note | 31.12 2016 DKK'000 | 31.12 2015 DKK'000 |
|---|---|---|---|
| Goodwill | 13 | 99,242 | 84,146 |
| **Intangible assets** | | **99,242** | **84,146** |
| Land and buildings | 14 | 1,422,708 | 1,380,632 |
| Leasehold improvements | 14 | 127,552 | 146,140 |
| Plant and machinery | 14 | 436,453 | 463,604 |
| Other fixtures and fittings, tools and equipment | 14 | 129,818 | 135,328 |
| Property, plant and equipment in progress | 14 | 97,866 | 141,039 |
| **Property, plant and equipment** | | **2,214,397** | **2,266,743** |
| Non-current investments | 15 | 7,509 | 4,632 |
| **Fixed asset investments** | | **7,509** | **4,632** |
| Biological assets, basic herd | 16 | 120,740 | 130,650 |
| **Biological assets** | | **120,740** | **130,650** |
| **Non-current assets** | | **2,441,888** | **2,486,171** |
| Biological assets - sales herd | 16 | 215,310 | 170,074 |
| Biological assets - arable, crop production | 16 | 49,489 | 53,893 |
| Inventories | 17 | 231,317 | 219,089 |
| **Biological assets and inventories** | | **496,116** | **443,056** |
| Trade receivables | 18 | 67,110 | 79,117 |
| Receivables from associates | | 6,778 | 6,778 |
| Other receivables | 18 | 59,323 | 43,540 |
| Prepayments | | 17,345 | 13,113 |
| **Receivables** | | **150,556** | **142,548** |
| **Cash at bank and in hand** | | **74,728** | **57,082** |
| **Current assets** | | **721,400** | **642,686** |
| **Assets** | | **3,163,288** | **3,128,857** |

# Consolidated Statement of Financial Position

| | Note | 31.12 2016 DKK'000 | 31.12 2015 DKK'000 |
|---|---|---|---|
| Share capital | 19 | 531,118 | 531,118 |
| Reserve for exchange adjustments | | (561,563) | (534,228) |
| Asset revaluation surplus | | 625,752 | 634,557 |
| Retained earnings | | 1,126,090 | 1,031,657 |
| Equity attributable to owners of the Company | | **1,721,397** | **1,663,104** |
| Non-controlling interest's share of equity | | 14,042 | 10,241 |
| **Equity** | | **1,735,439** | **1,673,345** |
| Provision for deferred tax | 20 | 4,774 | 5,488 |
| Other provisions | 21 | 3,483 | 1,446 |
| Credit institutions | 22 | 475,652 | 393,848 |
| Non-current trade payables | | 0 | 1,693 |
| Subordinate loan capital | 22 | 140,000 | 130,000 |
| Deferred income | 23 | 10,069 | 11,139 |
| **Long-term liabilities** | | **633,978** | **543,614** |
| Credit institutions – ordinary | 22 | 303,034 | 346,622 |
| Credit institutions – technical, not binding* | 1, 22 | 328,254 | 414,000 |
| Trade payables | | 65,535 | 58,282 |
| Interest bearing payables to group enterprise | | 13,195 | 22,992 |
| Corporation tax | | 0 | 0 |
| Other provisions | 21 | 2,682 | 5,209 |
| Other payables | | 76,070 | 61,984 |
| Deferred income | 23 | 5,101 | 2,808 |
| **Short-term liabilities** | | **793,871** | **911,897** |
| **Liabilities** | | **1,427,849** | **1,455,512** |
| **Liabilities and equity** | | **3,163,288** | **3,128,857** |

*) Please see note 1

# Consolidated Statement of Changes in Equity 1 January – 31 December

| | Share capital DKK'000 | Reserve for exchange adjust-ments DKK'000 | Retained earnings DKK'000 | Asset revaluation surplus DKK'000 | Total DKK'000 | Non-controlling interest DKK'000 | Total equity DKK'000 |
|---|---|---|---|---|---|---|---|
| **Equity at 1 January 2015** | **531,118** | **(351,829)** | **961,931** | **551,853** | **1,693,073** | **11,689** | **1,704,762** |
| Net profit/loss for the year | 0 | 0 | 41,122 | 0 | 41,122 | 31 | 41,153 |
| Other comprehensive income | 0 | (182,399) | 0 | 111,308 | (71,091) | (1,479) | (72,570) |
| **Comprehensive income for the year 2015** | **0** | **(182,399)** | **41,122** | **111,308** | **(29,969)** | **(1,448)** | **(31,417)** |
| Realisation of revaluation surplus | 0 | 0 | 28,604 | (28,604) | 0 | 0 | 0 |
| Dividend | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity at 31 December 2015** | **531,118** | **(534,228)** | **1,031,657** | **634,557** | **1,663,104** | **10,241** | **1,673,345** |
| **Equity at 1 January 2016** | **531,118** | **(534,228)** | **1,031,657** | **634,557** | **1,663,104** | **10,241** | **1,673,345** |
| Net profit/loss for the year | 0 | 0 | 95,554 | 0 | 95,554 | (78) | 95,476 |
| Other comprehensive income | 0 | (27,335) | 0 | (8,805) | (36,140) | (1,242) | (37,382) |
| **Comprehensive income for the year 2016** | **0** | **(27,335)** | **95,554** | **(8,805)** | **59,414** | **(1,320)** | **58,094** |
| Disposal of partial interests in subsidary | 0 | 0 | (1,121) | 0 | (1,121) | 5,121 | 4,000 |
| Realisation of revaluation surplus | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity at 31 December 2016** | **531,118** | **(561,563)** | **1,126,090** | **625,752** | **1,721,397** | **14,042** | **1,735,439** |

# Consolidated Cash Flow Statement

| | Note | 31.12 2016 DKK'000 | 31.12 2015 DKK'000 |
|---|---|---|---|
| Net profit/loss for the year | | 95,476 | 41,153 |
| Adjustment for non-cash items and interest, etc. | | 189,907 | 216,891 |
| Change in working capital, including herd | | 5,529 | (43,749) |
| **Cash flows from operating activities before financial income** | | **290,912** | **214,295** |
| Interest received | | 2,551 | 2,458 |
| Interest paid | | (65,801) | (54,668) |
| **Cash flows before tax** | | **227,662** | **162,085** |
| Corporation tax paid | | (761) | (560) |
| **Cash flows from operating activities** | | **226,901** | **161,525** |
| Fixed asset investments made | | (2,025) | (79) |
| Purchase of property, plant and equipment | | (149,058) | (258,419) |
| Purchase of intangible assets | | 0 | (45) |
| Sale of fixed asset investments | | 56 | 101 |
| Sale of property, plant and equipment | | 12,318 | 4,710 |
| **Cash flows from investing activities** | | **(138,709)** | **(253,732)** |
| Raising of loans from credit institutions | | 159,327 | 316,984 |
| Repayment of debt to credit institutions | | (233,017) | (248,613) |
| Change in balances with ultimate parent | | (203) | (2,226) |
| Dividend | | (715) | 0 |
| Proceeds on disposal of partial interests in a subsidary That does not involve loss of control | | 4,000 | 0 |
| **Cash flows from financing activities** | | **(70,608)** | **66,145** |
| **Change in cash and cash equivalents** | | **17,584** | **(26,062)** |
| Cash and cash equivalents 1 January | | 57,082 | 106,090 |
| Exchange adjustment, beginning, cash and cash equivalents | | 62 | (22,946) |
| **Cash and cash equivalents at 31 December** | | **74,728** | **57,082** |

Cash and cash equivalents include cash at bank and in hand

# Notes to the Consolidated Financial Statements

**1. Going concern and classification of debt to credit institutions**

As at 31 December 2016, the Group had DKK 1,107 million of borrowings from credit institutions. As at 31 December 2016, the Group was in breach of certain financial covenants under a number of bank loans totalling DKK 328 million mostly due to sharp devaluation of the currency in Russia and Ukraine and pig price development beginning of 2016. Prior to the reporting date, the Group started discussions with banks about obtaining waivers of rights to require compliance with the expected breached covenants. The Group did not receive waivers before 31 December 2016. Shortly thereafter, they received the waivers based on a draft audit report. According to the rules of IFRS, Management has classified the related whole related loan amount of DKK 328 million as short-term debt, "Credit institutions – technical, not binding". Waivers received after period-end for loans totalling DKK 328 million are, according to IFRS regulations, considered non-adjusting events and therefore cannot lead to reclassification of the loans back from short-term debt to long-term debt as at 31 December 2016, although according to the loan agreements the banks were never in a position to legally require repayment of the loans.

Based on the waivers received in 2017, Management concludes that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The below Statement of Financial Position shows the real position of long-term debt and short-term debt according to loan agreements with banks reflecting the fact that waivers were already received before approval of the annual report for 2016. This states the financial position of equity and liabilities as if the Group did not have to reclassify long-term debt in amounts DKK 328 million to short-term debt according to IFRS rules.

| | 31.12.2016<br>DKK'000 | 31.12.2015<br>DKK'000 |
|---|---|---|
| **Equity** | **1,735,439** | **1,673,345** |
| Credit institutions | 803,906 | 807,848 |
| Other long-term liabilities | 158,326 | 149,767 |
| **Long-term liabilities** | **962,232** | **957,615** |
| Credit institutions | 303,034 | 346,622 |
| Other short-term liabilities | 162,583 | 151,276 |
| **Short-term liabilities** | **465,617** | **497,898** |
| **Liabilities** | **1,427,847** | **1,455,513** |
| **Liabilities and equity** | **3,163,288** | **3,128,857** |

# Notes to the Consolidated Financial Statements

### 2. Business and background

Axzon is a pig producing company producing on sustainable and environmental friendly principles. The basis for the production is a sow herd of 41,547 with 54% in Poland, 34% in Ukraine and 12% in Russia. The number of sows has declined compared to 2015 due to the destruction of 2,700 sows as a result of the ASF outbreak. The sales herd is around 546k pigs with a yearly sale of around 1.3m pigs.

To secure environmental balance, Axzon cultivates 28,000 hectares of land with different sorts of grains, oil crops and silage. The level of self-sufficiency with crops for the feed production is smaller in Poland, on level in Russia and larger in Ukraine.

Further to reduce the environmental impact, several biogas plants have been built in connection to the pig farms, and the Company now has a total production capacity of 75m kWh. 86% of the capacity is placed in Poland, the rest in Ukraine.

In Poland, Axzon has a slaughterhouse with a yearly slaughter capacity of 600 thousand pigs. The main products are processed meat and fresh meat in MAP packages. Besides these products, about 48% of the meat is sold as deboned meat.

In combination with a small production of cattle and milk in Poland and Ukraine, Axzon is an agricultural enterprise, with both primary agricultural production as well as fully integrated production of meat from "field to fork".

# Notes to the Consolidated Financial Statements

**3. Significant accounting estimates and assessments in accounting policies**

**Revaluation of fair value of property, plant and equipment**

The Group's land and buildings, leasehold improvements and plant and machinery are revalued at fair value. Revaluations of property, plant and equipment are recognized in fair-value hierarchy Level 3 using either a market-based approach or replacement cost approach. Results of the revaluation based on the replacement cost approach were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any.

Revaluations are carried out with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Due to the ASF outbreak in DAN KUB farm in Krasnodar, Russia and the one year quarantine, the valuation has shown a decrease of fair value, and a reversal of prior year's revaluation of DKK 9 million has been recognized through Other Comprehensive Income.

The latest valuation in Poland was carried out end of 2014 as no significant price changes have taken place in Poland during 2015 or 2016.

The valuations in Ukraine are based on detailed analysis of replacement costs combined with a DCF model to support the fair value assessment. Due to the special circumstances in Ukraine relating to the political turmoil and the historically low prices of pork meat being way below European level, the expectations regarding timing and level of future profit are based on significant accounting estimates and projections of future profit. Based on the results of this review, the Group concluded not to change the revaluations in 2016. Key assumptions used in the DCF model include:

- increase of pork prices to European level during a forecast period of five years due to expected structural changes in Ukraine
- normalization of EBITDA margins in the terminal period based on conservative external benchmarks for pig production. A decrease of EBITDA margin in the terminal period by 3% would indicate a decrease in fair value in the level of DKK 45 million.
- a WACC of 11.4% based on current market conditions in Ukraine, including risk premiums for market, liquidity and country based on acknowledged external sources. An increase of WACC by 1% would indicate a decrease in fair value in the level of DKK 40 million.
- All inputs and forecasted cashflows including the WACC are excluded from changes due to inflation

The total fair value of land and buildings, leasehold improvements and plant and machinery amounted to DKK 1,987 million at 31 December 2016 (DKK 1,996 million at 31 December 2015).

# Notes to the Consolidated Financial Statements

**3. Significant accounting estimates and assessments in accounting policies (continued)**

**Fair value of biological assets**

The Group's biological assets are measured at fair value less estimated costs to sell at each balance sheet date. The fair value of slaughter pigs is based on the existence of an active market for these, including quotations and prices. The market price is based on the Group's realised sales prices per kg live weight in December 2016 on the local existing markets, and all finishers are valued at this price per kg based on their average weight.

The fair value of the basic herd is measured on the basis of current market prices for animals of the same age, breed and genetic heritage on the nearest market place. Measurement is based on an average between the market price of young females purchased and the slaughter value of a sow.

For crops sown in the autumn, the Group estimates that there was no material biological transformation at 31 December compared with the time of sowing, and therefore these biological assets are measured at cost, which corresponds to the fair value.

Biological assets were measured at a total of DKK 386 million at 31 December 2016 (DKK 355 million at 31 December 2015).

**Useful lives of property, plant and equipment**

The Group determines the useful lives of property, plant and equipment on the basis of knowledge of the trade and expected economic life, which is reassessed on an annual basis.

Property, plant and equipment were measured at a total of DKK 2,214 million at 31 December 2016 (DKK 2,267 million at 31 December 2015).

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **4. Revenue** | | |
| **Business areas:** | | |
| Pig production | 973,222 | 901,795 |
| Arable production | 142,989 | 83,470 |
| Biogas | 27,364 | 29,257 |
| Slaughterhouse | 774,259 | 714,427 |
| Other | 45,205 | 21,845 |
| | **1,963,039** | **1,750,794** |
| Intra-group trade between the business areas | (571,654) | (475,539) |
| | **1,391,385** | **1,275,255** |
| **Geography:** | | |
| Russia | 165,029 | 131,597 |
| Poland | 951,648 | 828,363 |
| Ukraine | 274,708 | 315,295 |
| | **1,391,385** | **1,275,255** |

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **5. Gains/losses in changes in the fair value of biological assets** | | |
| **Current biological assets** | | |
| Slaughter pigs | 37,813 | 17,164 |
| Crop production | (2,127) | 5,988 |
| **Non-current biological assets** | | |
| Basic herd of pigs | 13,108 | 29,702 |
| | **48,794** | **52,854** |

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **6. Grants and other income** | | |
| EU hectare support | 9,446 | 10,833 |
| Biogas | 979 | 1,251 |
| Ukrainian VAT grant | 7,069 | 12,099 |
| Energy certificate | 24,435 | 0 |
| Other income | 11,467 | 17,720 |
| | **53,396** | **41,903** |

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **7. Staff costs** | | |
| Wages and salaries | 168,708 | 165,359 |
| Pensions | 328 | 322 |
| Other social security expenses | 22,522 | 21,508 |
| | **191,558** | **187,189** |
| Wages and salaries capitalised under fixed assets | (3,139) | (5,666) |
| | **188,419** | **181,523** |
| Remuneration to the Executive Board | 3,450 | 3,200 |
| Remuneration to the Board of Directors | 1,516 | 1,283 |
| | **4,966** | **4,483** |
| **Average number of employees** | **2,350** | **2,423** |
| **8. Special items** | | |
| *Costs incurred in connection with the ASF outbreak:* | | |
| Costs related to disposal of pigs | (29,607) | 0 |
| Costs related to extensive cleaning of the farm | (3,836) | 0 |
| Government grants etc. for eradication of ASF | 17,414 | 0 |
| | **(16,029)** | **0** |

Special items comprise costs incurred in connection with the ASF outbreak at the farm in Krasnodar in 2016. The costs relate to expropriation of all pigs and extensive cleaning of the farm prior to the subsequent quarantine. The authorities in Russia have approved a compensation for the expropriation. The compensation is recognised as a receivable.

If the special items had been recognised in operating profit before special items, they would have been included in the following items:

| | Special items DKK'000 | Before special items DKK'000 |
|---|---|---|
| Change in fair value of biological assets | (14,760) | 34,034 |
| Grants and other income | 16,525 | 69,021 |
| Costs of materials and services | (17,794) | (960,932) |

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **9. Financial income** | | |
| **Interest** | | |
| Loans and receivables | 1,719 | 2,311 |
| | | |
| **Other financial income** | | |
| Fair value gains | 0 | 1,690 |
| | **1,719** | **4,001** |
| **10. Financial expenses** | | |
| **Interest** | | |
| Loans and payables | 65,130 | 52,263 |
| | | |
| **Other financial expenses** | | |
| Fair value losses | 0 | 0 |
| | **65,130** | **52,263** |
| | | |
| **11. Exchange rate adjustments** | | |
| Loans and payables | 13,051 | 69,507 |
| | **13,051** | **69,507** |
| | | |
| **12. Tax on profit for the year** | | |
| Current tax for the year | 152 | 369 |
| Deferred tax for the year | (488) | 3,794 |
| | **(336)** | **4,163** |
| | | |
| **Tax on profit for the year is specified as follows:** | | |
| Calculated 22% tax on profit for the year before tax | 20,930 | 10,649 |
| | | |
| **Tax effect of:** | | |
| Tax-exempted profit on agricultural activities abroad | (15,891) | (5,699) |
| Adjustment valuation deferred tax | (100) | (60) |
| Differences in tax rates compared with Denmark | (3,909) | 184 |
| Non-taxable income and expenses | (1,366) | (911) |
| | **(336)** | **4,163** |
| | | |
| **Effective tax rate for the year** | **0.4%** | **9%** |

# Notes to the Consolidated Financial Statements

| | Goodwill DKK'000 |
|---|---|
| **13. Intangible assets** | |
| **2015** | |
| Cost at 1 January | 95,151 |
| Exchange adjustment at balance sheet date rates | (11,005) |
| **Cost at 31 December** | **84,146** |
| | |
| Impairment losses at 1 January | 0 |
| Impairment losses for the year | 0 |
| **Impairment losses at 31 December** | **0** |
| | |
| **Carrying amount at 31 December 2015** | **84,146** |
| | |
| **2016** | |
| Cost at 1 January | 84,146 |
| Exchange adjustment at balance sheet date rates | 15,096 |
| **Cost at 31 December** | **99,242** |
| | |
| Impairment losses at 1 January | 0 |
| Impairment losses for the year | 0 |
| **Impairment losses at 31 December** | **0** |
| | |
| **Carrying amount at 31 December 2016** | **99,242** |

Goodwill relates to Poldanor S.A., Danosha Ltd. and Dan-Invest LLP. For all companies, an impairment test in respect of goodwill has been carried out at 31 December 2016 based on the calculation of value in use. The impairment test was performed through calculation of value based on a DCF model. The DCF model used as basis for impairment has 4 years (2017-2020) as budget periods. There is no growth in the terminal period. Instead it has been set as the same as budget year 2020. There is no general growth in the budget period, which instead is based on the approved and actual budget by Management for 2017-2020. For Poldanor S.A. discount rate before tax was 7.8% (2015: 7.8%); For Danosha Ltd. discount rate before tax was 11% (2015: 11%); For Dan-Invest LLP discount rate before tax was 11% (2015: 11%). No growth has been recognised after the budget period. The applied WACC and budgets are excluded from changes due to inflation.

# Notes to the Consolidated Financial Statements

**13. Intangible assets (continued)**

As mentioned in the management review, the feed to meat ratio has been extraordinarily low in 2016. The budgets are made from the expectation that the ratio also is extraordinarily low in 2017 but after that will return to a level close to the average for the last 20 years.

CGUs identified and used for allocation of goodwill and impairment testing is based on countries as the countries are viewed as the smallest unit that generates identifiable cash flows. This approach has only two exceptions which is Prime Food and Poldanor. Both entities are located in Poland. The activities are, however, very different in nature, and thus Management considers them two separate CGUs. The activity of Primo Food is slaughtering while Poldanor's primary activity is the production of pigs.
The CGUs are Dan-Invest LLC (Russia), Danosha Ltd. (Ukraine) and Poldanor S.A. (Poland).

The carrying amount of goodwill is specified as follows:

| | **2016 DKK'000** | **2015 DKK'000** |
|---|---|---|
| Dan-Invest LLC | 81,665 | 65,634 |
| Poldanor S.A. | 13,932 | 14,547 |
| Danosha Ltd. | 3,645 | 3,965 |
| | **99,242** | **84,146** |

# Notes to the Consolidated Financial Statements

| | Land and buildings DKK'000 | Leasehold improve-ments etc. DKK'000 | Total properties DKK'000 |
|---|---|---|---|
| **14. Property, plant and equipment** | | | |
| **2015** | | | |
| Cost or valuation at 1 January | 1,328,281 | 162,493 | 1,490,774 |
| Exchange adjustment at balance sheet date rates | (116,330) | 3,115 | (113,215) |
| Additions for the year | 106,671 | 0 | 106,671 |
| Disposals for the year | (3,479) | 0 | (3,479) |
| Revaluation adjustment | 29,552 | 0 | 29,552 |
| Elimination depreciation revaluations | (10,918) | 0 | (10,918) |
| Reclassification/transfer | 75,455 | (12,500) | 62,955 |
| **Cost or valuation at 31 December** | **1,409,232** | **153,108** | **1,562,340** |
| Depreciation at 1 January | 0 | 0 | 0 |
| Exchange adjustment at balance sheet date rates | 0 | 0 | 0 |
| Depreciation for the year | 38,526 | 9,347 | 47,873 |
| Depreciation disposals for the year | (1,744) | 0 | (1,744) |
| Elimination depreciation revaluations | (10,918) | 0 | (10,918) |
| Reclassification/transfer | 2,737 | (2,380) | 357 |
| **Depreciation at 31 December** | **28,601** | **6,967** | **35,568** |
| **Carrying amount at 31 December 2015** | **1,380,632** | **146,140** | **1,526,772** |
| Interest capitalized for the year calculated at an interest rate of between 5% and 15% | 985 | 0 | 985 |
| Assets provided as security for debt | 1,125,767 | 0 | 1,125,767 |

# Notes to the Consolidated Financial Statements

| | Land and buildings DKK'000 | Leasehold improve-ments etc. DKK'000 | Total properties DKK'000 |
|---|---|---|---|
| **14. Property, plant and equipment (continued)** | | | |
| **2016** | | | |
| Cost or valuation at 1 January | 1,380,632 | 146,140 | 1,526,772 |
| Exchange adjustment at balance sheet date rates | (10,701) | (6,169) | (16,870) |
| Additions for the year | 75,568 | 0 | 75,568 |
| Disposals for the year | (1,578) | (2,286) | (3,864) |
| Revaluation adjustment | (10,210) | 0 | (10,201) |
| Elimination depreciation revaluations | 0 | 0 | 0 |
| Reclassification/transfer | 37,208 | (2,519) | 34,689 |
| **Cost or valuation at 31 December** | **1,470,919** | **135,166** | **1,606,085** |
| | | | |
| Depreciation at 1 January | 0 | 0 | 0 |
| Exchange adjustment at balance sheet date rates | 0 | 0 | 0 |
| Depreciation for the year | 49,370 | 7,874 | 57,244 |
| Depreciation disposals for the year | (585) | (274) | (859) |
| Elimination depreciation revaluations | 0 | 0 | 0 |
| Reclassification/transfer | (574) | 14 | (560) |
| **Depreciation at 31 December** | **48,211** | **7,614** | **55,825** |
| | | | |
| **Carrying amount at 31 December 2016** | **1,422,708** | **127,552** | **1,550,260** |
| | | | |
| Interest capitalized for the year calculated at an interest rate of between 5% and 15% | 860 | 0 | 860 |
| | | | |
| Assets provided as security for debt | 605,614 | 0 | 605,614 |

# Notes to the Consolidated Financial Statements

| | Plant and machinery DKK'000 | Other fixtures and fittings tools and equipment DKK'000 | Property plant and equipment in progress DKK'000 |
|---|---|---|---|
| **14. Property, plant and equipment (continued)** | | | |
| **2015** | | | |
| Cost or valuation at 1 January | 394,143 | 233,525 | 215,961 |
| Exchange adjustment at balance sheet date rates | (50,942) | (18,512) | (12,252) |
| Additions for the year | 50,834 | 37,194 | 228,239 |
| Disposals for the year | (1,069) | (10,977) | (1,625) |
| Revaluation adjustment | 82,259 | (966) | 0 |
| Elimination depreciation revaluations | (14,334) | 0 | 0 |
| Reclassification/transfer | 30,926 | 31,993 | (289,284) |
| **Cost or valuation at 31 December** | **491,817** | **272,257** | **141,039** |
| | | | |
| Depreciation at 1 January | 0 | 117,395 | 0 |
| Exchange adjustment at balance sheet date rates | 0 | (5,281) | 0 |
| Depreciation for the year | 49,170 | 27,512 | 0 |
| Depreciation disposals for the year | (588) | (8,373) | 0 |
| Elimination depreciation revaluations | (14,334) | 0 | 0 |
| Reclassification/transfer | (6,033) | 5,675 | 0 |
| **Depreciation at 31 December** | **28,215** | **136,928** | **0** |
| | | | |
| **Carrying amount at 31 December 2015** | **463,604** | **135,328** | **141,039** |
| | | | |
| Assets under finance lease amount to | 0 | 2,930 | 0 |
| | | | |
| Assets provided as security for debt | 199,578 | 18,547 | 0 |

# Notes to the Consolidated Financial Statements

| | Plant and machinery DKK'000 | Other fixtures and fittings tools and equipment DKK'000 | Property plant and equipment in progress DKK'000 |
|---|---|---|---|
| **14. Property, plant and equipment (continued)** | | | |
| **2016** | | | |
| Cost or valuation at 1 January | 463,604 | 135,328 | 141,039 |
| Exchange adjustment at balance sheet date rates | (7,115) | (5,038) | 4,453 |
| Additions for the year | 43,064 | 26,277 | 139,602 |
| Disposals for the year | (7,874) | (18,278) | (2,630) |
| Revaluation adjustment | (5,301) | 0 | 0 |
| Elimination depreciation revaluations | 0 | 0 | 0 |
| Reclassification/transfer | 5,990 | 9,206 | (184,598) |
| **Cost or valuation at 31 December** | **492,368** | **147,495** | **97,866** |
| | | | |
| Depreciation at 1 January | 0 | 0 | 0 |
| Exchange adjustment at balance sheet date rates | 0 | 0 | 0 |
| Depreciation for the year | 60,570 | 32,997 | 0 |
| Depreciation disposals for the year | (5,001) | (15,264) | 0 |
| Elimination depreciation revaluations | 0 | 0 | 0 |
| Reclassification/transfer | 346 | (56) | 0 |
| **Depreciation at 31 December** | **55,915** | **17,677** | **97,866** |
| | | | |
| **Carrying amount at 31 December 2016** | **436,453** | **129,818** | **97,866** |
| | | | |
| Assets provided as security for debt | 339,446 | 16,002 | |

**Revaluation of land and buildings, leasehold improvements and plant and machinery**

Land and buildings, leasehold improvements and plant and machinery are measured at fair value. All of these fair values are placed at level 3 in the fair value hierarchy as significant estimates are applied - please refer to note 3 (significant accounting estimates and assessments in accounting policies). The revaluation process is based on qualified independent appraisers, and valuation techniques are the market and replacement cost approach. The replacement cost approach is only used in cases where there was no possibility to use the market approach. The valuation process and results for measurement are reviewed and approved by Group Management and the Audit Committee at least once every year.

# Notes to the Consolidated Financial Statements

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

As at 31 December 2016 an independent valuation of the Group's Land and buildings and Plant And machinery in Ukraine and Russia was performed by an independent appraiser. Fair value of the assets were determined using the market comparable approach or the replacement cost approach. No significant changes in fair value in Russia according to valuation except for the DAN KUB farm in Krasnodar, where the ASF outbreak and following quarantine has led to a downward revaluation adjustment of DKK 16 million. No significant changes in fair value in Ukraine according to valuation and the replacement cost approach. Latest valuation in Poland was carried out end of 2014 and no significant price changes has taken place in Poland during 2015 and 2016, whereby the valuation in 2014 is still considered appropriate.

| | **Land and buildings DKK'000** | **Plant and machinery DKK'000** | **Total DKK'000** |
|---|---|---|---|
| 2015 | | | |
| Revaluation – part of cost or valuation | 321,779 | 160,408 | 482,188 |
| Revaluation – part of depreciation | (8,604) | (20,000) | (28,604) |
| **Revaluation surplus end of year** | **313,175** | **140,408** | **453,584** |
| | | | |
| 2016 | | | |
| Revaluation – part of cost or valuation | 333,825 | 209,524 | 543,349 |
| Revaluation – part of depreciation | (2,835) | (26,107) | (28,942) |
| **Revaluation surplus end of year** | **330,990** | **183,417** | **514,407** |

If land and buildings. leasehold improvements and plant and machinery were measured using cost model, the carrying amounts would be:

| | **Land and buildings DKK'000** | **Plant and machinery DKK'000** | **Total DKK'000** |
|---|---|---|---|
| 2015 | | | |
| Net carrying amount without revaluations | 1,213,596 | 323,195 | **1,536,792** |
| | | | |
| 2016 | | | |
| Net carrying amount without revaluations | 1,219,270 | 253,036 | **1,472,306** |

# Notes to the Consolidated Financial Statements

| | 2016 DKK’000 | 2015 DKK’000 |
|---|---|---|
| **15. Non-current investments** | | |
| Other financial assets | 4,609 | 3,632 |
| Other non-current receivables | 1,900 | 0 |
| **Cost at 31 December** | **6,509** | **3,632** |
| | | |
| **Associates** | | |
| Cost at 1 January | 1,000 | 1,000 |
| **Cost at 31 December** | **1,000** | **1,000** |
| | | |
| **Carrying amount at 31 December** | **7,509** | **4,632** |

The carrying amounts of investments in associates are specified as follows:

| | | |
|---|---|---|
| Sevel Slagteri A/S, Denmark, 40% | 1,000 | 1,000 |

# Notes to the Consolidated Financial Statements

| | Basic herd DKK'000 | Slaughter pigs DKK'000 | Total herd DKK'000 |
|---|---|---|---|
| **16. Biological assets** | | | |
| Carrying amount at 1 January 2015 | 115,318 | 173,258 | 288,576 |
| | | | |
| **Movements 2015:** | | | |
| Additions from purchase | 9,840 | 757 | 10,597 |
| Additions from production | 0 | 189,149 | 189,149 |
| Gains/losses from change in fair value less estimated costs to sell | 8,239 | 403,870 | 412,109 |
| Disposals from sales | (39,592) | (531,189) | (570,781) |
| Transfer between groups | 48,195 | (48,195) | 0 |
| Exchange adjustments | (11,350) | (17,576) | (28,926) |
| **Carrying amount at 31 December 2015** | **130,650** | **170,074** | **300,724** |
| | | | |
| **Movements 2016:** | | | |
| Additions from purchase | 1,918 | 73 | 1,991 |
| Additions from production | 10,038 | 370,517 | 380,555 |
| Gains/losses from change in fair value | (13,692) | 501,494 | 487,802 |
| Disposals from sales | (34,945) | (802,475) | (837,420) |
| Transfer between groups | 21,784 | (21,784) | 0 |
| Exchange adjustments | 4,987 | (2,589) | 2,398 |
| **Carrying amount at 31 December 2016** | **120,740** | **215,310** | **336,050** |

Additions for piglets are calculated as the value of weaners at standard rates.

Gain on changes in fair value comprises changes as a consequence of biological growth and price changes. Disposals from sales and transfer amounts are calculated using the fair value per unit from previous period. Transfer between groups covers pigs transferred to own breeding as young females.

Herd provided as security for loan from credit institution amounts to DKK 132 million at 31 December 2016 (2015: DKK 175 million).

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **16. Biological assets (continued)** | | |
| **Crop production** | | |
| Carrying amount at 1 January | 53,893 | 47,410 |
| Field expenses for the year | 157,269 | 145,627 |
| Gain on changes in fair value | 4,256 | 10,502 |
| Disposal from harvesting | (163,473) | (144,528) |
| Exchange adjustments | (2,456) | (5,118) |
| **Carrying amount at 31 December** | **49,489** | **53,893** |
| | | |
| Total number of cultivated hectares | 27,423 | 27,021 |
| | | |
| Number of cultivated hectares end of year | 15,191 | 14,976 |

Current biological assets under crop production include winter crops sown in the autumn. Field expenses for the year include expenses relating to biological transformation.

All biological assets are measured at fair value. All of these fair values are placed at level 3 in the fair value hierarchy as significant estimates are applied - please refer to note 3 (significant accounting estimates and assessments in accounting policies). The Group's financial departments are responsible for performing the valuation of fair value measurements including level 3 fair values of biological assets. Same valuation model and techniques are used every month in all companies. Valuation model includes market inputs from official prices and actual own sales prices on local market. The valuation process and results for recurring measurement are reviewed and approved by Group Management at least once every quarter.

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **17. Inventories** | | |
| Agriculture produce. grain and feed etc. | 118,735 | 110,836 |
| Raw materials and consumables | 81,109 | 79,169 |
| Work in progress | 4,856 | 3,677 |
| Finished goods and consumables | 26,617 | 25,407 |
| | **231,317** | **219,089** |

No write-down has been made on inventories.

The value of inventories provided as security for credit institutions amounts to DKK 25 million at 31 December 2015 (2015: DKK 26 million).

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **18. Receivables** | | |
| Trade receivables | 68,617 | 80,691 |
| Bad debt provision | (1,507) | (1,574) |
| **Trade receivables, net** | **67,110** | **79,117** |
| | | |
| Other receivables | 62,420 | 46,910 |
| Bad debt provision | (3,097) | (3,369) |
| **Other receivables, net** | **59,323** | **43,541** |
| | | |
| **Total receivables** | **126,433** | **122,658** |
| | | |
| Write-down at 1 January | 4,943 | 6,346 |
| Exchange adjustments | (339) | (1,511) |
| Additions for the year | 0 | 108 |
| Disposals for the year: | | |
| - Applied | 0 | 0 |
| - Reversed | 0 | 0 |
| **Write-down at 31 December** | **4,604** | **4,943** |

**19. Share capital**

The share capital comprises the following share classes:

| | | |
|---|---|---|
| **A-shares:** | | |
| Number at 1 January | 53,111,848 | 53,111,848 |
| Capital increase | 0 | 0 |
| **Number at 31 December** | **53,111,848** | **53,111,848** |

No shares carry any special rights.

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **20. Provision for deferred tax** | | |
| Provision at 1 January | 5,488 | 3,473 |
| Adjustment for the year | (714) | 2,015 |
| Provision for deferred tax 31 December | **4,774** | **5,488** |

The provision for deferred tax has been calculated at 19-22% corresponding to the expected tax rate.

| | Staff obligations DKK'000 |
|---|---|
| **21. Other provisions** | |
| Other provision at 1 January | 6,655 |
| Exchange adjustment at balance sheet date rates | (985) |
| Provision for the year | 4,733 |
| Utilised provisions | (3,901) |
| Reversal of unutilised provisions | (337) |
| **Other provisions at 31 December** | **6,165** |
| | |
| Provisions are recognised in the balance sheet as follows | |
| Long-term debt | 3,483 |
| Short-term debt | 2,682 |
| | **6,165** |

Other provisions relate to provision for voluntary social funds in foreign subsidiaries as well as provisions for contribution-based redundancy schemes. Uncertainty in respect of the recognition primarily relates to the unknown time horizon and the scope involved.

# Notes to the Consolidated Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **22. Debt** | | |
| **Debt to credit institutions** | | |
| Payable after 5 years | 59,386 | 25,200 |
| Payable between 2 and 5 years | 416,266 | 368,648 |
| **Long-term debt** | **475,652** | **393,848** |
| Short term - ordinary | 303,034 | 346,622 |
| Short term – technical, not binding | 328,254 | 414,000 |
| | **1,106,940** | **1,154,470** |

As at 31 December 2016, the Group had DKK 1,107 million of borrowings from credit institutions. As at 31 December 2016, the Group was in breach of certain financial covenants under a number of bank loans totalling DKK 328 million mostly due to pig price development in 2015 and 2016. Prior to the reporting date, the Group started discussions with banks about obtaining waivers of rights to require compliance with the expected breached covenants. The Group did not receive waivers until after 31 December 2016 based on a draft audit report. According to rules of IFRS, Management has classified the related loan amount of totally DKK 328 million as short-term debt. Waivers received after period-end for loan totalling DKK 328 million are considered non-adjusting events according to IFRS regulations and therefore cannot lead to reclassification of the loans back from short-term debt to long-term debt as at 31 December 2016 although the banks according to the loan agreements were never in a position to legally require repayment of the loans.

Note 1 includes a Statement of Financial Position, which shows the real position of long-term debt and short-term debt according to loan agreements with banks reflecting the fact that waivers were received before approval of the annual report for 2016. This states the financial position of equity and liabilities as if the Group did not have to reclassify long-term debt in amounts DKK 328 million to short-term debt according to IFRS rules.

# Notes to the Consolidated Financial Statements

**22. Debt (continued)**

**Debt to credit institution – interest exposure**

| | Carrying amount DKK'000 | Interest binding period months | Average effective interest in % |
|---|---|---|---|
| **Loans with fixed interest:** | | | |
| EUR | 11,671 | 12-48 | 0% |
| UAH | 8,595 | 12-13 | 16-24% |
| RUB | 199,189 | 12-60 | 15% |
| | | | |
| **Loans with variable interest:** | | | |
| USD | 3,661 | 6 | 3% |
| EUR | 577,891 | 1-6 | 3-11% |
| PLN | 223,823 | 1-3 | 4% |
| DKK | 22,448 | 3 | 4% |

For more information on exposure to interest rate, foreign currency risk and information on financial risk, we refer to note 25.

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **Subordinate loan capital** | | |
| Payable after 5 years | 50,000 | 60,000 |
| Payable between 1 and 5 years | 90,000 | 70,000 |
| **Long-term debt** | **140,000** | **130,000** |
| Short-term debt | 10,000 | 20,000 |
| | **150,000** | **150,000** |

Subordinate loan capital from Polen Invest A/S, DKK 150 million, is repaid according to the financial position of the Company, and up until 2016 with a maximum of DKK 20 million per year. The Company has intention to repay the loan entirely or partly during 2018 if the financial position of the Company allows it.

In 2012, the Industrialisation Fund for Developing Countries (IFU) contributed EUR 2 million in share capital to Axzon A/S's subsidiary Danosha Ltd. Based on exit agreement between Axzon A/S and IFU with put/call option. The subordinate loan capital to IFU carries interest under the exit agreement concluded between IFU and Axzon A/S.

# Notes to the Consolidated Financial Statements

| | 2016<br>DKK'000 | 2015<br>DKK'000 |
|---|---|---|

### 23. Deferred income

Deferred income primarily relates to grants for the construction of biogas production in Poland. Grants are recognised as income concurrently with the underlying fixed assets being depreciated.

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| Short-term part | 5,101 | 2,808 |
| Long-term part | 10,069 | 11,139 |
| | **15,170** | **13,947** |

### 24. Contingent liabilities and other financial obligations

Lease and rent obligations in the period of non-terminability

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| Within 1 year | 28,561 | 59,661 |
| Between 2-5 years | 19,675 | 47,751 |
| After 5 years | 30,036 | 54,187 |
| | **78,272** | **161,599** |

The leases and rent obligations have been established for a fixed period. The annual lease payment is adjusted according to the price of wheat. The obligations relating to the leases have been calculated on the basis of the wheat prices for 2016.

The Group has provided cross surety for debt within the Group.

Axzon A/S is jointly taxed with its parent, Polen Invest A/S, which acts as administration company, and has joint and several liability together with other jointly taxed group entities for the payment of income tax for the income year 2013 onwards as well as for withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012. Tax payable for the joint taxation amounts to DKK 0 at 31 December 2016 (DKK 0 at 31 December 2015).

Apart from this, the Group has no contingent liabilities except for what is usual for the line of business.

# Notes to the Consolidated Financial Statements

### 25. Financial risks

**Credit risks**

The Group is exposed to credit risks on receivables. The Group considers the credit risk to be low. The Group's maximum credit risk is the sum of receivables recognised.

Outstanding receivables are followed-up upon on a current basis in accordance with Group procedures. If it is uncertain whether a customer is able or willing to pay, and the receivable is deemed doubtful, the receivable is written down.

Overdue balances on trade receivables break down as follows at 31 December 2016:

| | 0-15 days DKK'000 | 16-30 days DKK'000 | 30-45 days DKK'000 | > 45 days DKK'000 | Total DKK'000 |
|---|---|---|---|---|---|
| Overdue receivables not impaired | 19,852 | 1,625 | 0 | 7,154 | 28,631 |
| Overdue receivables impaired | 0 | 0 | 0 | 0 | 0 |
| | 19,852 | 1,625 | 0 | 7,154 | 28,631 |
| Write-down | 0 | 0 | 0 | (1,507) | (1,507) |
| | **19,852** | **1,625** | **0** | **5,647** | **27,124** |

Overdue balances on trade receivables break down as follows at 31 December 2015:

| | 0-15 days DKK'000 | 16-30 days DKK'000 | 30-45 days DKK'000 | > 45 days DKK'000 | Total DKK'000 |
|---|---|---|---|---|---|
| Overdue receivables not impaired | 12,713 | 3,946 | 139 | 5,758 | 22,556 |
| Overdue receivables impaired | 0 | 0 | 0 | 0 | 0 |
| | **12,713** | **3,946** | **139** | **5,758** | **22,556** |
| Write-down | 0 | 0 | 0 | (1,574) | (1,574) |
| | **12,713** | **3,946** | **139** | **4,184** | **20,982** |

# Notes to the Consolidated Financial Statements

### 25. Financial risks (continued)

**Liquidity risk**

The Group ensures adequate cash resources by entering into framework agreements in respect of current overdraft facilities. Existing agreements subject to time limitation are irrevocable on the part of the banks prior to maturity unless there is a breach of the terms of the loans according to the loan agreements.

In case of a breach of the terms of the loans, the Group has a right to remediate causes of breach without undue delay, and failing that, the bank is entitled to cancel the entire or part of the facility.

The maturity analysis is disclosed according to category and class broken down on maturity period. Calculation of interest payments on floating-rate obligations is based on the interest rate at the balance sheet date.

Maturity analysis at 31 December 2016 excluding future interest payments:

| DKK'000 | <1 year | 1-5 year | >5 year | Without agreed settlement | Total | Carrying amount | Fair Value |
|---|---|---|---|---|---|---|---|
| **Measured at amortised cost:** | | | | | | | |
| Credit institutions | 557,383 | 571,236 | 94,372 | 0 | 1,222,991 | 1,107,336 | 1,107,336 |
| Credit institutions – covenants breach* | (328,254) | 328,254 | 0 | 0 | 0 | 0 | 0 |
| Payables to group companies** | 13,195 | 80,000 | 60,000 | 0 | 153,195 | 153,195 | 153,195 |
| Trade payables | 65,535 | 0 | 0 | 0 | 65,535 | 65,535 | 65,535 |
| Other short-term payables | 75,197 | 0 | 0 | 0 | 75,197 | 75,197 | 75,197 |
| **Financial liabilities** | **383,056** | **979,490** | **154,372** | **0** | **1,516,918** | **1,401,263** | **1,401,263** |
| | | | | | | | |
| **Receivables:** | | | | | | | |
| Receivables from related companies | 6,778 | 0 | 0 | 0 | 6,778 | 6,778 | 6,778 |
| Trade receivables | 67,110 | 0 | 0 | 0 | 67,110 | 67,110 | 67,110 |
| Other receivables | 76,668 | 0 | 0 | 0 | 76,668 | 76,668 | 76,668 |
| Cash at bank and in hand | 74,728 | 0 | 0 | 0 | 74,728 | 74,728 | 74,728 |
| **Financial assets** | **225,284** | **0** | **0** | **0** | **225,284** | **225,284** | **225,284** |
| | | | | | | | |
| **Net Cash Outflow** | **(157,775)** | **(979,490)** | **(154,372)** | **0** | **(1,291,634)** | **(1,175,979)** | **(1,175,979)** |

# Notes to the Consolidated Financial Statements

### 25. Financial risks (continued)

Maturity analysis at 31 December 2015 excluding future interest payments:

| **DKK'000** | **<1 year** | **1-5 year** | **>5 year** | **Without agreed settlement** | **Total** | **Carrying amount** | **Fair Value** |
|---|---|---|---|---|---|---|---|
| **Measured at amortised cost:** | | | | | | | |
| Credit institutions | 788,050 | 422,722 | 31,624 | 0 | 1,242,396 | 1,154,470 | 1,154,470 |
| Credit institutions – covenants breach* | (414,000) | 414,000 | 0 | 0 | 0 | 0 | 0 |
| Payables to group companies** | 23,010 | 80,000 | 50,000 | 0 | 153,010 | 152,992 | 153,010 |
| Trade payables | 87,242 | 474 | 0 | 0 | 87,716 | 57,467 | 57,941 |
| Other short-term payables | 49,483 | 0 | 0 | 0 | 49,483 | 70,817 | 69,199 |
| **Financial liabilities** | **513,785** | **917,196** | **81,624** | **0** | **1,532,605** | **1,435,746** | **1,434,620** |
| **Receivables:** | | | | | | | |
| Receivables from related companies | 6,778 | 0 | 0 | 0 | 6,778 | 6,778 | 6,778 |
| Trade receivables | 79,117 | 0 | 0 | 0 | 79,117 | 79,117 | 79,117 |
| Other receivables | 56,330 | 0 | 0 | 0 | 56,330 | 56,330 | 56,330 |
| Cash at bank and in hand | 57,082 | 0 | 0 | 0 | 57,082 | 57,082 | 57,082 |
| **Financial assets** | **199,307** | **0** | **0** | **0** | **199,307** | **199,307** | **199,307** |
| **Net Cash Outflow** | **(334,478)** | **(917,196)** | **(81,624)** | **0** | **(1,333,298)** | **(1,236,116)** | **(1,234,990)** |

*) Subsequent to the balance sheet date but before the approval of Annual Report 2016, Axzon has received waivers for breached covenants, whereas the effect of classification of long-term and short-term in regard to covenants breach is eliminated in maturity analyses above, and the repayment within 1 year for credit institutions is the original contractual maturity. See also note 1.

The cash needs are expected to be covered by current cash surplus generated from operations, undrawn credit facilities and extension of short-term credits. Subordinate loan capital is repaid according to the financial position of the Company. Inventories and biological assets are not included in the maturity analysis above.

**) As stated in note 22, the Company's subordinated loan from Polen Invest A/S is repaid according to the financial position of the Company, and up until 2016 with a maximum of DKK 20 million per year, which is reflected in the above maturity analysis at 31 December 2016. As also stated in note 22, the Company has intentions to repay the loan entirely or partly during 2018 if the financial position allows it.

# Notes to the Consolidated Financial Statements

**25. Financial risks (continued)**

**Market risk**

The Group's credit facilities are floating-rate credits, which exposes the Group to interest rate fluctuations. According to Group policy, all financing of working capital and investments in fixed assets are made on floating-rate terms. No financial instruments are used to hedge the interest level.

Based on interest-bearing debt at the balance sheet date, an increase in the market rate of 1% would affect profit for the year before tax by approximately DKK 11 million. The Group's settlement currencies are primarily PLN, RUB and UAH. No financial instruments are used to hedge positions in foreign currencies.

Currency exposure at 31 December:

| **DKK'000** | **Payment maturity** | **Receivables** | **Payables** | **Bank and credit institutions** | **Payables to group companies** | **Net position 2016** | **Net position 2015** |
|---|---|---|---|---|---|---|---|
| **Currency** | | | | | | | |
| USD | < 1 year | 0 | 0 | (2,448) | 0 | (2,448) | 2,230 |
| | > 1 year | 0 | 0 | (1,212) | 0 | (1,212) | (3,493) |
| EUR | < 1 year | 52 | (5,918) | (328,966) | 0 | (334,832) | (547,290) |
| | > 1 year | 0 | (910) | (261,077) | 0 | (261,987) | (207,563) |
| PLN | < 1 year | 85,194 | (91,380) | (65,544) | 0 | (71,730) | (120,612) |
| | > 1 year | 1,521 | (1,300) | (218,278) | 0 | (218,057) | (157,497) |
| UAH | < 1 year | 25,600 | (12,561) | (7,634) | 0 | 5,405 | 43,911 |
| | > 1 year | 0 | 0 | (626) | 0 | (626) | (3,394) |
| DKK | < 1 year | 3,295 | (1,377) | 0 | (13,195) | (11,277) | (23,367) |
| | > 1 year | 0 | 0 | (22,448) | (140,000) | (162,448) | (130,000) |
| RUB | < 1 year | 28,115 | (7,602) | (154,775) | 0 | (134,262) | (80,184) |
| | > 1 year | 0 | 0 | (67,905) | 0 | (67,905) | (85,145) |
| | | **143,777** | **(121,048)** | **(1,130,913)** | **(153,195)** | **(1,261,379)** | **(1,312,404)** |

Due to the Danish central bank's fixed-rate policy towards EUR, it is assessed that the foreign currency positions in EUR do not involve any risk of significant influence due to changes in the EUR rate.

As a consequence of the individual group enterprises primarily operating in their individual functional currencies, the Group results will mainly be affected by changes in exchange rates due to intercompany accounts and receivables/payables and loans denominated in other currencies than the functional currency for the individual group enterprise.

# Notes to the Consolidated Financial Statements

**25. Financial risks (continued)**

**Market risk (continued)**

The most significant effect on the Group's earnings is attributable to changes in the price of pig meat and price changes relating to pig feed, which makes up 2/3 of the pig production costs. Axzon is engaged in large-scale agricultural activities, which makes it possible to use the pig slurry. Moreover, this provides considerable hedging of the risk of changes in feed prices. A change of the pig meat price of 10% will, on an isolated basis, affect profit for the year before tax relating to the pig production by approximately DKK 92 million (2015: approx. DKK 106 million). A change in the feed price will, on an isolated basis, affect profit for the year before tax relating to the pig production by approximately DKK 53 million (2015: approx. 52 million).

**Capital management**

The objective of the Group's capital management is to ensure the Group's ability to continue as a going concern in order to provide return on the shareholders' investments and establish and maintain an optimal capital structure for the purpose of reducing the costs of borrowed capital and maintain a basis for continued growth in the Group.

The Group's capital management is moreover partly controlled by loan agreements which include specific requirements to the financial performance of the Group.

Total capital comprises equity and subordinate loan capital from the Parent company; Polen Invest A/S, as shown in the consolidated balance sheet.

# Notes to the Consolidated Financial Statements

### 26. Related parties and ownership

| **Controlling interest** | **Basis for influence** |
|---|---|
| Polen Invest A/S, Vesterbrogade 4A, 5, DK-1620 Copenhagen | Parent Company |

Polen Invest A/S's shareholders are legal and natural persons, and no individual shareholder exercises control of the Group's activities.

**Other related parties**

| | |
|---|---|
| Tom Axelgaard, Kopanky Village, Kalush, Ukraine | CEO |
| Hans Henrik Pauk Pedersen, Agnesvej 14, DK-2800 Kgs. Lyngby | CFO |
| Ole Østergaard Lauritsen, Solvænget 21, DK-7400 Herning | Financial director |
| Niels Rauff Hansen, Søbyvej 40, DK-7840 Højslev | Chairman of the Board of Directors |
| Anders Bundgaard, Rørholtvej 76, DK-9370 Hals | Deputy Chairman of the Board of Directors |
| Jens Jørgen Nielsen, Annasmindevej 26, DK-8700 Horsens | Member of the Board of Directors |
| Anders Christen Obel, Haxholmvej 80, DK-8870 Langå | Member of the Board of Directors |
| Jens Blach, Århusvej 115, DK-8570 Trustrup | Member of the Board of Directors |
| Erling Bech Poulsen, Høvsørevej 41, DK-7650 Bøvlingbjerg | Member of the Board of Directors |
| Poldanor S.A., Poland | Group company |
| Prime Food Sp. z o.o., Poland | Group company |
| Danosha Ltd., Ukraine | Group company |
| Dan-Invest LLC, Russia | Group company |
| Sevel Slagteri A/S. Søgårdsvej 28, DK-7830 Vinderup | Associated company |

**Transactions**

The Group has obtained a subordinate loan from the Parent company; Polen Invest A/S, with a balance of DKK 150 million at 31 December 2016 (balance at 31 December 2015: DKK 150 millions). The loan is re-paid according to the financial position of the Company, with a maximum repayment of DKK 20 million per year, though as stated in note 22, the Company has intention to repay the loan entirely or partly during 2018, if the financial position of the Company allows it. The loan carries interest, and the interest for 2016 amounts to DKK 6.6 million (2015: DKK 5.1 million). The Group has moreover interest-bearing loans and intercompany accounts with the Parent company; Polen Invest A/S, totalling DKK 3 million at 31 December 2016 (DKK 3 million at 31 December 2015). Interest for 2016 amounts to DKK 0.2 million (2015: DKK 0.1 million).

Remuneration of the Executive Board and the Board of Directors is specified in note 7. Furthermore, in 2016 rent of conference centre from CEO amounts to DKK 0.4 million (2016: DKK 0.4 million).

Intercompany transactions have been eliminated in accordance with the accounting policies. All transactions have taken place on an arm's length basis.

# Notes to the Consolidated Financial Statements

| | 2016<br>DKK'000 | 2015<br>DKK'000 |
|---|---|---|
| **27. Fee to auditors appointed at the General Meeting** | | |
| Audit fee | 758 | 824 |
| Non-audit services | 155 | 55 |
| | **913** | **879** |
| | | |
| Fee to other auditors | | |
| Audit fee | 597 | 269 |
| Non-audit services | 223 | 140 |
| | **820** | **409** |

**28. Post balance sheet events**

There have been no significant post balance sheet events.

# Notes to the Consolidated Financial Statements

**29. Accounting policies**

**Basis of preparation**

The consolidated financial statements of Axzon A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports.

The consolidated financial statements have been prepared under the historical cost convention, except for revaluation of biological assets, available-for-sale financial assets and financial assets at fair value through profit or loss and certain classes of property, plant and equipment measured at fair value.

The reporting period of these financial statements follows the calendar year. The annual report for 2016 is presented in DKK 1,000.

The preparation of financial statements under IFRS involves certain critical accounting estimates. Moreover, this means that Management has to make certain estimates in relation to the application of Group accounting policies. Areas which involve a high degree of estimate or complexity or in which assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

**New accounting standards and interpretations**

The following material new and revised standards and interpretations issued but not yet effective have not been applied:

- IFRS 9, Financial Instruments (issued July 2014)
- IFRS 15, Revenue
- IFRS 16, Leasing

*IFRS 9*

IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets, including new requirements related to impairment of financial assets.

The Group expects to adopt IFRS 9 at 1 January 2018 without amending comparative figures in accordance with the transitional rules of the standard.

The Group does not own significant financial assets for which the new classification and measurement requirements are expected to cause changes, do not apply hedge accounting, and has historically only experienced insignificant losses on financial assets. Therefore, although the Group's analysis of possible effects

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

from adoption of IFRS 9 is not completed, Management does not expect that IFRS 9 will have material impact on the Group's financial statements.

*IFRS 15*

IFRS 15 supersedes IAS 18 Revenue and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

The Group expects to adopt IFRS 15 at 1 January 2018 and apply the modified retrospective approach according to the transition rules.

The Group recognises revenue from the following major sources:
Sale of pigs to slaughterhouses
Sale of processed meat and fresh meat
Sale of biogas

None of the Group's contracts with customers involve long production time or successive deliverables, contracts with multiple performance obligations or contracts with variable consideration, and hence Management does not expect that IFRS 15 will have material impact on the Group's financial statements.

*IFRS 16*

IFRS 16 supersedes IAS 17 Leases and introduce significant changes to the accounting for leases by lessees, as practically all leases must be recognises as a liability and a right-of-use asset.

The Group expects to adopt IFRS 16 at 1 January 2019. The analysis of possible impacts from IFRS 16, including the various options and practical expedients according to the transition rules of IFRS 16, is not completed and hence Management is unable to quantify the possible effects from IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of DKK 78.3 million. Therefore, IFRS 16 is expected to have some impact on the non-current assets, liabilities, EBITDA and cash flows from operating activities, however it is not practicable to provide a reasonable estimate of the financial effect until Management completes the analysis.

*Other issued not yet effective standards*

Other new or revised standards and interpretations issued but not yet effective are not expected to have material impact on the financial statements.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

**Consolidated financial statements**

The consolidated financial statements comprise the parent company, Axzon A/S, and group enterprises in which the parent company holds more than 50% of the share capital or otherwise exercises control.

The consolidated financial statements are prepared on the basis of the financial statements of the parent company and the group enterprises by means of an aggregation of accounting items of a uniform nature, and elimination is made of intra-group income and expenses, intra-group balances as well as gains and losses on transactions between the consolidated enterprises.

The purchase method is used for the acquisition of subsidiaries. The remuneration for the acquisition of assets, liabilities and contingent liabilities is initially measured at fair value at the time of acquisition. Identifiable intangible assets are recognised separately from goodwill if they are separable or arise from contractual or other legal rights. Deferred tax on revaluations made is recognised, though many of the Group's activities are tax exempted, and therefore deferred tax will not be relevant for all purchases. Any remaining positive differences between cost and the fair value of assets, liabilities and contingent liabilities acquired are recognised in intangible assets in the balance sheet as goodwill. Goodwill is not amortised but is tested for impairment on an annual basis. Enterprises acquired are recognised in the consolidated financial statements as from the date of obtaining control, whereas enterprises sold are recognised up until the date of surrender of control. Intra-group acquisitions of subsidiaries are made under the pooling of interests method.

Gains and losses on the sale of subsidiaries are calculated as the difference between the sales price less costs to sell and the carrying amount of net assets with addition of goodwill and accumu-lated exchange adjustments recognised in equity at the time of sale.

On acquisition of non-controlling interests, the difference between the remuneration paid and the relevant acquired share of the carrying amount of the net assets of the subsidiaries is recognised in equity. Gains or losses on the sale on non-controlling interests are also recognised in equity.

**Accounting policies**

The accounting policies adopted are consistent with those of the previous financial year.

The most significant accounting policies applied in connection with the preparation of these financial statements are described below.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

**Foreign currencies**

The items recognised in the financial statements of each of the group enterprises are measured at the functional currency used in the primary economic environment in which the individual enterprise operates. The functional currencies of the group enterprises are the following: Ukrainian hryvna for the Ukrainian subsidiary; Polish zloty for Polish subsidiaries; Russian roubles for the Russian subsidiary; Danish kroner for the Danish subsidiary and the parent company in Denmark.

The consolidated financial statements are presented in Danish kroner, which is the functional currency of the parent company and the presentation currency of the Group. On initial recognition, transactions in foreign currencies are translated at the exchange rates at the date of transaction. Exchange differences arising between the transaction date rates and the rates at the date of payment are recognised in the income statement as financial income and expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the exchange rates at the date at which the receivable or the payable arose or was recognised in the most recent financial statements are recognised in the income statement as financial income and expenses.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings and other financial instruments designated as hedges of such investments are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss as part of the gain or loss on sale

Balance sheet items including goodwill relating to consolidated enterprises that do not have DKK as their functional currency are translated into DKK based on the exchange rates at the balance sheet date, whereas the income statements of these enterprises are translated at average rates of exchange. Exchange adjustments arising on the translation of the opening equity at the exchange rates at the balance sheet date and net profit/loss for the year at the exchange rates at the balance sheet are recognised in other comprehensive income over equity under a separate reserve for exchange adjustments.

The Group used the following exchange rates for the translation into Danish kroner at 31 December 2016:
PLN: Balance sheet items 2016: 1.68570 (31 December 2015: 1.76) Income statement 2016: exchange rate: 1.70670 (income statement 2015: exchange rate 1.7827)

# Notes to the Consolidated Financial Statements

## 29. Accounting policies (continued)

UAH: Balance sheet items 2016: 0.26157 (31 December 2015: 0.28458) Income statement 2016: exchange rate: 0.26298 (income statement 2015: exchange rate 0.4822)

RUB: Balance sheet items 2016: 0.11651 (31 December 2015: 0.09364) Income statement 2016: exchange rate: 0.10062 (income statement 2015: exchange rate 0.10968)

### Income statement

#### Revenue and method of revenue recognition

Revenue comprises the value of goods delivered for the year less VAT and price reduction directly related to sales.

The Group recognises revenue when the income can be measured reliably; it is probable that the Group will receive future economic benefits and the specific criteria described below have been met. It is not considered possible to measure the amount of revenue reliably until all liabilities relating to the sales have been met. The Group bases its estimates on historical data considering the type of customer, the type of transaction and any other special matters relating to the transaction.

The most material sources of income are recognised in the income statement as follows:

#### Sales of biological assets

The Group primarily sells pigs for slaughterhouses. Revenue from the sales of pigs is recognised when delivery has taken place.

#### Sales of finished goods and consumables from slaughterhouses

Revenue from finished goods and consumables from slaughterhouses is recognised when delivery has taken place.

#### Sales of green energy and CO2 emission reduction units

The Group produces electricity on biogas plants. The electricity is sold as green energy and is recognised concurrently with the production. Moreover, the Group sells CO2 emission reduction units from its biogas production, which is also recognised as revenue concurrently with the production on the biogas plant. Revenue is recognised before the final settlement of the biogas activity based on historical data and market prices.

#### Gains/losses on changes in the fair value of biological assets

Gains and losses resulting from changes in the fair value of biological assets relate to changes for the year in prices and quantities of the herd and changes for the year of the fair value of unharvested crops.

# Notes to the Consolidated Financial Statements

### 29. Accounting policies (continued)

**Grants**

Unconditional grants relating to biological assets measured at fair value less estimated costs to sell are recognised in the income statement when the government grant is received (general area grants). See also the accounting policy for deferred income relating to conditional grants.

**Ukrainian agricultural VAT**

As regards the Group's agricultural activities in the Ukraine, it has been decided to adopt the special agricultural VAT scheme, which implies that positive VAT liabilities are not to be paid to the authorities but are instead provided as state grants to support agricultural enterprises in the Ukraine. The excess of VAT liability over VAT receivable is accounted for as government grant.

**Changes in inventories of finished goods and consumables, work in progress and agricultural produce**

Changes in inventories of finished goods and consumables, work in progress and agricultural produce regulate the expenses that are grouped by nature and capitalised under inventories in the balance sheet.

**Special items**

Special items comprise significant non-recurring income or expense items. In 2016 special items comprise costs incurred in connection with the ASF outbreak at the farm in Krasnodar in 2016. The costs relate to expropriation of all pigs and extensive cleaning of the farm prior to the sub-sequent quarantine. The authorities in Russia have approved a compensation for the expropriation. The compensation is recognised as a receivable.

**Depreciation and impairment losses**

Depreciation and impairment losses include depreciation and impairment write-down of property, plant and equipment.

**Financial income and expenses**

Financial income and expenses comprise interest as well as realised and unrealised exchange adjustments. Financial expenses directly attributable to purchases, construction or production of a qualifying asset are included as part of the cost of the asset. All other financial expenses are recognised as expenses in the financial year in which they have been incurred.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

**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. A material part of the profit on agricultural activities abroad are tax-exempted.

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

**Statement of comprehensive income**

The statement of comprehensive income is presented in two statements: The income statement and the statement of comprehensive income. The statement of comprehensive income shows the profit/loss for the year and other comprehensive income. Other comprehensive income comprises foreign exchange rate adjustments and fair value changes to other equity interests.

**Balance sheet**

**Goodwill**

Goodwill is recognised at cost less any impairment losses. Goodwill is not amortised but is subject to an annual impairment test. Assets that are amortised are tested for impairment where an event or changes in other circumstances indicate that the carrying amount is too high. Impairment losses are recognised as the difference between the carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value of the asset less expected costs to sell and the value in use.

At the assessment of the need for impairment, the recoverable amount of the smallest group of cash-generating units is calculated. Non-financial assets other than goodwill for which impairment losses have been recognised are reviewed on an annual basis to determine whether there is reason for reversal of the impairment loss at the balance sheet date.

**Property, plant and equipment**

Other fixtures and fittings, tools and equipment and property plant and equipment in progress are measured at cost less accumulated depreciation. Cost comprises the cost of acquisition and expenses directly related to the acquisition and costs for set-up. In case of assets of own construction, cost comprises direct and directly attributable costs of labour, materials, components and sub-suppliers.

The categories land and buildings, leasehold improvements and plant and machinery are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings without passing the income statement. Financial expenses directly attributable to purchases, construction or production of a qualifying asset are included as part of the cost of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group uses the local, effective rate of interest on credit for construction and overdraft facilities for the calculation of expenses for capitalisation.

Depreciation of a non-current asset is commenced when it is put into use. 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:

| | |
|---|---|
| Production building | 25-40 years |
| Leasehold improvements | 25-40 years |
| Plant and machinery | 7-15 years |
| Other fixtures and fittings, tools and equipment | 3-10 years |

The carrying amount of property, plant and equipment is reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by fair-value or depreciation. If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount and the asset is written down to its lower recoverable amount.

**Non-current asset investments**

Non-current asset investments include other investments and long-term loans provided.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

Other investments for which no fair value can be reliably estimated are recognised at cost. When it becomes possible to estimate a reliable fair value, such investments will be measured accordingly. Unrealised fair value changes are recognised in other comprehensive income over equity, except for impairment losses and exchange adjustments on investments in foreign currencies which are recognised in the income statement. Long-term loans provided are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

**Biological assets**

Agricultural activity is defined by Management as an activity in which biological transformation of biological assets for sale into agricultural produce or another biological asset takes place. Agricultural produce is defined as a harvested product of the Group's biological assets, and a biological asset is defined as living animals or crops. The Group has assessed that its biological assets consist of basic herds of gilts, sows and boars, sales herd of slaughter pigs and unharvested crops.

On initial recognition and at subsequent reporting dates, biological assets are measured at fair value less estimated costs to sell unless fair value cannot be reliably measured on initial recognition.

Gains or losses on initial recognition of a biological asset measured at fair value less estimated costs to sell, and subsequent changes in the fair value less estimated costs to sell relating to the biological asset, are recognised in the income statement in the item "Change in fair value of biological assets" in the period in which the gain or loss arises.

Biological assets are recognised as current or non-current biological assets depending on the production cycle of the biological asset concerned. Generally, biological assets relating to slaughter pigs and cropping are recognised as current assets. Basic herds of gilts, sows and boars are recognised as non-current assets.

The fair value of the basic herd is measured on the basis of current market prices for animals of the same age, breed and genetic heritage on the nearest market place. Measurement is based on an average between the market price of young females purchased and the slaughter value of a sow.

Commercial herd is measured based on the average price in the month prior to the valuation.

Costs of pig production, including feed, veterinary expenses, wages and salaries, etc., are recognised as costs when incurred. Costs to purchase pigs are recognised in biological assets.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

Cost is used as the fair value of crop production when no significant biological transformation has taken place since the cost was incurred, i.e. shortly after the sowing of the crop. Cost comprises expenses directly related to the biological transformation of biological assets, such as expenses for seed corn, fertilizer, soil preparation, wages and salaries to employees directly involved in the production process, fuel and energy, etc.

**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 at the amount expected to be generated by sale in the process of normal operation with deduction of costs to sell and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

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 as well as directly attributable labour and production costs. These costs also comprise maintenance and depreciation of machinery, factory buildings and equipment used in the manufacturing process as well as costs of production management.

Agricultural produce is initially recognised at fair value at the point of harvest less estimated costs to sell, and subsequently in inventories up until the point when it is sold to a third party or is used internally as feed. The fair value of agricultural produce at the point of harvest is measured on the basis of the market prices on the markets on which the agricultural produce is expected to be sold or used as feed.

**Receivables**

Receivables are recognised in the balance sheet at amortised cost, which in all material respects corresponds to nominal value. Provisions are made for bad debts.

**Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a legal or constructive obligation resulting from previous events; when it is probable that the Group will have to give up future economic benefits to settle the obligation, and the obligation can be measured reliably.

Other provisions relating to staff obligations comprise provision for voluntary social funds in foreign subsidiary as well as provision for contribution-based redundancy schemes for which the Group has no further obligations once the contribution has been paid.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

**Equity**

Dividend is recognised as a liability at the time of resolution at the general meeting. Dividends expected to be paid for the year are disclosed as a separate equity item.

Reserve relating to exchange adjustments comprises translation differences arising in connection with translation of the financial statements of foreign subsidiaries from their functional currency into Danish kroner. On realisation of the net investment, exchange adjustments are recognised in the income statement.

**Deferred tax asset 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 value of tax loss carryforwards, are measured at the value at which the asset is expected to be realised.

**Debt**

Debt is recognised at cost at the time of contracting the debt. Subsequently, it is stated at amortised cost, which in respect of short-term and non-interest-bearing debt and of floating rate loans usually corresponds to nominal value.

# Notes to the Consolidated Financial Statements

**29. Accounting policies (continued)**

**Deferred income**

Deferred income is recognised in liabilities when the government grants have been received but the conditions relating to the grants have not yet been met, or — where the government grant relates to non-current assets — the grants are recognised as income concurrently with the underlying non-current asset being depreciated.

**Leases**

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

**Cash flow statement**

Cash flows from operating activities are presented as the net profit/loss for the year adjusted for changes in operating capital and non-cash operating items such as depreciation, amortisation, impairment losses and provisions. The operating capital comprises current assets less short-term debt exclusive of the items included in cash and cash equivalents.

**Cash flows from investing activity**

Cash flows from investing activities comprise cash flows from acquisition and sale of intangible assets, property, plant and equipment and non-current asset investments.

**Cash flows from financing activity**

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt and payments to and from shareholders.

**Cash and cash equivalents**

Cash and cash equivalents comprise the item "Cash at bank and in hand" under current assets.

# Parent Income Statement 1 January – 31 December

| | Note | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|
| Revenue | 2 | 17,734 | 21,578 |
| Other external expenses | | (6,195) | (4,869) |
| **Gross profit/loss** | | **11,539** | **16,709** |
| Staff expenses | 3 | (11,984) | (12,881) |
| **EBITDA** | | **(445)** | **3,828** |
| **Profit/loss before financial expenses and tax** | | **(445)** | **3,828** |
| Income from investments in subsidiaries | | 21,418 | 0 |
| Financial income | 4 | 8,000 | 12,634 |
| Financial expenses | 5 | (16,140) | (13,767) |
| **Profit/loss before tax** | | **12,833** | **2,695** |
| Corporation tax | 6 | 0 | 0 |
| **Net profit/loss for the year** | | **12,833** | **2,695** |
| **Distribution profit for the year** | | | |
| Group shareholders | | 12,833 | 2,695 |
| | | **12,833** | **2,695** |

# Parent Statement of Comprehensive Income 1 January – 31 December

| | | |
|---|---|---|
| Net profit/loss for the year | 12,833 | 2,695 |
| **Comprehensive income** | **12,833** | **2,695** |

# Parent Company Statement of Financial Position

| | Note | 31.12 2016 DKK'000 | 31.12 2015 DKK'000 |
|---|---|---|---|
| Investments in associates | 7 | 1,000 | 1,000 |
| Investment in subsidiaries | 8 | 1,099,446 | 1,102,055 |
| Other receivables | | 1,900 | 0 |
| **Fixed asset investments** | | **1,102,346** | **1,103,055** |
| **Non-current assets** | | **1,102,346** | **1,103,055** |
| Receivables from group companies | | 206,866 | 211,072 |
| Receivables from associates | | 6,778 | 6,778 |
| Other receivables | | 3,295 | 3,012 |
| **Receivables** | | **216,939** | **220,862** |
| **Cash at bank and in hand** | | **2,871** | **868** |
| **Current assets** | | **219,810** | **221,730** |
| **Assets** | | **1,322,156** | **1,324,785** |

# Parent Company Statement of Financial Position

| | Note | 31.12 2016 DKK'000 | 31.12 2015 DKK'000 |
|---|---|---|---|
| Share capital | 10 | 531,118 | 531,118 |
| Retained earnings | | 467,108 | 454,275 |
| **Equity** | | **998,226** | **985,393** |
| | | | |
| Credit institutions | | 22,448 | 20,537 |
| Subordinate loan capital | 11 | 140,000 | 130,000 |
| **Long-term liabilities** | | **162,448** | **150,537** |
| | | | |
| Credit institutions | | 145,985 | 162,818 |
| Trade payables | | 728 | 517 |
| Interest bearing payables to group enterprise | 11 | 13,195 | 22,992 |
| Other payables | | 1,574 | 2,528 |
| **Short-term liabilities** | | **161,482** | **188,855** |
| | | | |
| **Liabilities** | | **323,930** | **339,392** |
| | | | |
| **Liabilities and equity** | | **1,322,156** | **1,324,785** |

# Parent Company Statement of Changes in Equity
# 1 January – 31 December

| | Share capital DKK'000 | Retained earnings DKK'000 | Total DKK'000 |
|---|---|---|---|
| Equity at 1 January 2015 | 531,118 | 451,580 | 982,698 |
| Net profit/loss for the year | 0 | 2,695 | 2,695 |
| Dividend | 0 | 0 | 0 |
| **Equity at 31 December 2015** | **531,118** | **454,275** | **985,393** |
| Equity at 1 January 2016 | 531,118 | 454,275 | 985,393 |
| Net profit/loss for the year | 0 | 12,833 | 12,833 |
| Dividend | 0 | 0 | 0 |
| **Equity at 31 December 2016** | **531,118** | **467,108** | **998,226** |

# Parent Company Cash Flow Statement

| | Note | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|
| Net profit/loss for the year | | 12,833 | 2,695 |
| Adjustment for non-cash items and interest, etc. | | 6,045 | 1,133 |
| Change in working capital | | (3,125) | 7,264 |
| **Cash flows from operating activities before financial income** | | **15,753** | **11,092** |
| Interest received | | 8,000 | 8,841 |
| Interest paid | | (15,436) | (11,227) |
| **Cash flows before tax** | | **8,317** | **8,706** |
| Corporation tax paid | | 0 | 0 |
| **Cash flows from operating activities** | | **8,317** | **8,706** |
| Fixed assets investments made | | (1,900) | |
| Proceeds on sale of financial assets | | 4,000 | 0 |
| **Cash flows from investing activities** | | **2,100** | **0** |
| Raising of loans from credit institutions | | 0 | 44,760 |
| Repayment of debt to credit institutions | | (14,922) | (19,123) |
| Change in balances with ultimate parent | | 6,508 | (36,148) |
| Capital contribution | | 0 | 0 |
| **Cash flows from financing activities** | | **(8,414)** | **(10,511)** |
| **Change in cash and cash equivalents** | | **2,003** | **(1,804)** |
| Cash and cash equivalents 1 January | | 868 | 2,672 |
| **Cash and cash equivalents at 31 December** | | **2,871** | **868** |

Cash and cash equivalents include cash at bank and in hand

# Notes to Parent Company Financial Statements

**1. Significant accounting estimates and assessments**

Investments in subsidiaries constitute a significant part of Axzon A/S's total assets. Impairment tests of subsidiaries are carried out where events or changed conditions indicate that the carrying amount may not be recoverable. There has been no indication of impairment.

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **2. Revenue** | | |
| Services | 17,734 | 21,578 |
| | **17,734** | **21,578** |
| | | |
| **3. Staff costs** | | |
| Wages and salaries | 11,984 | 12,881 |
| | **11,984** | **12,881** |
| | | |
| **Average number of employees** | **8** | **20** |

Reference is made to note 7 for information about remuneration to the Executive Board and Board of Directors.

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **4. Financial income** | | |
| **Interest** | | |
| Loans and receivables | 8,000 | 11,381 |
| | | |
| **Other financial income** | | |
| Fair value gains | 0 | 1,253 |
| | **8,000** | **12,634** |
| | | |
| **5. Financial expenses** | | |
| **Interest** | | |
| Loans and payables | 15,436 | 13,767 |
| | | |
| **Other financial expenses** | | |
| Exchange rate adjustments | 704 | 0 |
| | **16,140** | **13,767** |

# Notes to Parent Company Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **6. Tax on profit for the year** | | |
| Current tax for the year | 0 | 0 |
| Deferred tax for the year | 0 | 0 |
| | **0** | **0** |
| **Tax on profit for the year is specified as follows:** | | |
| Calculated 22% tax on profit for the year before tax | 2,823 | 633 |
| **Tax effect of:** | | |
| Adjustment valuation deferred tax | 0 | 0 |
| Non-taxable income and expenses | (2,823) | (633) |
| | **0** | **0** |
| **Effective tax rate for the year** | **0%** | **0%** |
| **7. Investments in associates** | | |
| Cost at 1 January | 1,000 | 1,000 |
| Additions for the year | 0 | 0 |
| Disposals for the year | 0 | 0 |
| **Cost at 31 December** | **1,000** | **1,000** |

Investment in associates are specified as follows:

| Name | Registered office | Currency | Share capital | Votes and ownership |
|---|---|---|---|---|
| Sevel Slagteri A/S | Denmark | DKK | 3,125k | 40% |

The carrying amount of investments in subsidiaries is specified as follows:

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| Sevel Slagteri A/S | 1,000 | 1,000 |
| **Cost at 31 December** | **1,000** | **1,000** |

# Notes to Parent Company Financial Statements

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **8. Investments in subsidiaries** | | |
| Cost at 1 January | 1,102,055 | 1,102,055 |
| Additions for the year | 0 | 0 |
| Disposals for the year | (2,609) | 0 |
| **Cost at 31 December** | **1,099,446** | **1,102,055** |

Investments in subsidiaries are specified as follows:

| Name | Registered office | Currency | Share capital | Votes and ownership |
|---|---|---|---|---|
| Poldanor | Poland | PLN | 11,601k | 100% |
| Primo Food Sp. Z.o.o. | Poland | PLN | 20,852k | 100% |
| Danosha Ltd.* | Ukraine | UAH | 232,532k | 97% |
| Dan-Invest LLC | Russia | RUB | 362,328k | 100% |

*IFU's 2% of the shares in Danosha Ltd. has been recognised as a financial liability in accordance with IFRS.

The carrying amount of investments in subsidiaries is specified as follows:

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| Dan-Invest LLC | 17,940 | 251 |
| Poldanor | 1,169,726 | 1,111,592 |
| Primo Food Sp. Z.o.o. | 96,922 | 101,914 |
| Danosha Ltd. | 467,369 | 512,069 |
| | **1,751,957** | **1,725,826** |

| | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|
| **9. Deferred tax** | | |
| Deferred tax at 1 January | 0 | 0 |
| **Deferred tax at 31 December** | **0** | **0** |
| | | |
| Tax loss carry forward | 9,178 | 7,290 |
| Write down to estimated value | (9,178) | (7,290) |
| Deferred tax at 31 December | **0** | **0** |

The deferred tax asset has been calculated at 22% corresponding to the current tax rate.

# Notes to Parent Company Financial Statements

**10. Share capital**

The share capital consists of 53,111,848 shares of a nominal amount of DKK 10. No shares carry any special rights.

| | 2016<br>DKK'000 | 2015<br>DKK'000 |
|---|---|---|
| **11. Subordinate loan capital** | | |
| Payable after 5 years | 50,000 | 60,000 |
| Payable between 2 and 5 years | 90,000 | 70,000 |
| **Long-term debt** | **140,000** | **130,000** |
| Short-term debt | 10,000 | 20,000 |
| | **150,000** | **150,000** |

Subordinate loan capital from Polen Invest A/S, DKK 150 million, is repaid according to the financial position of the Company, with a maximum repayment of DKK 20 million per year, which is reflected in the above maturity analysis. As stated in the consolidated financial statement, note 22, the Company has intention to repay the loan entirely or partly during 2018, if the financial position of the Company allows it. Subordinate loan capital carries interest equivalent to Cibor 3 months+3.5%. Subordinate loan capital ranks subordinate to the other creditors of the Company.

In 2012, the Industrialisation Fund for Developing Countries (IFU) contributed EUR 2 million in share capital to Axzon A/S's subsidiary Danosha Ltd. Based on exit agreement between Axzon A/S and IFU with put/call option. The subordinate loan capital to IFU carries interest under the exit agreement concluded between IFU and Axzon A/S.

# Notes to Parent Company Financial Statements

**12. Mortgages and security**

Investments in subsidiaries have been provided as security for facility with credit institution.

**13. Contingent liabilities and contractual obligations**

The Company has issued surety in respect of the subsidiary Danosha Ltd's facility with credit institution amounting to DKK 246.6 million at 31 December 2015 (2015: DKK 279.3 million).

The Company has issued surety in respect of the subsidiary Poldanor SA facility with credit institution amounting to DKK 232.5 million at 31 December 2015 (2015: DKK 226.7 million).

The Company has issued surety in respect of the subsidiary Prime Food Sp Z.o.o facility with credit institution amounting to DKK 49.8 million at 31 December 2015 (2015: DKK 61.8 million).

The Company has issued surety in respect of the subsidiary Dan-Invest LLC's facility with credit institution amounting to DKK 52.0 million at 31 December 2015 (2015: DKK 78.2 million).

Axzon A/S is jointly taxed with its parent, Polen Invest A/S, which acts as administrative company, and has joint and several liability together with other jointly taxed group entities for the payment of income tax for the income year 2013 and onwards as well as for withholding taxes on interests, royalties and dividends falling due for payment on or after 1 July 2012. Tax payable for the joint taxation amounts to DKK 0 at 31 December 2016 (DKK 0 at 31 December 2015).

**14. Financial risks**

Reference is made to the description of financial risks for the Group in the Notes to the Consolidated Financial Statements. The Parent Company is not considered to be subject to any special financial risks other than those disclosed in the Notes to the Consolidated Financial Statements.

# Notes to Parent Company Financial Statements

**15. Related parties and ownership**

Related parties and ownership are stated in the Notes to the Consolidated Financial Statements, to which reference is made.

**Transactions**

The Company has transactions with subsidiaries in the form of interest-bearing loans and intercompany accounts. Total loans to the subsidiaries amount to DKK 204.8 million at 31 December 2016 (2015: DKK 211.1million). Interest income on loans and intercompany accounts for 2016 amounts to DKK 8.0 million (2015: DKK 8.8 million).

The Company has obtained a subordinate loan from the Parent company; Polen Invest A/S, with a balance of DKK 150 million at 31 December 2016 (balance at 31 December 2015: DKK 150 million). The loan carries interest, and the interest cost for 2016 amounts to DKK 6.6 million (2015: DKK 5.1 million). The loan is repaid according to the financial position of the Company, with a maximum repayment of DKK 20 million per year. Though as stated in the consolidated financial statement, note 22, the Company has intention to repay the loan entirely or partly during 2018, if the financial position of the Company allows it.

Moreover, the Group has other interest-bearing loans and intercompany accounts with the Parent Company Polen Invest A/S totalling DKK 3 million at 31 December 2016 (DKK 3 million at 31 December 2015). Interest cost for 2016 amounts to DKK 0.2 million (2015: DKK 0.1 million).

All transactions have taken place on an arm's length basis.

# Notes to Parent Company Financial Statements

## 16. Accounting policies

The Parent Company Financial Statements of Axzon A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports.

The reporting period of these Financial Statements follows the calendar year. The Annual Report for 2016 is presented in DKK 1,000. The accounting policies applied by the Parent Company are the same as those applied by the Group except for the below-mentioned additions. Reference is made to note 3 to the Consolidated Financial Statements for a description of the accounting policies applied by the Group.

The accounting policies applied remain unchanged compared to last year.

Supplementary accounting policies applied for the Parent Company:

### Dividend from investments in subsidiaries

Dividend from investments in subsidiaries is recognised as income in the income statement under revenue in the financial year in which the dividend is distributed.

### Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where the cost exceeds the recoverable amount, the investment is written down to its lower recoverable amount.