

VikingGenetics F.M.B.A.

Ebeltoftvej 16
8960 Randers SØ

CVR no. 31 47 45 74

Annual report 2016

The annual report was presented and approved at the
meeting of the Association's Council of
Representatives

on _____ 14 2018

Karoline Halsø

chairman of the Council of Representatives

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of VikingGenetics F.M.B.A. for the financial year 1 January – 31 December 2016.

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

In our opinion, the consolidated financial statements and the parent association financial statements give a true and fair view of the Group's and the Parent Association's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the Parent Association's operations and consolidated cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Association's activities and financial matters, of the results for the year and of the Group's and the Parent Association's financial position.

We recommend that the annual report be approved at the meeting of the Council of Representatives.

Randers, 15 March 2017
Executive Board:

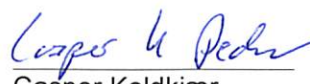


Rex Archard
Clausager

Board of Directors:



Lars-Inge Gunnarsson
Chairman



Casper Koldkjær
Pedersen
Vice chairman



Anna Riitta
Lappalainen
Vice chairman



Jan Duchwaider



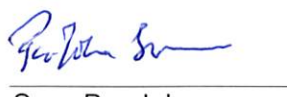
Erik Hansen



Charlotte Andersson



Tiina Anneli Mitikka



Sven Per-Johan
Svensson



Anders Levring



Independent auditor's report

To the shareholders of VikingGenetics F.M.B.A.

Conclusion

We have audited the consolidated financial statements and the parent association financial statements of VikingGenetics F.M.B.A. for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Association and a cash flow statement for the Group. The consolidated financial statements and parent association financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent association financial statements give a true and fair view of the Group's and the Parent Association's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the Parent Association's operations and consolidated cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standard 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 association financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the consolidated financial statements and the parent association financial statements

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



Independent auditor's report

In preparing the consolidated financial statements and the parent association financial statements, Management is responsible for assessing the Group's and the Parent association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent association financial statements unless Management either intends to liquidate the Group or the Parent Association 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 association financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent association financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent association 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 association 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 Association's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.



Independent auditor's report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent association 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 Association'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 association financial statements or, if such disclosures are in-adequate, 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 Parent Association to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent association financial statements, including the disclosures, and whether the consolidated financial statements and the parent association 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.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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



Independent auditor's report

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

Aarhus, 15 March 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to read 'Anette Harritz'.

Anette Harritz
State Authorised
Public Accountant

A handwritten signature in blue ink, appearing to read 'Jakob Westerdahl'.

Jakob Westerdahl
State Authorised
Public Accountant

Management's review

Financial highlights for the Group

EUR'000	2016	2015	2014	2013	2012
Revenue	30,719	30,837	32,446	32,268	32,371
Gross profit	11,382	12,267	12,790	13,692	35,540
Operating profit/loss	-1,407	-374	535	1,930	101
Profit/loss from financial income and expenses	17	-21	-227	-267	-311
Profit/loss for the year	-1,543	-486	573	1,794	-657
Total assets	55,409	56,734	59,574	60,078	65,043
Investments in property, plant and equipment	944	1,688	1,096	1,265	3,810
Equity	49,619	51,285	51,256	51,022	49,632
Return on invested capital	-2.5%	-0.6%	0.9%	3.1%	0.1%
Current ratio	443.2%	525.7%	372.0%	344.9%	217.8%
Return on equity	-2.8%	-0.7%	1.1%	3.6%	-1.3%
Solvency ratio	89.6%	90.4%	86.0%	84.9%	76.3%
Average number of full-time employees	155	154	152	160	156

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

Return on invested capital	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets} \times 100}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
Solvency ratio	$\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit from ordinary activities after tax} \times 100}{\text{Average equity}}$

Management's review

Operating review

The Group's principal activities

VikingGenetics F.M.B.A. has been formed by a merger between Dansire from Denmark, Avel from Sweden and Faba cooperative from Finland.

The Association's activity is primarily to produce semen. In addition, the Association makes external sales to foreign customers through subsidiaries.

Development in activities and financial position

In the year under review, VikingGenetics F.M.B.A. sold semen to the three members VikingDanmark, Växa and Faba. In addition, VikingGenetics F.M.B.A. has sold semen to its subsidiaries and associates, VikingGenetics International, VikingGenetics Australia and ProCross ApS. VikingGenetics performance outside of Denmark, Sweden and Finland is considered satisfactory.

The VikingGenetics Group's total revenue for 2016 was EUR 30.7 million. The Group reported a loss before tax for the year of EUR 1.4 million. Results for the year were negative at EUR 1.5 million.

The Association's performance in the year under review is not considered satisfactory compared with expectations from 2015.

The Group and the Parent Association have invested in the development of genomic selection, and there is still high expectations to the further development of the genomic selection.

Outlook

In 2017 the Group is expected to generate sales up on 2016 and to report EBIT of a negative of approx. EUR 0.5 million.

Environmental matters

The Group and the Parent Association are subject to environmental requirements which influence the operation of farms. The Group and the Parent Association have taken out insurance in the event of an environmental pollution and conduct its operation in accordance with current EU and national laws. Even though the Association conducts its operation within the laws, land may still be polluted

Management's review

Operating review

Research and development activities

The Group and the Parent Association consider it an important task to participate in research and provides substantial annual contributions towards this purpose, which are expensed in the income statement.

The Group and the Parent Association have an academic environment, which is far-reaching and at the same time specialised.

The Group and the Parent Association also consider it an important task to participate in research in areas relevant to its members. This is done in collaboration with a number of organisations. One of the Group and the Parent Association's visions is to be the absolute leader on the Danish, Swedish and Finnish markets within cattle breeding and to be an active player in international livestock breeding work.

Branches

VikingGenetics F.M.B.A. has a branch in Sweden. VikingGenetics F.M.B.A. Filial Danmark is located in Skara.

Consolidated financial statements and parent association financial statements 1 January – 31 December

Income statement

EUR'000	Note	Group		Parent Association	
		2016	2015	2016	2015
Revenue	2	30,719	30,837	27,624	28,131
Changes in stocks of finished goods		-423	-274	-206	-149
Other operating income	3	1,601	1,402	733	629
Cost of sales		-14,684	-14,097	-19,148	-18,281
Other external costs		-5,831	-5,601	-3,773	-4,007
Gross profit		11,382	12,267	5,230	6,323
Staff costs	4	-10,299	-10,053	-5,825	-5,569
Amortisation/depreciation of and impairment losses on intangible assets and property, plant and equipment	5	-2,490	-2,588	-1,371	-1,455
Operating profit/loss		-1,407	-374	-1,966	-701
Income from equity investments in group entities		0	0	515	254
Income from equity investments in associates		16	15	16	15
Financial income	6	145	12	34	40
Financial expenses	7	-128	-33	-148	-100
Profit/loss before tax		-1,374	-380	-1,549	-492
Tax on profit/loss for the year	8	-169	-106	6	6
Profit/loss for the year	9	-1,543	-486	-1,543	-486

Consolidated financial statements and parent association financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	Group		Parent Association	
		2016	2015	2016	2015
ASSETS					
Fixed assets					
Intangible assets					
Acquired intangible assets	10	535	490	505	385
		<u>535</u>	<u>490</u>	<u>505</u>	<u>385</u>
Property, plant and equipment					
Land and buildings	11	28,574	29,393	17,271	17,177
Fixtures and fittings, tools and equipment		2,859	3,422	2,104	2,385
		<u>31,433</u>	<u>32,815</u>	<u>19,375</u>	<u>19,562</u>
Investments					
Equity investments in group entities	12	0	0	20,005	19,724
Investments in associates		131	117	66	50
Other securities and equity investments		1,964	114	1,909	58
		<u>2,095</u>	<u>231</u>	<u>21,980</u>	<u>19,832</u>
Total fixed assets		<u>34,063</u>	<u>33,536</u>	<u>41,860</u>	<u>39,779</u>
Current assets					
Inventories					
Finished goods and goods for resale		11,024	11,448	10,239	10,445
		<u>11,024</u>	<u>11,448</u>	<u>10,239</u>	<u>10,445</u>
Receivables					
Trade receivables		3,726	4,487	2,566	3,454
Receivables from group entities		0	0	583	710
Receivables from associates		429	667	429	667
Income taxes receivable		65	108	0	0
Other receivables		99	18	98	11
Prepayments		261	172	101	15
		<u>4,580</u>	<u>5,452</u>	<u>3,777</u>	<u>4,857</u>
Cash at bank and in hand		<u>5,742</u>	<u>6,298</u>	<u>3,297</u>	<u>4,035</u>
Total current assets		<u>21,346</u>	<u>23,198</u>	<u>17,313</u>	<u>19,337</u>
TOTAL ASSETS		<u>55,409</u>	<u>56,734</u>	<u>59,173</u>	<u>59,116</u>

Consolidated financial statements and parent association financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	Group		Parent Association	
		2016	2015	2016	2015
EQUITY AND LIABILITIES					
Equity					
Share capital		53,445	53,646	53,445	53,646
Retained earnings		-3,826	-2,361	-3,826	-2,361
Total equity		49,619	51,285	49,619	51,285
Provisions					
Provisions for deferred tax		974	959	210	224
Total provisions		974	959	210	224
Liabilities other than provisions					
Non-current liabilities other than provisions					
Other payables	13	0	78	0	0
		0	78	0	0
Current liabilities other than provisions					
Current portion of non-current liabilities	13	78	156	0	0
Trade payables		2,474	1,910	2,042	1,417
Payables to group entities		0	0	6,263	5,015
Payables to associates		51	31	51	31
Other payables		2,213	2,315	988	1,144
		4,816	4,412	9,344	7,607
Total liabilities other than provisions		4,816	4,490	9,344	7,607
TOTAL EQUITY AND LIABILITIES		55,409	56,734	59,173	59,116

Consolidated financial statements and parent association financial statements 1 January – 31 December

Statement of changes in equity

EUR'000	Group		
	Share capital	Retained earnings	Total
Equity at 1 January 2016	53,646	-2,361	51,285
Profit/loss for the year	0	-1,543	-1,543
Exchange rate adjustment	-201	78	-123
Equity at 31 December 2016	53,445	-3,826	49,619

EUR'000	Parent Association		
	Share capital	Retained earnings	Total
Equity at 1 January 2016	53,646	-2,361	51,285
Profit/loss for the year	0	-1,543	-1,543
Exchange rate adjustment	-201	78	-123
Equity at 31 December 2016	53,445	-3,826	49,619

Consolidated financial statements and parent association financial statements 1 January – 31 December

Cash flow statement

EUR'000	Note	Group	
		2016	2015
Profit/loss for the year		-1,543	-486
Adjustments	16	2,726	2,410
Cash generated from operations before changes in working capital		1,183	1,924
Changes in working capital	17	1,498	-1,965
Cash generated from operations (operating activities)		2,681	-41
Interest income		9	12
Interest expense		-17	-31
Corporation tax paid		-49	-82
Cash flow from operating activities		2,624	-142
Acquisition of intangible assets		-421	-57
Acquisition of property, plant and equipment		-944	-1,688
Disposal of property, plant and equipment		188	291
Purchase of financial assets		-1,851	-4
Cash flows from investing activities		-3,028	-1,458
External financing:			
Repayment of long-term debt		-78	-156
Reduction of short-term bank credits		-78	0
Cash flows from financing activities		-156	-156
Cash flows for the year		-560	-1,756
Cash and cash equivalents at 1 January 2016		6,298	8,057
Exchange rate adjustment		4	-3
Cash and cash equivalents at year end		5,742	6,298

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of VikingGenetics F.M.B.A. for 2016 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

As from 1 January 2016, the Group has implemented Act no. 738 of 1 June 2015. This has entailed the following changes to recognition and measurement:

Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity. The reassessment has not resulted in any changes to the financial statements.

Going forward, unlisted equity investments are measured at cost. Previously, these were measured at fair value. Pursuant to the transition provisions, the recognised fair value in the annual report for 2016 is considered deemed cost of the equity investments. Comparative figures for the income statement and balance sheet have not been restated.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

An amount of EUR 402 thousand has been reclassified in the consolidated financial statement as of 31 December 2015 to decrease Provision for deferred tax and increase Equity. In the Parent Company financial statement an amount of EUR 402 has been reclassified as of 31 December 2015 to increase Investments in group entities and equity.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidated financial statements

The consolidated financial statements comprise the Parent Association, VikingGenetics F.M.B.A., and entities in which VikingGenetics F.M.B.A. directly or indirectly holds more than 50% of the votes or in some other way exercises control.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether control exists.

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The consolidated entities' financial statements are prepared in accordance with the accounting policies applied by the Parent Association. The consolidated financial statements are prepared on the basis of the financial statements of the consolidated entities by aggregating similar items. Intra-group income and expenses, gains, losses, investments, dividends and balances are eliminated. Equity investments in consolidated entities are set off against the proportionate share of the consolidated entity's net asset value.

Recently acquired or sold subsidiaries are recognised in the consolidated income statement for the period in which the Parent Association controls such entities. Comparative figures are not restated for recently acquired or sold entities.

The purchase method of accounting is applied to the acquisition of subsidiaries. Cost is made up by the net present value of the consideration agreed plus directly attributable expenses. Conditional payments are recognised at the amount expected to be paid. Identifiable assets and liabilities in the acquired entities are measured at fair value at the date of acquisition. Restructuring costs of the acquirer at the acquisition date are recognised if the restructuring has been decided at the time of acquisition. Allowance is made for the tax effect of revaluations of assets and liabilities. Any residual difference between cost and the group's share of the fair value of identifiable assets and liabilities is recognised as goodwill or negative goodwill.

Entities over which the group exercises significant influence are considered associates. Significant influence is presumed to exist when the group directly or indirectly holds between 20% and 50% of the voting right or otherwise has or actually exercises significant influence. Associates are recognised in the consolidated financial statements at their net asset value.

Foreign currency translation

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

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

Upon recognition of foreign subsidiaries and associates which are independent entities, the income statements are translated into EUR at average exchange rates for the month, and balance sheet items are translated at the exchange rates at the balance sheet date.

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Foreign exchange differences arising upon translation of foreign subsidiaries' opening equity and results at the exchange rates at the balance sheet date are recognised directly in equity.

Foreign exchange adjustments of balances with independent foreign subsidiaries considered part of the total investment in the subsidiary are recognised directly in equity. Similarly, foreign exchange gains and losses on loans foreign subsidiaries are recognised directly in equity.

Upon recognition of foreign subsidiaries which are integrated entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the date of acquisition or the date of subsequent revaluations of the asset. Income statement items are translated at the exchange rates at the transaction date, whereas items derived from non-monetary items are translated at historical exchange rates for the non-monetary item

Income statement

Revenue

Income from the sale of goods, primarily comprising the sale of semen, is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Cost of sales

Changes to inventory of stocks of finished goods and Cost of sales comprises costs incurred to generate revenue for the year. This item also comprises direct costs for goods for resale.

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Other operating income

Other operating income comprises items secondary to the activities of the Association.

Other external costs

Other external costs comprise items secondary to the activities of the Group. Other operating costs include costs related to distribution, sale, advertising, administration, premises, bad debts etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions as well as other social security contributions, etc. made to the Association's employees. The item is net of refunds made by public authorities.

Income from equity investments in group entities and associates

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the Parent Association's income statement after full elimination of intra-group gains/losses and amortisation of goodwill.

The proportionate share of the individual associates' profit/loss after tax is recognised in the Parent Association's income statement after elimination of a proportionate share of intra-group gains/losses and amortisation of goodwill

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities.

Tax on profit/loss for the year

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

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Intangible assets comprise patents and licences. Patents and licences are measured at cost less accumulated amortisation. Patents and licences are amortised over the remaining patent term, however, not exceeding 7 years.

Development costs and internally generated rights are expensed in the income statement in the year of acquisition.

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

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	20-30 years
Fixtures and fittings, tools and equipment	3-10 years

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

Land is not depreciated.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

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

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Investments in group entities and associates

Equity investments in group entities are measured at cost. In case of indication of impairment, an impairment test is conducted. When the cost exceeds the recoverable amount, write-down is made to this lower value.

Both in the Group and the Parent Association, equity investments in associates are measured at the proportionate share of the associates' net asset value calculated in accordance with the Group's accounting policies with deduction or addition of unrealised gains and losses and plus or minus the residual value of positive and negative goodwill calculated in accordance with the acquisition method.

Equity investments in associates with negative net asset values are measured at EUR 0, and any receivables from these entities are written down to the extent that the receivables are deemed irrecoverable. To the extent that the Parent Association has a legal or constructive obligation to cover a negative balance exceeding the receivable, the residual amount is recognised as provisions.

Other receivables and deposits are recognised at amortised cost

Other securities and equity investments

Other securities and investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at cost if the securities are unlisted.

Impairment of fixed assets

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

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

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

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

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Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of finished goods includes the cost of raw materials, consumables, direct labour and indirect production overheads.

Production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the selling price.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

Receivables

Receivables are measured at amortised cost.

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

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment. The objective indicators used are determined on the basis of historical loss experience.

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

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Notes

1 Accounting policies (continued)

Equity

Dividends

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

Net revaluation reserve according to the equity method

Net revaluation reserve according to the equity method comprises net revaluation of equity investments in associates in proportion to cost.

Dividends that expected to be received before the balance sheet date are not tied to the reserve.

Reserves may be eliminated in connection with loss, realisation of equity investments or changes in accounting estimates.

Reserves cannot be recognised at a negative amount

Corporation tax and deferred tax

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

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

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

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Notes

1 Accounting policies (continued)

Prepayments and deferred income

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Liabilities other than provisions

Other liabilities are measured at net realisable value.

Cash flow statement

The cash flow statement shows the entity's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the entity's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities, intangible assets, property, plant and equipment and investments.

Cash flows from financing activities

Cash flows from financing activities comprise changes in size or composition of the Association's share capital and costs in this respect as well as raising of loans, instalments on interest-bearing debt and distribution of dividend to owners.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

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Notes

EUR'000	Group		Parent Association	
	2016	2015	2016	2015
2 Revenue				
Sale of semen	28,943	28,999	26,935	27,439
Sale of cattle	639	759	188	322
Other sales (goods and services)	1,137	1,079	501	370
	<u>30,719</u>	<u>30,837</u>	<u>27,624</u>	<u>28,131</u>
3 Other operating income				
Contributions	351	387	189	206
Other income	1,250	1,015	544	423
	<u>1,601</u>	<u>1,402</u>	<u>733</u>	<u>629</u>

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Notes

EUR'000	Group		Parent Association	
	2016	2015	2016	2015
4 Staff costs				
Wages/salaries	8,262	7,958	5,020	4,780
Pensions	1,067	1,013	566	524
Other social security costs	613	691	69	82
Other staff costs	357	391	170	183
	<u>10,299</u>	<u>10,053</u>	<u>5,825</u>	<u>5,569</u>
Average number of full-time employees	<u>155</u>	<u>154</u>	<u>77</u>	<u>73</u>

Staff costs of the Group and the Parent association include remuneration of the Parent Association's Executive Board and Board of Directors, DKK 284 thousand (2015: DKK 279 thousand).

According to section 98b (3) of the Danish Financial Statements Act, remuneration to the Parent Association's Executive Board and Board of Directors has been presented in a total amount.

5 Amortisation/depreciation of and impairment losses on intangible assets and property, plant and equipment

EUR'000	Group		Parent Association	
	2016	2015	2016	2015
Amortisation of intangible assets	374	564	272	461
Depreciation of property, plant and equipment	2,116	2,024	1,099	994
	<u>2,490</u>	<u>2,588</u>	<u>1,371</u>	<u>1,455</u>

6 Financial income

Interest receivable, group entities	0	0	8	40
Other financial expenses	145	12	26	0
	<u>145</u>	<u>12</u>	<u>34</u>	<u>40</u>

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

EUR'000	Group		Parent Association	
	2016	2015	2016	2015
7 Financial expenses				
Interest expenses, group entities	0	0	136	74
Other financial expenses	128	33	12	26
	<u>128</u>	<u>33</u>	<u>148</u>	<u>100</u>
8 Tax on profit/loss for the year				
Estimated tax charge for the year	-92	-60	-1	-1
Deferred tax adjustments during the year	-77	-46	7	7
	<u>-169</u>	<u>-106</u>	<u>6</u>	<u>6</u>
9 Proposed profit appropriation/ distribution of loss				
Retained earnings	<u>-1,543</u>	<u>-486</u>	<u>-1,543</u>	<u>-486</u>
10 Intangible assets				
			Acquired intangible assets	
EUR'000			Group	Parent Association
Cost at 1 January 2016			2,101	1,491
Exchange rate adjustment			-14	6
Additions for the year			421	391
Disposals for the year			-89	0
Cost at 31 December 2016			<u>2,419</u>	<u>1,888</u>
Impairment losses and amortisation at 1 January 2016			1,611	1,106
Exchange rate adjustment			-12	5
Amortisation for the year			374	272
Amortisation and impairment of disposals			-89	0
Impairment losses and amortisation at 31 December 2016			<u>1,884</u>	<u>1,383</u>
Carrying amount at 31 December 2016			<u>535</u>	<u>505</u>

Consolidated financial statements and parent association financial statements 1 January – 31 December

Notes

11 Property, plant and equipment

EUR'000	Group		
	Land and buildings	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	41,882	9,063	50,945
Exchange rate adjustment	-224	-14	-238
Additions for the year	531	413	944
Disposals during the year	-83	-128	-211
Cost at 31 December 2016	42,106	9,334	51,440
Impairment losses and depreciation at 1 January 2016	12,489	5,641	18,130
Exchange rate adjustment	-53	-3	-56
Depreciation for the year	1,161	955	2,116
Depreciation of and impairment losses on disposals during the year	-65	-118	-183
Impairment losses and depreciation at 31 December 2016	13,532	6,475	20,007
Carrying amount at 31 December 2016	28,574	2,859	31,433

EUR'000	Parent Association		
	Land and buildings	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	22,629	6,963	29,592
Exchange rate adjustment	30	26	56
Additions for the year	518	379	897
Disposals during the year	-83	-124	-207
Cost at 31 December 2016	23,094	7,244	30,338
Impairment losses and depreciation at 1 January 2016	5,452	4,578	10,030
Exchange adjustment	-2	18	16
Depreciation for the year	438	659	1,097
Depreciation of and impairment losses on disposals during the year	-65	-115	-180
Impairment losses and depreciation at 31 December 2016	5,823	5,140	10,963
Carrying amount at 31 December 2016	17,271	2,104	19,375

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12 Investments

EUR'000	Group		
	Investments in associates	Other securities and investments	Total
Cost at 1 January 2016	81	114	195
Additions for the year	0	1,857	1,857
Disposals during the year	0	-7	-7
Cost at 31 December 2016	81	1,964	2,045
Value adjustments at 1 January 2016	36	0	36
Exchange rate adjustment	-2	0	-2
Share of the profit/loss for the year	16	0	16
Value adjustments at 31 December 2016	50	0	50
Carrying amount at 31 December 2016	131	1,964	2,095

EUR'000	Parent Association			
	Investments in group entities	Investments in associates	Other securities and investments	Total
Cost at 1 January 2016	20,482	27	57	20,566
Additions during the year	0	0	1,855	1,855
Disposals during the year	0	0	-3	-3
Cost at 31 December 2016	20,482	27	1,909	22,418
Value adjustment at 1 January 2016	-758	23	0	-735
Exchange rate adjustment	-234	0	0	-234
Share of the profit/loss for the year	515	16	0	531
Value adjustment at 31 December 2016	-477	39	0	-438
Carrying amount at 31 December 2016	20,005	66	1,909	21,980
Portion relating to recognition of positive balance (land and buildings) amounting to:	2,291			

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Notes

12 Investments (continued)

EUR'000	<u>Domicile</u>	<u>Interest</u>
Subsidiaries		
VikingGenetics Sweden AB	Skara, Sweden	100%
VikingGenetics International AB	Skara, Sweden Hollola, Finland,	100%
VikingGenetics Finland Oy AB	Tallangatta VIC,	100%
VikingGenetics Australia	Australia	100%
Associates		
Svensk Köttrprovning AB	Skara, Sweden	45%
Procross ApS	Randers, Denmark	50%

13 Non-current liabilities other than provisions

EUR'000	Group			
	<u>Total debt at 31/12 2016</u>	<u>Repay- ment, next year</u>	<u>Non- current portion</u>	<u>Outstan- ding debt after five years</u>
Other payables	78	78	0	0

14 Collateral

Group

VikingGenetics Finland Oy AB has provided collateral secured upon land and buildings with a carrying amount of EUR 1.6 million at an amount of EUR 1.6 million for mortgage debt amounting to EUR 0.1 million.

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Notes

15 Related parties

VikingGenetics F.M.B.A's related parties comprise the following:

Owners that does not have control

- VikingDanmark, Denmark
- Växa Sverige Ekonomisk Förening, Sweden
- FABA Osk, Finland

Subsidiaries owned 100%

- VikingGenetics Sweden AB, Sweden
- VikingGenetics International AB, Sweden
- VikingGenetics Finland Oy, Finland
- VikingGenetics Australia, Australia

Associates

- ProCross Aps, Denmark
- Svensk Köttrasprövning AB, Sweden

Management

- Executive Board
- Board of Directors

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Notes

15 Related parties (continued)

Related party transactions

Group

EUR'000	Group	Parent Association
Transactions with owners		
Sale of goods	24,463	24,243
Miscellaneous income from services and consumables	914	180
Purchase of goods and miscellaneous expenses from services and consumables	-2,473	-621
	<u>22,904</u>	<u>23,802</u>
Transactions with associates		
Sale of goods	841	841
Miscellaneous income from services and consumables	111	49
Purchase of goods and miscellaneous expenses from services and consumables	-23	-23
	<u>929</u>	<u>867</u>

Remuneration to the Executive Board and Board of Directors is disclosed in note 4.

Receivables and payables to associates are disclosed in the balance sheet, and interest is disclosed in notes 6 and 7.

Parent Association

The Parent Association has chosen not to disclose transactions with 100% owned subsidiaries in accordance with section 98c(3) of the Danish Financial Statements Act.

16 Adjustments

EUR'000	Group	
	2016	2015
Amortisation/depreciation and impairment losses	2,490	2,588
Gain/loss on the sale of fixed assets	-170	-221
Income from investments in associates	-16	-15
Financial income	-147	-12
Financial expenses	129	33
Tax for the year	169	106
Other adjustments	271	-69
	<u>2,726</u>	<u>2,410</u>

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Notes

17 Changes in working capital		
Change in inventories	423	274
Change in receivables	681	196
Change in prepayments and trade and other payables	583	-523
Other adjustments in working capital	-189	-1,912
	<u>1,498</u>	<u>-1,965</u>