VikingGenetics F.M.B.A.

Ebeltoftvej 16
8960 Randers SØ

CVR no. 31 47 45 74

Annual report 2017

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

on 4.4. 2018

chairman of the Council of Representatives

Contents

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 2017.

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 2017 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 2017.

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, 14 March 2018
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 2017 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 2017 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 2017 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.

KPMG

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, 14 March 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Anette Harritz State Authorised Public Accountant MNE no. 9368	Jakob Westerdahl State Authorised Public Accountant MNE no. 31449

Management's review

Financial highlights for the Group

EUR'000	2017	2016	2015	2014	2013
Revenue	32,082	30,719	30,837	32,446	32,268
Gross profit	12,986	11,382	12,267	12,790	13,692
Operating profit/loss	-1,736	-1,407	-374	535	1,930
Profit/loss from financial income and expenses	-40	17	-21	-227	-267
Profit/loss for the year	-1,854	-1,543	-486	573	1,794
Total assets	53,093	55,409	56,734	59,574	60,078
Investments in property, plant and equipment	672	944	1,688	1,096	1,265
Equity	47,524	49,619	51,285	51,256	51,022
Return on invested capital	-3.2%	-2.5%	-0.6%	0.9%	3.1%
Current ratio	515.1%	443.2%	525.7%	372.0%	344.9%
Return on equity	-3.8%	-2.8%	-0.7%	1.1%	3.6%
Solvency ratio	89.5%	89.6%	90.4%	86.0%	84.9%
Average number of full-time employees	148	155	154	152	160

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

Return on invested capital $\frac{\text{Profit/loss from operating activities x 100}}{\text{Average assets x 100}}$

Current ratio $\frac{\text{Current assets x 100}}{\text{Current liabilities}}$

Return on equity $\frac{\text{Profit from ordinary activities after tax x 100}}{\text{Average equity}}$

Solvency ratio $\frac{\text{Equity ex. non-controlling interests at year end x 100}}{\text{Total equity and liabilities at year end}}$

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, Swedish Avel from Sweden and Faba cooperative from Finland.

VikingGenetics F.M.B.A has a branch in Sweden, VikingGenetics F.M.B.A. branch Denmark located in Skara.

The Association's principal activity is production of semen. In addition, the Association effects 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. sold semen to its subsidiaries, VikingGenetics International AB, VikingGenetics Australia Pty Ltd, VikingGenetics UK Ltd. and ProCross Aps, which exported 936.000 doses of semen, generating revenue of approx. EUR 6.4 million. The performance by VikingGenetics outside the home markets Denmark, Sweden and Finland is considered satisfactory.

The Group VikingGenetics F.M.B.A.'s total revenue in 2017 was EUR 32.1 million, an increase from 2016 of 4.4% driven by increased sale of more expensive and value-adding products. The Group reported pre-tax results for the year of a negative EUR 1.8 million whereas net results for the year totalled a negative EUR 1.9 million. In late 2017, a production restructuring process was announced with the purpose of simplifying and taking out costs of the existing production set-up. As a result of this restructuring process, 2017 was affected by one-off costs in the level of EUR 2 million, mostly related to impairment write-down on property.

The Association's performance in the year under review is considered slightly better than expected before restructuring costs.

Investments will continuously be made in the development of genomic selection, and the further development of genomic selection still has a promising outlook. Besides investments in IT, investments in people and competences are continuously made with the purpose of improving performance.

Outlook

The Group is expected to have higher sales in 2018 compared to 2017, and EBIT is expected to reach approx. EUR 0. Savings from the new production structure are not expected to materialise before 2019 and will thereby only have a very limited effect on the 2018 results.

Management's review

Operating review

Environmental matters

The Association is subject to environmental requirements that influence the operation of farms. The Association has taken out insurance against environmental pollution incidents and conducts its operation according to current EU and national legislation. Even though the Association complies with relevant legislation, land pollution can still happen.

Research and development activities

The Association considers it an important task to participate in research and provides substantial annual contributions for this purpose.

Knowledge resources

The Association has an academic environment which covers a wide range of topics and at the same time is specialised.

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

Particular risks

Operating risks

The highest operating risk of the Association is considered to be animal diseases as this will reduce the possibility to sell semen. In order to reduce the risk, the Association has taken the following precautions:

- Production of semen is located in different countries (Denmark and Sweden)
- The Association has acquired neighbour farms to reduce the risk of airborne diseases
- The Association has a certain level of security inventory of semen.

Post balance sheet events

No post balance sheet events have occurred which could materially affect the assessment of the Association's financial position.

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

Income statement

EUR'000	Note	Group 2017	Group 2016	Parent Association 2017	Parent Association 2016
Revenue		32,082	30,719	28,414	27,624
Changes in inventories of finished goods		150	-423	323	-206
Other operating income		1,077	1,601	425	733
Cost of sales		-14,817	-14,684	-18,195	-19,148
Other external costs		-5,506	-5,831	-3,429	-3,773
Gross profit		12,986	11,382	7,538	5,230
Staff costs	2	-10,734	-10,299	-6,200	-5,825
Amortisation/depreciation of and impairment losses on intangible assets and property, plant and equipment	3	-3,988	-2,490	-3,054	-1,371
Operating profit/loss		-1,736	-1,407	-1,716	-1,966
Income from equity investments in group entities	4	0	0	25	515
Income from equity investments in associates	4	17	16	16	16
Financial income	5	30	145	8	34
Financial expenses	6	-70	-128	-190	-148
Profit/loss before tax		-1,759	-1,374	-1,857	-1,549
Tax on profit/loss for the year	7	-95	-169	3	6
Profit/loss for the year	8	-1,854	-1,543	-1,854	-1,543

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

Balance sheet

EUR'000	Note	Group 2017	Group 2016	Parent Association 2017	Parent Association 2016
ASSETS					
Fixed assets					
Intangible assets	9				
Acquired intangible assets		473	535	367	505
		473	535	367	505
Property, plant and equipment	10				
Land and buildings		24,571	28,574	14,956	17,271
Fixtures and fittings, tools and equipment		2,285	2,859	1,733	2,104
		26,856	31,433	16,689	19,375
Investments	4				
Equity investments in group entities		0	0	15,048	20,005
Investments in associates		146	131	83	66
Other securities and equity investments		1,942	1,964	1,887	1,909
		2,088	2,095	17,018	21,980
Total fixed assets		29,417	34,063	34,074	41,860
Current assets					
Inventories					
Finished goods and goods for resale		11,174	11,024	10,562	10,239
		11,174	11,024	10,562	10,239
Receivables					
Trade receivables		5,442	3,726	3,734	2,566
Receivables from group entities		0	0	1,160	583
Receivables from associates		501	429	501	429
Income tax receivable		19	65	0	0
Other receivables		8	99	3	98
Prepayments		322	261	102	101
		6,292	4,580	5,500	3,777
Cash at bank and in hand		6,210	5,742	3,098	3,297
Total current assets		23,676	21,346	19,160	17,313
TOTAL ASSETS		53,093	55,409	53,234	59,173

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

Balance sheet

		Group		Parent Association	
EUR'000	Note	2017	2016	2017	2016
EQUITY AND LIABILITIES					
Equity					
Share capital		53,273	53,445	53,273	53,445
Retained earnings		-5,749	-3,826	-5,749	-3,826
Total equity		47,524	49,619	47,524	49,619
Provisions	11				
Provisions for deferred tax		973	974	108	210
Total provisions		973	974	108	210
Current liabilities other than provisions					
Current portion of non-current liabilities		0	78	0	0
Trade payables		2,469	2,474	1,955	2,042
Payables to group entities		0	0	2,692	6,263
Payables to associates		143	51	59	51
Other payables		1,984	2,213	896	988
		4,596	4,816	5,602	9,344
Total liabilities other than provisions		4,596	4,816	5,602	9,344
TOTAL EQUITY AND LIABILITIES		53,093	55,409	53,234	59,173

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

Statement of changes in equity

	Group		
EUR'000	Share capital	Retained earnings	Total
Equity at 1 January 2017	53,445	-3,826	49,619
Profit/loss for the year	0	-1,854	-1,854
Exchange rate adjustment	-172	-69	-241
Equity at 31 December 2017	53,273	-5,749	47,524

	Parent Association		
EUR'000	Share capital	Retained earnings	Total
Equity at 1 January 2017	53,445	-3,826	49,619
Profit/loss for the year	0	-1,854	-1,854
Exchange rate adjustment	-172	-69	-241
Equity at 31 December 2017	53,273	-5,749	47,524

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

Cash flow statement

		Group	
EUR'000	Note	2017	2016
Profit/loss for the year		-1,854	-1,543
Adjustments	14	4,272	2,927
Cash generated from operations before changes in working capital		2,418	1,384
Changes in working capital	15	-2,006	1,498
Cash generated from operations (operating activities)		412	2,882
Interest income		30	9
Interest expense		-70	-17
Corporation tax paid		-117	-49
Cash flows from operating activities		255	2,825
Acquisition of intangible assets		-97	-421
Acquisition of property, plant and equipment		-672	-944
Disposal of property, plant and equipment		1,237	188
Purchase of financial assets		-3	-1,851
Disposal of financial assets		32	0
Cash flows from investing activities		497	-3,028
External financing:			
Repayment of long-term debt		0	-78
Reduction of short-term bank credits		-78	-78
Exchange rate adjustment, share capital		-172	-201
Cash flows from financing activities		-250	-357
Cash flows for the year		502	-560
Cash and cash equivalents at 1 January		5,742	6,298
Exchange rate adjustment		-34	4
Cash and cash equivalents at year end		6,210	5,742

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 2017 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

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.

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.

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

Notes

1 Accounting policies (continued)

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.

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.

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

Notes

1 Accounting policies (continued)

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.

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.

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

Notes

1 Accounting policies (continued)

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.

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.

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

Notes

1 Accounting policies (continued)

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.

Investments in group entities and associates

Equity investments in group entities are measured at the proportionate share of the group entity's 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.

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 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.

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

Notes

1 Accounting policies (continued)

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.

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.

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

Notes

1 Accounting policies (continued)

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.

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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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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2 Staff costs

	Group		Parent Association	
EUR'000	2017	2016	2017	2016
Wages/salaries	8,610	8,262	5,293	5,020
Pensions	824	1,067	629	566
Other social security costs	874	613	66	69
Other staff costs	426	357	212	170
	10,734	10,299	6,200	5,825
Average number of full-time employees	148	155	78	77

Staff costs of the Group and the Parent Association include remuneration of the Parent Association's Executive Board and Board of Directors of EUR 295 thousand (2016: EUR 284 thousand).

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

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

	Group		Parent Association	
EUR'000	2017	2016	2017	2016
Amortisation of intangible assets	175	374	158	272
Depreciation of property, plant and equipment	2,031	2,116	1,114	1,099
Impairment of property, plant and equipment	1,782	0	1,782	0
	3,988	2,490	3,054	1,371

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4 Investments

	Group		
EUR'000	Investments in associates	Other securities and investments	Total
Cost at 1 January 2017	81	1,964	2,045
Additions for the year	0	3	3
Disposals during the year	0	-32	-32
Cost at 31 December 2017	81	1,935	2,016
Value adjustments at 1 January 2017	50	-3	47
Exchange rate adjustment	-2	10	8
Share of the profit/loss for the year	17	0	17
Value adjustments at 31 December 2017	65	7	72
Carrying amount at 31 December 2017	146	1,942	2,088

	Parent Association			
EUR'000	Investments in group entities	Investments in associates	Other securities and equity investments	Total
Cost at 1 January 2017	20,482	27	1,909	22,418
Additions during the year	0	0	0	0
Disposals during the year	0	0	-22	-22
Cost at 31 December 2017	20,482	27	1,887	22,396
Value adjustment at 1 January 2017	-477	40	-2	-439
Exchange rate adjustment	-282	0	2	-280
Dividends distributed	-4,700	0	0	-4,700
Share of the profit/loss for the year	25	16	0	41
Value adjustment at 31 December 2017	-5,434	56	0	-5,378
Carrying amount at 31 December 2017	15,048	83	1,887	17,018

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Notes

4 Investments (continued)

EUR'000	Domicile	Interest
Subsidiaries		
VikingGenetics Sweden AB	Skara, Sweden	100%
VikingGenetics International AB	Skara, Sweden	100%
VikingGenetics Finland Oy AB	Hollola, Tallangatta, Finland	100%
VikingGenetics Australia Pty Ltd.	Victoria, Australia	100%
VikingGenetics UK Ltd.	Wiltshire, United Kingdom	100%
Associates		
Svensk Köttraprövning AB	Skara, Sweden	45%
Procross ApS	Randers, Denmark	50%

	Group		Parent Association	
EUR'000	2017	2016	2017	2016
5 Financial income				
Interest receivable, group entities	0	0	6	8
Other financial expenses	30	145	2	26
	30	145	8	34
6 Financial expenses				
Interest expenses, group entities	0	0	134	136
Other financial expenses	70	128	56	12
	70	128	190	148

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EUR'000	Group 2017	Group 2016	Parent Association 2017	Parent Association 2016
7 Tax on profit/loss for the year				
Estimated tax charge for the year	-61	-92	-1	-1
Deferred tax adjustments during the year	-34	-77	4	7
	-95	-169	3	6
8 Proposed profit appropriation/ distribution of loss				
Retained earnings	-1,869	-1,557	-1,854	-1,543
Reserve for net revaluation according to the equity method	15	14	0	0
	-1,854	-1,543	-1,854	-1,543

9 Intangible assets

EUR'000	Acquired intangible assets Group	Acquired intangible assets Parent Association
Cost at 1 January 2017	2,436	1,888
Exchange rate adjustment	-18	-3
Additions for the year	97	21
Disposals for the year	-486	0
Cost at 31 December 2017	2,029	1,906
Impairment losses and amortisation at 1 January 2017	-1,884	-1,383
Exchange rate adjustment	17	2
Amortisation for the year	-175	-158
Amortisation and impairment of disposals	486	0
Impairment losses and amortisation at 31 December 2017	-1,556	-1,539
Carrying amount at 31 December 2017	473	367

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10 Property, plant and equipment

	Group		
EUR'000	Land and buildings	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2017	42,106	9,335	51,441
Exchange rate adjustment	-259	-45	-304
Additions for the year	283	389	672
Disposals during the year	-7,359	-445	-7,804
Cost at 31 December 2017	34,771	9,234	44,005
Impairment losses and depreciation at 1 January 2017	-13,532	-6,476	-20,008
Exchange rate adjustment	73	32	105
Depreciation for the year	-1,169	-862	-2,031
Impairment losses for the year	-1,782	0	-1,782
Depreciation of and impairment losses on disposals during the year	6,210	357	6,567
Impairment losses and depreciation at 31 December 2017	-10,200	-6,949	-17,149
Carrying amount at 31 December 2017	24,571	2,285	26,856

	Parent Association		
EUR'000	Land and buildings	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2017	23,095	7,244	30,339
Exchange rate adjustment	-69	-10	-79
Additions for the year	283	372	655
Disposals during the year	-403	-161	-564
Cost at 31 December 2017	22,906	7,445	30,351
Impairment losses and depreciation at 1 January 2017	-5,824	-5,140	-10,964
Exchange adjustment	27	7	34
Depreciation for the year	-461	-653	-1,114
Impairment losses for the year	-1,782	0	-1,782
Depreciation of and impairment losses on disposals during the year	90	74	164
Impairment losses and depreciation at 31 December 2017	-7,950	-5,712	-13,662
Carrying amount at 31 December 2017	14,956	1,733	16,689

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11 Provisions for deferred tax

	Group		Parent Association	
EUR'000	2017	2016	2017	2016
Deferred tax at 1 January 2017	974	959	210	224
Adjustments during the year	-1	15	-102	-14
	973	974	108	210

12 Operating lease obligations

The Group has entered into operating leases with a remaining term of 6-24 months. The lease obligation represented EUR 17 thousand at 31 December 2017, of which amount EUR 12 thousand is attributable to the Parent Association.

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13 Related parties

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

Owners that does not have control

— VikingDanmark F.M.B.A, Denmark

— Växa Sverige Ekonomisk Förening, Sweden

— FABA Osk, Finland

Fully-owned subsidiaries

— VikingGenetics Sweden AB, Sweden

— VikingGenetics International AB, Sweden

— VikingGenetics Finland Oy, Finland

— VikingGenetics Australia Pty Ltd., Australia

— VikingGenetics UK Ltd., United Kingdom

Associates

— ProCross ApS, Denmark

— Svensk Köttrasprövning AB, Sweden

Management

— Executive Board

— Board of Directors

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13 Related parties (continued)

Related party transactions

Pursuant to section 98c(7) of the Danish Financial Statements Act, the Group and the Parent Association have not disclosed related party transactions as they have been carried out on an arm's length basis.

EUR'000	Group 2017	Group 2016
14 Adjustments		
Amortisation/depreciation and impairment losses	3,988	2,490
Gain/loss on the sale of fixed assets	-91	-170
Income from investments in associates	-17	-16
Financial income	-30	-147
Financial expenses	70	129
Tax for the year	61	169
Other adjustments	291	472
	4,272	2,927
15 Changes in working capital		
Change in inventories	-150	423
Change in receivables	-1,713	681
Change in prepayments and trade and other payables	-142	583
Other adjustments in working capital	-1	-189
	-2,006	1,498