

Frontmatec Holding III ApS

Platinvej 8

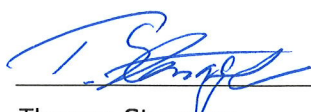
6000 Kolding

Central Business Registration No.:
37773727

Annual report 2018

The Annual General Meeting adopted the annual report on 29 May 2019

Chairman of the General Meeting



Thomas Stenager

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Company Details

Company

Frontmatec Holding III ApS
Platinvej 8
6000 Kolding

Central Business Registration No: 37773727

Board of Directors

Christoffer Arthur Müller, CEO

Executive Board

Christian Gyms Schmidt-Jacobsen
Jesper Frydensberg Rasmussen
Peter Nyegaard

Company Auditors

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

Statement by Management on the Annual Report

The Board of Directors and the Executive Board have today considered and approved the annual report of Frontmatec Holding III ApS for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2018 and of the results of their operations and cash flows for the financial year 1 January - 31 December 2018.

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

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


Kolding, 29 May 2019

Executive Board



Christoffer Arthur Müller
Chief Executive Officer

Board of Directors



Christian Gyms Schmidt-Jacobsen
Chairman



Peter Nyegaard



Jesper Frydensberg Rasmussen

Independent Auditor's Report

To the shareholders of Frontmatec Holding III ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of Frontmatec Holding III ApS for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2018, and of the results of their operations and cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Aarhus, 29.05.2019

Deloitte

Statsautoriseret Revisionspartnerselskab

Business Registration No 33 96 35 56



Thomas Rosquist Andersen

State-Authorised

Public Accountant

MNE-nr.: mne31482



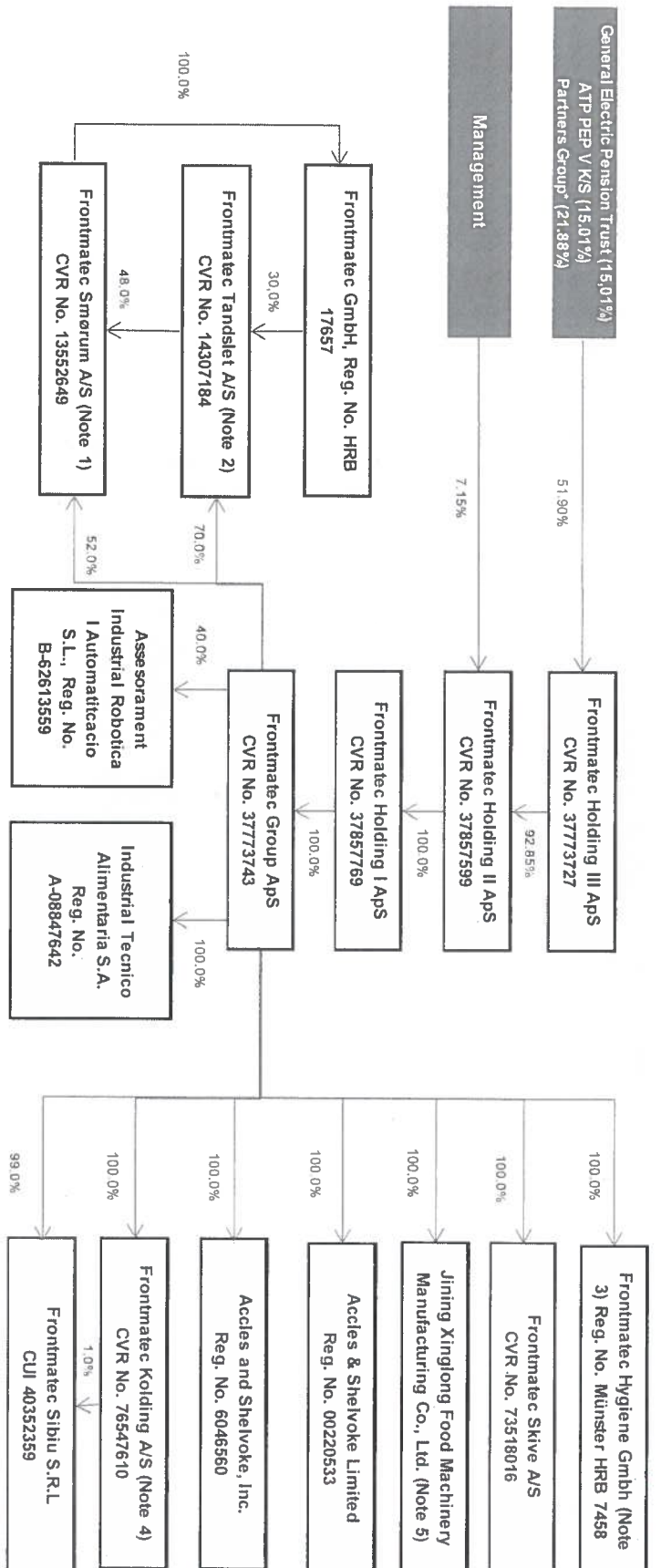
Søren Alsen Lauridsen

State-Authorised

Public Accountant

MNE-nr.: mne40040

Group Structure



Note 1 – Frontmatec Smørrum A/S – subsidiaries (Company name, Reg. No., % share)	Note 2 – Frontmatec Tandslæt A/S – subsidiaries (Company name, Reg. No., % share)	Note 3 – Frontmatec Hygiene GmbH – subsidiaries (Company name, Reg. No., % share)	Note 4 – Frontmatec Kolding A/S – subsidiaries (Company name, Reg. No., % share)	Note 5 – Jining Xinglong Food Machinery Manufacturing Co., Ltd. (Company name, Reg. No., % share)
Frontmatec S.L. Reg. No. B-82423984, 33.33%	Frontmatec S.L. Reg. No. B-82423984, 33.33%	Frontmatec S.L. Reg. No. B-82423984, 33.33%	Frontmatec Equipments Inc. Reg. No. 11468746231, 100%	Xuchang Lianke Machinery Co., Ltd. (CN), 50%
Frontmatec SP Zoo, Reg. No. 0000254341, 100%		Frontmatec Inc. Reg. No. 01135848, 100%	Frontmatec LLC Reg. No. 7700428312, 100%	
		Frontmatec Shuangfeng Equipment (Shanghai) Co. Ltd., Reg. No. 9131011598907639X1, 100%	Frontmatec Holding B.V., Reg. no. 30989875, 100%	
		Frontmatec B.V., Reg. No. 08049717, 100% (Subsidiary to Frontmatec Holding B.V.)		

Intecal – Industrial Técnico Alimentaria, S.A. and Aira – Assesorament Industrial Robòtica, S.L. is first part of the Group in 2019 (refer to note 34)

*Partners Group invests through 2 entities: Partners Group Global Value Sicav (8.29%) and Partners Group Private Equity (Master Fund), LLC (13.59%)

Management Review

	2018	2017	2016*
	DKK'000	DKK'000	DKK'000
Group financial highlights			
Key figures			
Revenue	1,418,685	1,341,573	443,194
Gross profit/loss	478,582	449,807	121,025
Operating profit before depreciation amortization and special items	206,971	182,775	(5,401)
Equity	772,392	758,221	715,072
Balance sheet total	2,701,320	2,382,500	2,204,009
Financial development:			
Cash flows from:			
- operating activities	103,849	90,010	8,296
- investing activities	(78,804)	(205,940)	(840,837)
- financing activities	(57,050)	825,193	222,966
Change in cash and cash equivalents for the year	(32,005)	610,867	(609,575)
Number of employees	1,230	1,000	799
Ratios			
Gross margin (%)	33.7%	33.5%	27.3%
Operating margin (%)	-0.4%	1.7%	(10.9)%
Return on assets (%)	-0.2%	1.0%	(2.2)%
Equity ratio (%)	28.6%	31.8%	32.4%

**In 2016 the group was established and therefore only comprises of 9 months.*

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

Management Review

Explanation of ratios:

Ratios		Calculation formula
Gross margin (%)	=	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin (%)	=	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on assets (%)	=	$\frac{\text{Operating profit} \times 100}{\text{Average Assets}}$
Equity ratio (%)	=	$\frac{\text{Equity end of year} \times 100}{\text{Total equity and liabilities at year end}}$

Frontmatec's Business Review

About Frontmatec Group

Frontmatec Group is a global leading provider of advanced food processing equipment. Frontmatec develops world-class customized solutions for automation in the food industry, other hygiene sensitive industries and the utilities industry. The Group is especially renowned for the high-quality systems for the entire value chain of the meat industry – from carcass grading to slaughter lines, cutting and deboning lines, hygiene systems and control systems to logistics and packaging.

Frontmatec Group acquired Jining Xinglong Food Machinery Manufacturing Co., Ltd in 2018. The combined group has a pro-forma full year revenue in 2018 of DKK 1,425 million and a pro-forma normalized EBITDA of DKK 226 million.

Frontmatec Group is headquartered in Kolding, Denmark and has production facilities in Denmark, Canada, China, UK and Germany. Moreover, the Group has a global sales footprint with own sales offices in Denmark, Germany, Poland, France, Spain, Netherlands, China, Canada, USA and Russia.

The strategy of the group is to leverage its strong market position and full-line product offering to outperform the underlying market growth while at the same time executing on operational improvement initiatives in order to continue to enhance profitability significantly.

Achievements in 2018

The focus of the financial year 2018 was to further integrate the acquired entities and to improve and align processes. Key achievements in 2018 include:

- Production footprint optimized with the closure of production in The Netherlands and investment in a new low cost production facility in Romania
- With the majority of integration initiatives completed in 2017 and with an increased focus on sales using the strengthened platform, Frontmatec had significantly higher order intake in 2018, resulting in a record-high order backlog at the end of 2018. This provides the Group with significant revenue visibility into 2019
- During 2018 Frontmatec continued to invest in new product development and introduced a number of advanced automation solutions to the industry
- Hiring of employees in strategic markets and key application areas
- Finalised an updated strategy and business plan up until 2023
- Strategic bolt-on acquisitions in Aira and Intacal (acquisitions closed in 2019)

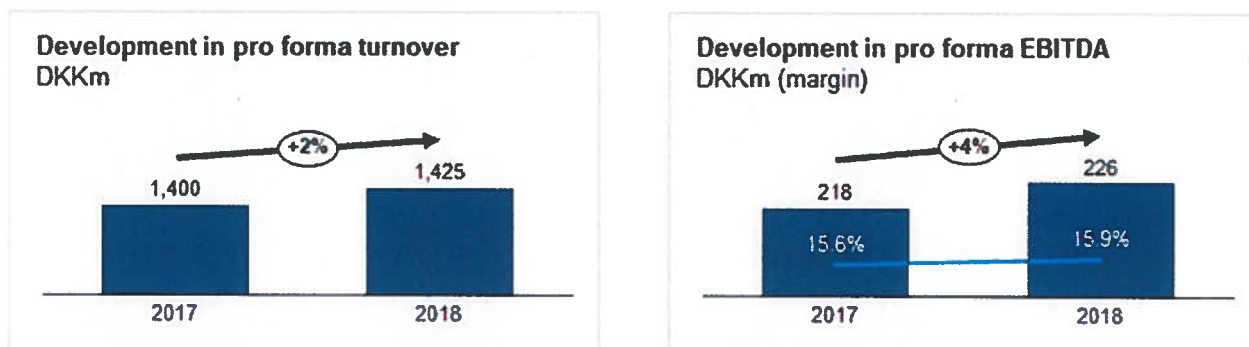
Frontmatec's Business Review

One acquisition was completed in 2018:

In February 2018, Frontmatec Group acquired the Chinese based company Jining Xinglong Food Machinery Manufacturing Co., Ltd. The company is a leading supplier of equipment to the red meat industry in China and will play an integral part in the ambition to grow Frontmatec's presence in China. China is the world's single largest market accounting for approx. 50% of all pigs slaughtered globally. The market is expected to experience strong growth going forward driven by an increased demand for more automated and high-speed solutions and an increased focus on food safety. With the acquisition Frontmatec Group has a leading position and platform in China.

Normalised EBITDA

In tandem with completing a number of integration initiatives, the Group managed to grow both turnover and earnings:



Pro-forma financials include full year turnover and normalized EBITDA from companies owned as per 31. December 2018.

Frontmatec Group had a pro-forma revenue of DKK 1,425 million in 2018, which represents an increase of 2% from 2017 (DKK 1,400 million). The order intake has increased significantly in 2018 and the order backlog is approx. 50% higher at the end of 2018 compared to 2017. This will be a key driver for the expected growth in 2019.

EBITDA (pro-forma and normalised) increased by 4% from DKK 218 million in 2017 to DKK 226 million in 2018. The high order intake in 2018 had a positive impact on EBITDA especially in the second half of 2018. EBITDA in the second half of 2018 was significantly higher than in the first half. It is expected that the momentum from the second half of 2018 will continue into 2019 and onwards. In addition to the higher run-rate, the acquisitions of Aira and Intecal at the beginning of 2019 will further contribute to an increased EBITDA in 2019.

Frontmatec's Business Review

Financial statements

The numbers reported in the financial statements are impacted by acquisitions in 2018 and full year effect of acquisitions in 2017.

Frontmatec Group has revenue of DKK 1,419 million in 2018, which is DKK 77 million higher than 2017. Operating profit before depreciations and special non-recurring items is DKK 207 million and DKK 24 million higher than 2017. Special non-recurring items of DKK 76 million is related to acquisition and restructuring costs (2017: DKK 36 million). Restructuring costs are mainly related to the closedown of the production facility in the Netherlands.

The Operating loss for 2018 is DKK 5 million (2017: profit of DKK 23 million, 2016: loss of DKK 48 million). Net financials for 2018 is a cost of DKK 47 million (2017: DKK 43 million, 2016: DKK 14 million). The consolidated loss for 2018 is DKK 55 million (2017: DKK 53 million, 2016: DKK 55 million).

The balance sheet at 31 December 2018 for the Group shows total assets of DKK 2,695 million (2017: DKK 2,374 million) and equity of DKK 1,021 million (2016: DKK 979 million).

Events after the balance sheet date

In January 2019, Frontmatec Group acquired 40% of the shares in the Spanish based company Aira – Assessorament Industrial Robòtica, S.L. The partnership will provide Frontmatec with unique competencies in robotic solutions, complementing the already strong automation portfolio. The partnership will focus on supporting the increasing level of automation in the global meat industry.

In March 2019, Frontmatec Group acquired 100% of the shares in the Spanish based company Intecal – Industrial Técnico Alimentaria, S.A. The leading Spanish equipment distributor will strengthen the Group's position on this vital market significantly. The global demand for red meat is increasing along with a growing global population. Spain has been especially successful in meeting this demand and increased its production to become the largest producer of pork meat in Europe. The acquisition marks another step in Frontmatec's ambition to become the global preferred supplier of equipment, projects, automation and robotics by strengthening its position on the attractive Spanish market.

Other than the two acquisitions mentioned, there have been no events since 31 December 2018, which could significantly affect the evaluation of the Group's financial position and revenue.

Outlook

Management expect that revenue and EBITDA will show a significant growth in 2019. The increased backlog of approx. 50% at 31 December 2018 compared to 2017 will be the main driver behind this, but also the acquisitions of Aira and Intecal at the beginning of 2019, and the effects of the strategic initiatives implemented over the last two years, will contribute positively.

Frontmatec's Business Review

Corporate Governance

Being owned by the Danish private equity firm Axcel, the Group is subject to the guidelines of the Danish Venture and Private Equity Association (DVCA, www.dvca.dk) for responsible ownership and corporate governance. Frontmatec Group intends to fully comply with all guidelines where it is relevant.

Management's focus on corporate governance is, among other things, based on the Danish Companies Act, the Danish Financial Statements Act, the company's articles of association and good practice from comparable companies. In addition, the management is continuously monitoring the development in the field of corporate governance to ensure that the Group, internally as well as externally, is managed in a way that is in accordance with applicable laws in order to protect the interests of all stakeholders.

Board of directors

The board of directors of the Frontmatec Group ensures that the executive board complies with the objectives, strategies and business processes decided by the board of directors. Moreover, the board of directors ensures on an ongoing basis that the governance structure and control systems are appropriate and working well.

The board of directors consists of five members. The principal shareholder Axcel has appointed Christoffer Arthur Müller and Christian Schmidt-Jacobsen. The remaining three members of the board of directors are independent.

The board of directors has adopted the rules of procedure for the board of directors. In addition, the board of directors uses committees for special tasks. Thus, a chairman committee, an audit and risk committee and a remuneration committee have been established.

The following board members are represented on the individual committees:

- Chairman committee: Arne Vraalsen and Christoffer Arthur Müller
- Audit and risk committee: Christoffer Arthur Müller
- Remuneration committee: Arne Vraalsen

The board of directors meet on a predetermined schedule of meetings at least six times a year. Usually there is an annual strategy seminar in connection with an ordinary board meeting. The seminar defines the objectives and strategy of the Group.

The chairman committee meets with the management of the company on a monthly basis.

Frontmatec's Business Review

Audit and risk committee meetings are held three to four times a year. The work of the audit committee is described in an annual calendar, which is approved by the board of directors. The committee is responsible for monitoring the company's financial reporting and the internal control environment as well as for determining the relations and framework of the external audit. Standard procedures have been established, focusing on e.g. updating financial reporting standards and reviews of any items containing material accounting estimates and items of a one-off nature.

Other executive positions held by the board of directors and the executive board are specified in note 27.

Shareholders

- Frontmatec Holding III ApS owns 93.13% of:
 - Frontmatec Holding II ApS, which owns 100% of:
 - Frontmatec Holding I, which owns 100% of:
 - Frontmatec Group ApS.

Account of the gender composition of management (in accordance with Danish Financial Statements Act §99b)

Frontmatec Group aims to promote diversity, e.g. with a fair representation of women on the board of directors as well as in the executive management group, based on a desire to strengthen the company's versatility, broaden its competences and improve its decision-making processes.

The board of directors aims to ensure that its members complement each other in the best possible way with respect to age, experience, nationality, gender, etc. for the purpose of ensuring a competent and versatile contribution to the work of the board in Frontmatec Group. These factors are taken into account when new candidates for the board of directors are identified, and the nomination of candidates will always be based on an assessment of their competences, how they match Frontmatec Group's requirements and how they will contribute to the overall efficiency of the board of directors.

The share of women in the Frontmatec Group is 20% (2017: 20%) of the board of directors, 0% (2017: 8%) of the management group and 11% (2017: 14%) of the total number of employees. The objective is to have approximately 20 % women in the board of directors and management group within the next four years. There has not been any changes to the board of directors during the year. Initiatives to achieve the objective of alignment among gender include focus on having both genders represented when hiring new employees.

Frontmatec's Business Review

CSR

For the statutory report on corporate social responsibility, in accordance with Danish Financial Statements Act §99a , the Group has implemented measures for Corporate Social Responsibility which are included in the UN global compact communication on progress report which is available on the Frontmatec website via the following link: https://www.frontmatec.com/media/3158/frontmatec-cop_2018.pdf

Risk

Risk management is considered an essential and natural part of the realisation of the Group's objectives and strategy. The daily activities, the implementation of the established strategy and the continuous use of business opportunities involve inherent risks, and the company's handling of these risks is therefore seen as a natural and integrated part of the daily work and a way to ensure stable and reliable growth.

Unusual risks

The Group has no particular commercial or financial risks other than risks of common occurrence within the industry. The Group considers the risks in the industry to be related to the global market conditions.

Financial risks

The Group is exposed to changes in exchange rates and interest rates due to its operational and financial set-up. The Group manages its financial risks through instruments for hedging of currency.

Knowledge resources

The leading position of the Group within the red meat processing industry is dependent on the ability to retain and attract employees with special skills and experience in order to achieve its business goals.

IT risks

Frontmatec uses IT to a significant extent and is vulnerable to interruptions of operations and breaches of the established security. Frontmatec constantly seeks to improve its IT security in order to ensure that a high level of security is maintained at all times.

Consolidated Income Statement 1 January – 31 December

	Note	2018 DKK'000	2017 DKK'000
Revenue	4	1,418,685	1,341,573
Production costs	5, 6	<u>(940,103)</u>	<u>(891,766)</u>
Gross profit		478,582	449,807
Distribution costs	6	(130,425)	(152,473)
Administrative costs	6	(136,524)	(114,505)
Other operating costs	8	<u>(4,662)</u>	<u>(54)</u>
Operating profit before depreciation amortisation and special items		206,971	182,775
Special non-recurring items	9	(76,470)	(36,086)
Depreciation, amortisation and impairment of non-current assets	7	<u>(135,875)</u>	<u>(123,488)</u>
Operating profit/loss		(5,374)	23,201
Financial income	10	27,802	3,873
Financial expense	11	<u>(102,109)</u>	<u>(72,050)</u>
Profit/loss before tax		(79,681)	(44,976)
Tax for the year	12	<u>(856)</u>	<u>(29,927)</u>
Profit/loss for the year		<u>(80,537)</u>	<u>(74,903)</u>

Statement of comprehensive income

Profit/loss for the year	<u>(80,537)</u>	<u>(74,903)</u>
Items that are or may be reclassified subsequently to profit or loss:		
Unrealised gain/loss on forward exchange contracts for the year	(10,471)	14,519
Exchange rate gain/loss on foreign operations	<u>(3,633)</u>	<u>(2,144)</u>
Other comprehensive income for the year after tax	<u>(14,104)</u>	<u>12,375</u>
Comprehensive income for the year	<u>(94,641)</u>	<u>(62,528)</u>

Consolidated Statement of Financial Position

	Note	31.12 2018 DKK'000	31.12 2017 DKK'000
Goodwill		1,100,455	990,353
Development completed		317,972	372,344
Acquired intangible assets		191,810	207,124
Development in progress		47,262	25,439
Intangible assets	13	1,657,499	1,595,260
Land and buildings	14	130,946	123,718
Plant and machinery	14	25,631	16,067
Other fixtures and fittings, tools and equipment	14	14,330	14,754
Right of use assets		36,658	0
Fixed assets		207,565	154,539
Investments		0	0
Deferred tax asset	19	54,424	15,574
Fixed asset investments		54,424	15,574
Non-current assets		1,919,488	1,765,373
Inventories	16	184,036	178,679
Trade receivables	17	260,889	251,447
Contract assets	18+19	126,407	58,037
Income taxes receivable		7,493	8,365
Other receivables		41,489	39,055
Prepayments		13,914	10,767
Receivables		450,192	367,671
Securities and investments		22,909	575
Cash at bank and in hand		124,695	70,202
Current assets		781,832	617,127
Assets		2,701,320	2,382,500

Consolidated Statement of Financial Position

	Note	31.12 2018 DKK'000	31.12 2017 DKK'000
Share capital	20	18,270	16,570
Reserve for value adjustments of hedging transactions		(6,047)	1,559
Reserve for foreign exchange adjustments		1,841	5,225
Retained earnings		691,128	690,815
Minority interests		<u>67,200</u>	<u>44,052</u>
Equity		<u>772,392</u>	<u>758,221</u>
Deferred tax	19	130,955	151,043
Other credit institutions	21	<u>938,486</u>	<u>961,459</u>
Non-current liabilities		<u>1,069,441</u>	<u>1,112,502</u>
Current portion of long-term liabilities	21	33,420	20,461
Other credit institutions		155,408	68,910
Lease liabilities		36,927	0
Other provisions	22	10,570	16,596
Contract liabilities	18+19	234,197	148,130
Trade payables		212,828	105,211
Income taxes		39,777	16,902
Other payables		<u>136,360</u>	<u>135,567</u>
Current liabilities		<u>859,487</u>	<u>511,777</u>
Liabilities		<u>1,928,928</u>	<u>1,624,279</u>
Equity and liabilities		<u>2,701,320</u>	<u>2,382,500</u>

Consolidated Statement of Changes in Equity 1 January – 31 December

Minority interest: 6,87%

	Share capital DKK'000	Value adjust- ments of hedging transactions DKK'000	Retained earnings DKK'000	Foreign exchange adjust- ments DKK'000	Total equity DKK '000	Minority interests DKK '000	Total DKK '000
Equity at 1 January 2017	14,990	(10,874)	682,382	7,244	693,742	21,330	715,072
Comprehensive income for the year							
Loss for the year	0	0	(70,551)	0	(70,551)	(4,352)	(74,903)
Other comprehensive income							
Unrealised profit on currency and interest swap in group entities	0	13,675	0	0	13,675	844	14,519
Hereof tax	0	(1,242)	0	0	(1,242)	(77)	(1,319)
Exchange rate on foreign investments	0	0	0	(2,019)	(2,019)	(125)	(2,144)
Comprehensive income for the year in total	0	12,433	(70,551)	(2,019)	(60,137)	(3,710)	(63,847)
Capital contribution	1,580	0	77,420	0	79,000	5,559	84,559
Share-based payment	0	0	8,100	0	8,100	500	8,600
Transaction with minority interest	0	0	(6,536)	0	(6,536)	20,373	13,837
Equity at 31 December 2017	16,570	1,559	690,815	5,225	714,169	44,052	758,221
Equity at 1 January 2018	16,570	1,559	690,815	5,225	714,169	44,052	758,221
Profit/loss for the year	0	0	(75,007)	0	(75,007)	(5,530)	(80,537)
Other comprehensive income							
Unrealized loss on currency and interest swap in group entities	0	(9,752)	0	0	(9,752)	(719)	(10,471)
Hereof tax	0	2,146	0	0	2,146	158	2,304
Exchange rate adjustments	0	0	0	(3,384)	(3,384)	(249)	(3,633)
Comprehensive income for the year 2018	0	(7,606)	(75,007)	(3,384)	(85,997)	(6,340)	(92,337)
Capital contribution	1,700	0	77,581	0	79,281	5,719	85,000
Share based payment	0	0	5,280	0	5,280	389	5,669
Transaction with minority interest	0	0	(7,540)	0	(7,540)	23,379	15,839
Equity at 31 December 2018	18,270	(6,174)	691,128	1,841	705,192	67,200	772,392

Consolidated Cash Flow Statement

	Note	31.12 2018 DKK'000	31.12 2017 DKK'000
Operating profit/loss		(5,374)	23,201
Depreciation, amortisation and impairment losses		135,875	123,488
Provisions		(2,624)	12,539
Changes in receivables		(3,723)	40,315
Changes in inventories		(1,168)	(27,440)
Changes in trade payables		78,996	(2,525)
Changes in other working capital		(33,940)	(41,904)
Interest received		27,805	3,873
Interest paid		(75,276)	(47,401)
Corporation tax paid		(16,722)	5,864
Cash flows from operating activities		<u>103,849</u>	<u>90,010</u>
Acquisition and sale of property, plant and equipment		(39,832)	(304,336)
Sale of property, plant and equipment		47,729	0
Business acquisitions		(86,701)	91,345
Cash flow from investing activities		<u>(78,804)</u>	<u>(205,940)</u>
Capital movement		102,927	98,396
Contracting of long-term liabilities		(159,977)	726,797
Cash flows from financing activities		<u>(57,050)</u>	<u>825,193</u>
Net cash flows for the year		(32,005)	610,867
Cash and cash equivalents 1 January		<u>1,292</u>	<u>(609,575)</u>
Cash and cash equivalents at 31 December		<u>(30,713)</u>	<u>(1,292)</u>
Cash and cash equivalents include cash at bank and in hand			

Notes to the Consolidated Financial Statements

1. Summary of new accounting policies

The Consolidated Financial Statements of Frontmatec Holding I have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU) and additional requirements of the Danish Financial Statements Act.

Adoption of new and revised International Financial Reporting Standards (IFRS)

The Group has as of 1 January 2018 applied the following standards and interpretations:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The adoption has not influenced comparative figures but have added further disclosure requirements.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. Management has analyzed the impact and assessed its influence on the financial statements as insignificant. Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, that were applied to the disclosures for 2018 and to the comparative period. IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, Impairment of financial assets and General hedge accounting. Impact on the Group's consolidated financial statements have been analyzed and deemed insignificant. Details of the new requirements are described below.

Classification and measurement of financial assets

The Group has applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparatives have not been restated since changes are immaterial to the financial statements.

The Management of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 did not have significant impact on the measurement of financial assets.

Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Application of the standard did not lead to any changes in recognition.

Notes to the Consolidated Financial Statements

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Management of the Company has elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (1 January 2018), the management has evaluated fluctuation of the credit risk of the respective financial instruments which can be summarized as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of IFRS 9	Credit risk attributes	Cumulative change to loss allowance registered on 1 January 2018
Loans to related parties	Management has concluded, that it would require undue cost and effort to determine the credit risk of each loan on their respective dates of initial recognition. These loans are also assessed to have credit risk other than low. Accordingly the Group recognizes lifetime ECL for these loans until they are derecognized.	None
Trade and other receivables Contract assets	The Group applies the simplified approach and recognizes lifetime ECL for these assets.	None
Cash and bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions.	None

ECL: Expected present value of loss that arise if borrowers default on their obligations at some time during the life of the financial assets. For a portfolio, ECL is the weighted average credit loss (loss-given-default) with the probability of default as the weight.

Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Notes to the Consolidated Financial Statements

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively for the date of initial application on 1 January 2018. The Group's qualifying hedge relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and where therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match to those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39. Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Group has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current or prior years. Please refer to note 25 for detailed disclosures regarding the Group's risk management activities.

Impact of initial application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15 C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, 1 January 2018.

The Group's accounting policies for its revenue streams are disclosed in detail in note 1 above. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has had no significant impact on the results and financial position of the Group for the current or prior years. Hence the financial statements have not been affected or restated.

Notes to the Consolidated Financial Statements

Impact of initial application of IFRS 16 Leases

In the current year, the Group has applied 16 *Leases* (as issued by the IASB in January 2016) in advance of its effective date. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2018.

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2018. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

The implementation did not impact prior periods. Upon initial recognition Right of use Assets were recognized as follows:

Frontmatec Holding III (DKK million)

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Right of use assets	29.0	1.0	8.2	38.2
Lease liability	(29.0)	(1.0)	(8.2)	(38.2)
Parent				
Right of use assets			1.0	
Lease liability			(1.0)	

Notes to the Consolidated Financial Statements

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- a) recognizes right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- b) recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- c) separates the total amount of cash paid into principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as IT equipment etc.), the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statement of profit and loss.

Impact of initial application of IFRS 16

The implementation of IFRS 16 did not have a material impact on the entities equity due to the relatively amount of contracts and short contract periods.

Notes to the Consolidated Financial Statements

2. Disclosure of material uncertainties

The preparation of the Annual Report requires that Management makes estimates and assumptions that affect the recognised assets and liabilities, including the disclosures made regarding contingent assets and liabilities, when applying the accounting policies.

Management considers the following estimates and assessments essential for preparing the financial statements.

Revenue/construction contracts

The total expected costs related to construction contracts are partly based on an estimate, as they include provisions for unforeseen cost deviations in future supplies of raw materials, subcontractor products and services plus commissioning and handing over.

Tangible and intangible assets

Management estimates the useful life and residual values. The asset is then depreciated and amortised systematically over the expected future useful life

Right-of-use assets without fixed lease periods are impacted by Managements assessment of the period where the lease is expected to be in force.

Changes to the period would impact both the Right-of-use Asset and the related liability.

Impairment test

An estimate is made of the future free net cash flow based on budgets and the strategy and projections for subsequent years. Significant parameters in this estimate are

discount rate, revenue development, EBIT margins and growth expectations for the years after the budget year.

Deferred tax liabilities and assets

Deferred tax assets are recognised if it is likely that there will be taxable income in the future against which timing differences or tax loss carry forwards may be used.

For this purpose, Management estimates the coming years' earning based on budgets and expected growth.

Inventories

The net realisable value of inventories is calculated as selling price less costs of completion and costs necessary to make the sale. The net realisable value is determined,

taking into account marketability, obsolescence and development in expected selling prices. Following the economic trend in the market,

Management have given special attention to inventory turnover when determining net realisable value.

Notes to the Consolidated Financial Statements

Trade receivables

Estimates are used in determining the level of receivables that cannot be collected according to Management. When evaluating the adequacy of the allowance for doubtful receivables, Management analyses trade receivables and examines changes in customer creditworthiness, customer payment patterns and current economic trends.

Warranties

Warranties are measured on the basis of empirical information covering several years as well as estimates by Management of future trends.

3. Other general accounting policies

The accounting standards as described below have been applied consistently for the financial year and comparison periods. For new standards that are implemented the comparatives have not been restated.

Basis of recognition and measurement

Assets are recognised in the balance sheet when it is probable that future financial benefits will accrue to the Group and the value of the assets can be measured reliably. Liabilities are recognised in the balance sheet when the Group as a result of a previous event has a legal or actual commitment, and it is probable that future financial benefits will flow out of the Group and the value of the liability can be measured reliably. Measurement at initial and subsequent recognition of assets and liabilities takes place as described for each individual item below. At recognition and measurement, various risks and losses which appear before the annual report is presented and which confirm or invalidate matters which existed on the balance sheet date are taken into consideration.

Reporting currency

The annual report is presented in Danish kroner (DKK) and rounded to thousands of DKK. DKK is the presentation currency of the activities of the Group and the functional currency of the Parent Company.

Consolidation

The consolidated financial statements comprise the Parent Company Frontmatec Holding III ApS and entities controlled by it. Control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power of an entity is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. Control may also exist by virtue of an agreement or articles of association or when the parent otherwise has a controlling interest in the subsidiary or actually exercises controlling influence over it.

The existence and effect of potential voting rights that are currently substantive are considered when assessing whether control exists including whether the parent has an exposure or has rights to variable returns from its involvement with the entity.

Notes to the Consolidated Financial Statements

The consolidated entities' financial statements are prepared in accordance with the accounting policies applied by the parent. The consolidated financial statements are prepared on the basis of the financial statements of the consolidated entities by adding together like items. Intra-group income, expenses, gains, losses, investments, dividends and balances are eliminated.

Business combinations

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

The acquisition method is applied to the acquisition of subsidiaries. The cost is made up at the fair value of the consideration. Acquisition-related costs are recognised in the profit/loss. Conditional payments are recognised at fair value at the amount expected to be paid. Identifiable assets and liabilities in the acquired entities are recognised at the fair value at the time of acquisition. Provisions for restructuring expenses relating to the acquired entity are recognised if the restructuring has been decided at the time of acquisition. Provisions for deferred tax are recognised according to fair value revaluations of assets and liabilities. Any residual difference between the cost and the Group's share of the fair value of the identifiable assets and liabilities including deferred tax is recognised as goodwill or negative goodwill.

If there is uncertainty regarding the identification or measurement of acquired assets, liabilities and contingent liabilities or the determination of the consideration at the date of acquisition, initial recognition is based on provisional values. The provisional values can be adjusted or additional assets or liabilities included until 12 month after the acquisition date. If new information has occurred regarding circumstances that existed at the time of acquisition which would have affected the statement of value at the time of acquisition if the information had been known, assets and liabilities including goodwill are restated accordingly.

Currency translation

The functional currency is determined for each of the reporting entities. The functional currency is the currency primarily used by the individual reporting entity in connection with day-to-day operations. Transactions in another currency than the functional currency are transactions in foreign currency.

Transactions in another currency than the functional currency are translated at a periodic average currency rate or the exchange rate on the transaction date. Receivables, payables and other monetary items denominated in foreign currencies are translated into Danish kroner (DKK) at the exchange rate on the balance sheet date. Any foreign exchange differences between rates prevailing on the date of transaction and the payment date or the balance sheet date, as the case may be, are recognised in the comprehensive income statement as financial items.

Foreign group entities

As regards foreign operations, the items in their financial statements are translated using the following principles:

- Balance sheet items are translated at the closing rate.
- Items in the comprehensive income statement are translated at an average periodic exchange rate.

Notes to the Consolidated Financial Statements

Any exchange differences resulting from the translation of the opening equity at the closing rate and the exchange adjustment of the items in the comprehensive income statement from the rate at the date of the transaction to the closing rate are recognised through other comprehensive income and attributed to a separate translation reserve in equity.

Derivative financial instruments

On initial recognition, derivative financial instruments are measured at fair value. On subsequent recognition, derivative financial instruments are measured at fair value at the balance sheet date. Positive and negative fair values are recognised as other receivables and other payables, respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets or liabilities are recognised in the comprehensive income statement together with changes in the fair value of the hedged asset or liability.

Fair value adjustments of derivative financial instruments designated and qualifying as a cash flow hedge are taken to equity until the hedged transaction is carried through. Where the future transaction results in recognition of an asset or a liability, the accumulated fair value adjustment is transferred from equity to the cost of the asset or liability. Where the future transaction results in income or expenses, the accumulated fair value adjustment is transferred from equity to the comprehensive income statement together with the hedged item.

Fair value adjustments of derivative financial instruments which do not qualify for being treated as hedging instruments are recognised in the comprehensive income statement as financial income or expenses.

Comprehensive income

Revenue recognition

The Group recognizes revenue from the following major sources:

- Sale of spare parts and consumables
- Construction and installation of specialized machinery and equipment including automation
- Supply of service

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer.

Sale of spare parts

The Group sells spare parts and consumables directly to customers. Sales-related warranties associated with spare parts cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37. Revenue is recognized when control of the goods has transferred being when the goods have been shipped to the customer's specific location (delivery). A receivable is recognized by the Group when the goods are delivered to customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Notes to the Consolidated Financial Statements

Construction and installation of specialized machinery and equipment

The Group constructs and sells specialized machinery and equipment including automation under long-term contracts with customers. Such contracts are entered into before construction begins. Under the terms of the contracts, the Group has an enforceable right to payment for work done. Revenue from these contracts is therefore recognized over time on a cost-to cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will previously have recognized a contract asset for any work performed. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognized to date under the cost-to-cost method then the Group recognizes a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is typically less than one year.

Supply of service

The Group provides service for maintenance and repair purposes. Such services are recognized as a performance obligation satisfied over time. Revenue is recognized for these services based on the stage of completion of the contract. The directors have assessed that the stage of completion determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these performance obligations under IFRS 15. Payment for service rendered is typically not due from the customer until the service is completed and therefore a contract asset is recognized over the period in which the installation services are performed representing the entity's right to consideration for the services performed to date.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the entity's core activities.

Production costs

Production costs comprise direct and indirect expenses relating to raw materials, consumables, labor, rent, and leasing. Production costs regarding construction contracts for third parties are recognised as incurred.

Production costs further include research and development costs not satisfying the capitalisation criteria.

Distribution expenses

Distribution expenses include expenses relating to sale and distribution in the year, including expenses relating to sales staff, advertising and exhibitions.

Notes to the Consolidated Financial Statements

Administrative expenses

Administrative expenses include expenses incurred in the year for purposes of managing and administering the company, including expenses relating to administrative staff, management, office premises/expenses.

Government grants

Government grants for research and development costs are recognised in profit or loss as other operating income on a systematic basis over the period in which the Group recognises the expenses for which the grants are intended to compensate.

Staff costs

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

Special items

Special items include significant income and costs of a special nature in terms of the Group's revenue generating operating activities which cannot be attributed directly to the Group's ordinary operating activities. Such income and costs include the cost related to significant restructuring of processes and fundamental structural adjustment, as well as gains or losses arising in this connection, and which are significant over time.

Special items also include items, that by nature are non-recurring, specifically impairment of goodwill, gains and losses on the disposal of activities and transaction cost in a business combination.

These items are classified separately in the income statement, in order to provide a more accurate and transparent view of the Group's recurring operating profit.

Amortisation/depreciation of intangible assets and property, plant and equipment

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of each individual asset. The depreciation basis is the cost and a scrap value of zero. The expected useful lives of the assets are as follows:

	Useful life (years)
Buildings	10-40
Plant and machinery	3-10
Other fixtures and fittings, tools and equipment	3-5
Development costs	3-10
Other intangible assets	3-5
Customer relations	10
Brand value	10

Notes to the Consolidated Financial Statements

Financial income and expenses

Financial income and expenses are recognised in the comprehensive income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities, dividends declared from other securities and investments, realised and unrealised capital gains and losses relating to other securities and investments, exchange gains and losses and amortisation of financial assets and liabilities. Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the comprehensive income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Current tax liabilities and current tax receivable, respectively, are recognised in the balance sheet, computed as calculated tax of the taxable income of the year, adjusted for tax paid on account.

Deferred tax is recognised and measured by the balance orientated liability method of all temporary differences between book value and value for tax of assets and liabilities. Tax value of the assets is computed on the basis of the planned use of the individual asset. Deferred tax is measured on the basis of the tax rules and the rates of tax in the respective countries, which with the legislation on the balance sheet day, will apply when the deferred tax is expected triggered as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the statement of comprehensive income. Deferred tax assets, including value for tax of tax losses allowed for carry forward are recognised in the balance sheet with the value at which the asset is expected to be realised, either through set off in deferred tax liabilities or as net tax assets.

Balance sheet

Goodwill

Goodwill is measured in the balance sheet at cost in connection with initial recognition. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to the cash flow generating units as defined by Management. The determination of cash generating units complies with the managerial structure and the internal control and reporting in the Group.

Other intangible assets

Acquired intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development projects are capitalised if they are clearly defined and identifiable and the following recognition criteria can be satisfied:

- the technical feasibility of completing the project can be demonstrated
- plans are to produce and market the product or to use the product or the process
- sufficient technical and financial resources to complete and use or sell the project are available
- it is probable that the project will generate future economic benefits and that a potential, future market or possibility of internal use in the entity exists

Notes to the Consolidated Financial Statements

- the cost can be made up reliably.

Development costs not satisfying the above criteria are expensed in the comprehensive income statement as incurred. The cost of development projects is measured at direct costs incurred as well as a portion of costs directly attributable to the individual development projects.

Tangible assets

Land and buildings, plant and facilities and other fixtures and fittings are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated, as the scrap value expects to exceed carrying amounts.

Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use. The cost of self-constructed non-current assets includes the cost of direct materials and labor, etc. directly used in the production process and a portion of the relating production overheads.

Investments in group entities

Investments in subsidiaries are in the Parent company's financial statements measured at cost less impairment. Where the cost exceeds the recoverable amount, an impairment loss is recognised to this lower value.

Impairment test

Goodwill is tested for impairment at least once a year and when there is evidence of impairment, the first time being before the end of the year of acquisition. The carrying amounts of other non-current assets are reviewed each year to determine whether there is any evidence of impairment. If any such evidence exists, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the assets less expected disposal costs or value in use.

Impairment losses are recognised if the carrying amount of an asset or a cash generating unit exceeds the recoverable amount of the asset or the cash generating unit. Impairment losses are recognised in the comprehensive income statement under the same heading as the related amortisation and depreciation. Impairment of goodwill is not reversed. Recognition of impairment of other assets is reversed to the extent that changes have taken place in the assumptions and estimates that led to the recognition of impairment.

Loss on impairment is only reversed to the extent that the new carrying amount of the asset does not exceed the carrying amount which the asset would have had after depreciation or amortisation if the asset had not been written down for impairment.

Inventories

Inventories are measured at the lower of cost, measured by reference to the FIFO method, and net realisable value. The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

Notes to the Consolidated Financial Statements

Work in progress and finished goods are measured at manufacturing cost, which includes the cost of raw materials, consumables and direct payroll costs plus production overheads.

Production overheads comprise direct attributable costs incurred in connection with processing raw materials into finished goods, including labor as well as maintenance and amortisation/depreciation of intangible assets and property, plant and equipment used in the production process.

Receivables

Receivables are recognised initially at fair value less expected credit loss. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the report date, including time value of money where appropriate.

Construction contracts

Ongoing service supplies and construction contracts are measured at the fair value of the work performed less advances received. The fair value is calculated on the basis of the percentage of completion at the balance sheet date and the total expected income from the relevant contract. The percentage of completion is made up based on costs incurred relative to the expected, total expenses on each individual construction contract.

Where the outcome of a construction contract cannot be made up reliably, the fair value is measured at the costs incurred in so far as they are expected to be paid by the purchaser.

Where the total expenses relating to the construction contract are expected to exceed the total fair value, the expected loss is recognised as a loss making agreement under "Provisions" and is expensed in the comprehensive income statement.

The value of each construction contract less prepayments is classified as contract assets when the fair value exceeds prepayments and as contract liabilities when prepayments exceed the fair value.

The individual construction contract is recognised in the balance sheet under receivables or liabilities dependent on whether the net value, calculated as the purchase price less received prepayments, is negative or positive.

Securities and investments

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 a value made up using generally recognised valuation principles if the securities are unlisted.

Notes to the Consolidated Financial Statements

Cash

Cash comprises cash balances and bank balances and are measured at amortised cost.

Employee obligations

Pension obligations and similar non-current liabilities

The Group has entered into pension plans and similar arrangements with most employees.

Contributions to defined contribution plans where the Group makes fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any outstanding contributions are recognised in the statement of financial position as other payables.

Incentive programme

The value of services received in exchange for granted options is measured at the fair value of the options granted.

For equity-settled programmes, the share options are measured at the fair value at the grant date and recognised in the income statement under staff costs over the vesting period. The counter entry is recognised directly in equity as an owner transaction.

On initial recognition of the share options, an estimate is made of the number of options expected to vest. That estimate is subsequently revised for changes in the number of options expected to vest so that the total recognition is based on the actual number of vested options.

Accordingly, recognition is based on the number of options ultimately vested. The fair value of granted options is estimated using an option pricing model, taking into account the terms and conditions upon which the options were granted.

Provisions

Provisions comprise expected expenses relating to guarantee commitments, losses on construction contracts, restructurings, etc. Provisions are recognised when the entity has a legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Income tax

Current tax payables and receivables are recognised in the balance sheet as the estimated tax charge in respect of the taxable income for the year, adjusted for tax on prior years' taxable income and tax paid on account.

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income, as well as temporary differences on non-amortisable goodwill.

Notes to the Consolidated Financial Statements

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the value at which they are expected to be utilised, either through elimination against tax on future earnings or through a set off against deferred tax liabilities within the same jurisdiction.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Borrowing costs, including capital losses, are recognised as financing costs in the comprehensive income statement over the term of the loan. Other liabilities are measured at net realisable value.

Deferred income

Deferred income is measured at cost. Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Cash flow statement

The cash flow statement shows the entity's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the entity's cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are presented using the indirect method and are made up as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid income taxes. Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities. Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest bearing debt.

Cash and cash equivalents comprise cash and short-term securities in respect of which the risks of changes in value are insignificant.

Notes to the Consolidated Financial Statements

	2018 DKK'000	2017 DKK'000
4. Revenue		
Segmentation of revenue:		
Domestic	176,179	130,860
<i>Foreign:</i>		
Slaughterhouses	1,023,495	1,133,216
Other	<u>219,011</u>	<u>77,497</u>
	<u>1,418,685</u>	<u>1,341,573</u>
Timing of revenue recognition		
Recognition at single point of time	219,011	77,497
Recognition over time	<u>1,199,674</u>	<u>1,264,076</u>
	<u>1,418,685</u>	<u>1,341,573</u>
<p>Performance obligations are usually satisfied within a 12 months period and hence part of the transaction price allocated to unsatisfied part of ongoing contracts is not disclosed.</p>		
5. Production costs		
Production costs for the year	933,900	887,737
Inventory write-down for the year	<u>6,203</u>	<u>4,029</u>
	<u>940,103</u>	<u>891,766</u>
6. Staff costs		
Wages and salaries	457,618	437,198
Pensions	19,558	18,234
Other social security costs	<u>33,264</u>	<u>23,696</u>
	<u>510,440</u>	<u>479,128</u>
Average number of full-time employees	<u>1,230</u>	<u>1,000</u>

Notes to the Consolidated Financial Statements

Staff costs are recognized as follows in the financial statements:

	2018 DKK'000	2017 DKK'000
Production costs	237,913	221,443
Distribution costs	185,586	168,281
Administration cost	84,801	76,564
Special non-recurring items	<u>2,140</u>	<u>12,840</u>
	<u>510,440</u>	<u>479,128</u>

Total remuneration to Management team DKK 10.3 million and the Board of Directors of DKK 1.1 million (2017 total DKK 5.2m) is included in staff costs. The increase from 2017 to 2018 comes from increase in management team members and share based payments.

Remuneration for the year can be specified as follows:

DKK million	Board of directors	Executive Board
Salaries	0,9	6,4
Pension	0	0,7
Share based payment	<u>0,2</u>	<u>3,2</u>
	<u>1,1</u>	<u>10,3</u>

For details on share based payment please refer to note 31.

Notes to the Consolidated Financial Statements

	2018 DKK'000	2017 DKK'000
7. Depreciation, amortisation and impairment losses		
Development completed	70,534	69,122
Acquired intangible assets	34,596	38,595
Buildings	8,570	6,925
Plant and equipment	4,902	3,611
Other fixtures and fittings, tools and equipment	5,512	5,264
Right-to-use assets	<u>11,761</u>	<u>0</u>
	<u>135,875</u>	<u>123,517</u>
 (Profit)/Losses on the sale of property, plant and equipment recognised as other operating cost	 <u>4,662</u>	 <u>(29)</u>
	<u>140,537</u>	<u>123,488</u>

The company presents the income statement based on classification of the cost by function in order to show the profit before depreciation, amortisation and impairment. (operating profit before depreciation). Depreciation, amortisation and impairment of tangible and intangible assets are therefore separated from the individual functions and presented on separate lines.

Depreciation, amortisation and impairment are divided into:

Productions costs	125,814	114,146
Distributions costs	1,073	1,176
Administration cost	8,988	8,195
Other operating cost	<u>4,662</u>	<u>(29)</u>
	<u>140,537</u>	<u>123,488</u>
8. Other operating cost		
Profit/loss on the sale of property, plant and equipment	4,662	(29)
Other operating expenses	<u>0</u>	<u>83</u>
	<u>4,662</u>	<u>54</u>

Notes to the Consolidated Financial Statements

	2018 DKK'000	2017 DKK'000
9. Special non-recurring items		
External cost related to acquisitions	10,226	11,071
External cost for consultants and other	0	10,882
Support to design and implementation of new strategy		
Company legal structure	0	1,471
Cost of internal restructuring	<u>66,244</u>	<u>12,662</u>
	<u>76,470</u>	<u>36,086</u>
10. Financial income		
Other interest receivable, exchange rate gains and similar income	<u>27,769</u>	<u>3,873</u>
	<u>27,769</u>	<u>3,873</u>
11. Financial expense		
Interest expense, exchange rate losses and similar expenses	100,938	72,050
Calculated interest expense for right of use assets	<u>1,171</u>	<u>0</u>
	<u>102,109</u>	<u>72,050</u>
12. Tax for the year		
Current tax for the year	59,451	22,189
Current tax for last year	(353)	435
Changes in provision for deferred tax	<u>(58,242)</u>	<u>7,363</u>
	<u>856</u>	<u>29,987</u>
Specified as follows:		
Tax for the year	2,348	28,787
Tax for last year	(655)	1,140
Tax on changes in OCI	<u>(837)</u>	<u>1,177</u>
	<u>856</u>	<u>31,104</u>
Reconciliation of tax rate:		
Tax according to Danish tax rate	(17,536)	(6,690)
Differences in the tax rates in foreign subsidiaries relative to 22%	4,209	4,324
Non-taxable income and non-deductible costs	12,892	7,783
Difference due to adjustment of tax rate	0	24,548
Not recognised deferred tax asset	2,013	0
Adjustments of current tax regarding previous years	<u>(722)</u>	<u>1,139</u>
	<u>856</u>	<u>31,104</u>
Effective tax rate (%)	(1,1)	(66,5)

Notes to the Consolidated Financial Statements

13. Intangible assets

DKK´ 000	<u>Goodwill</u>	<u>Development projects completed</u>	<u>Acquired intangible assets</u>	<u>Development projects in progress</u>	<u>Total</u>
Cost price					
Cost at 1/1 2018	990,353	463,175	262,802	25,439	1,741,769
Acquisitions	110,102	0	15,676	0	125,778
Exchange rate adjustments	0	(331)	(40)	(77)	(448)
Transfer	0	8,363	1,552	(8,418)	1,497
Additions in the year	0	8,024	2,465	30,318	40,807
Disposals in the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cost at 31/12 2018	<u>1,100,455</u>	<u>479,231</u>	<u>282,455</u>	<u>47,262</u>	<u>1,909,403</u>
Amortisation and write-downs					
Balance at 1/1 2018	0	90,831	55,676	0	146,507
Exchange rate adjustments	0	(106)	7	0	(99)
Transfer	0	0	366	0	366
Amortisation in the year	0	70,534	34,596	0	105,130
Disposals in the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Balance at 31/12 2018	<u>0</u>	<u>161,259</u>	<u>90,645</u>	<u>0</u>	<u>251,904</u>
Carrying amount	<u>1,100,455</u>	<u>317,972</u>	<u>191,810</u>	<u>47,262</u>	<u>1,657,499</u>

Management performs an impairment test of the carrying amount of goodwill, development projects and other non-current assets at least annually and more frequently if there is evidence of impairment. The annual impairment test is performed on 31 December 2018.

The recoverable amount of goodwill related to the individual cash generating units is calculated based on the Capital Asset Pricing Model (CAPM model)

The impairment test as at 31 December 2018 showed no evidence of impairment for 2018.

Management believes that currently no changes in the key assumptions are reasonably likely to reduce the headroom to zero in any of the CGUs.

Notes to the Consolidated Financial Statements

13. Intangible assets (continued)

The definition of CGUs in the impairment test is based on the certainty by which the carrying amount of the intangible assets can reasonably be allocated and monitored.

The impairment test is based on the CGU "Processing equipment for red meat slaughter houses".

Key assumptions

The recoverable amount of the individual cash-generating units to which the goodwill amounts to, is calculated based on the calculations of capital value.

The most significant uncertainties are connected to the determination of discount rates, growth rates and expected changes in costs in the budget and terminal periods.

The Group expects an EBIT margin of 9% in 2019 and a long-term EBIT margin of 12-18%.

Management determines the expected annual growth in the budget period and the expected margins based on historical experience and assumptions of expected market developments.

Growth is supported by a rising world population, increasing urbanising, growing wealth and increasing demand for food well-being and food safety. The entities have a potential to grow in both their core markets as well as in other markets where other group entities are located.

The discount rate has been revised for each CGU to reflect the latest market assumptions for the risk-free rate based on a 10-year government bond, the equity risk premium and the cost of debt.

The long term growth rate is based on business plans and expected growth rates

	Annual average growth rate in budget period	Growth rate in terminal period	Discount rate after tax	Discount rate before tax
Cash generating unit				
Processing equipment for red meat				
Slaughterhouses	5-21%	2	9.8%	12.1%

A sensibility analysis has been made of the main assumptions in the impairment test to identify the lowest and/or highest discount rate and the lowest growth rate for each cash generating unit. The sensibility analysis shows no evidence of impairment.

Completed development projects and development projects in progress are own developed R&D.

Notes to the Consolidated Financial Statements

13. Intangible assets (continued)

The Group has received a number of government grants, which have been recognised in liabilities and amortized over the expected useful life of the underlying asset.

14. Tangible assets

DKK '000	Land and buildings	Plant and machinery	Fixtures and fittings tools and equipment	Total
Balance at 1/1 2018	133,036	21,221	20,434	174,691
Acquisitions during the year	58,372	6,323	2,196	66,891
Exchange rate adjustments	(1,088)	(453)	(139)	(1,680)
Additions in the year	4,914	8,946	4,885	18,745
Transfer	(274)	542	(1,765)	(1,497)
Disposals in the year	(51,909)	(1,261)	(1,801)	(54,971)
Cost at 31/12 2018	<u>143,051</u>	<u>35,318</u>	<u>23,810</u>	<u>202,179</u>
Depreciations and write-downs				
Balance at 1/1 2018	9,318	5,154	5,680	20,152
Exchange rate adjustment	(70)	(111)	(46)	(227)
Transfer	(120)	120	(366)	(366)
Depreciation in the year	8,570	4,902	5,512	18,955
Accumulated depreciation and write-downs of disposals	(5,593)	(378)	(1,300)	(7,242)
Depreciation and write-downs at 31/12 2018	<u>12,105</u>	<u>9,687</u>	<u>9,480</u>	<u>31,272</u>
Carrying amount at 31/12 2018	<u>130,946</u>	<u>25,631</u>	<u>14,330</u>	<u>170,907</u>

Notes to the Consolidated Financial Statements

15. Right-of-use assets

DKK´000	Land and buildings	Plant and machinery	Fixtures and fittings tools and equipment	Total
Initial recognition 1/1 2018	29,044	963	8,220	38,227
Exchange rate adjustments	0	0	0	0
Additions in the year	6,016	0	4,176	10,192
Transfer	0	0	0	0
Disposals in the year		(15)	(619)	(634)
Cost at 31/12 2018	<u>35,060</u>	<u>948</u>	<u>11,777</u>	<u>47,785</u>
Depreciation and write-downs				
Balance at 1/1 2018	0	0	0	0
Exchange rate adjustment	0	0	0	0
Transfer	0	0	0	0
Depreciation in the year	7,379	422	3,960	11,761
Accumulated depreciation and write-downs of disposals	<u>0</u>	<u>(15)</u>	<u>(619)</u>	<u>(634)</u>
Depreciation and write-downs at 31/12 2018	<u>7,379</u>	<u>407</u>	<u>3,341</u>	<u>11,127</u>
Carrying amount at 31/12 2018	<u>27,681</u>	<u>541</u>	<u>8,436</u>	<u>36,658</u>

The Group leases several assets including building and cars. The lease terms range from 1 to 3 years for cars and 2 to indefinite for buildings.

Managements estimate for the expected use of right-of-use assets with no defined expiry date a range of 1½ to 5½ years was applied.

Leases does not include variable lease payments.

Approximately one third of the leases for cars expired in the current financial year. The expired contracts were replaced with new leases for identical underlying assets.

This resulted in additions to right-of-use assets of DKK 1.4 million.

Notes to the Consolidated Financial Statements

15. Right-of-use assets (continued)

Amounts recognised in profit and loss

	2018 DKK'000	2017 DKK'000
Depreciation expense on right-of-use assets	11,761	0
Interest expense on lease liabilities	1,203	0
	12,964	0

The total cash outflow for leases amount to DKK 12.7m for the Frontmatec Holding III

	2018 DKK'000	2017 DKK'000
16. Inventories		
Raw materials and consumables	89,589	82,315
Work in progress	29,598	28,856
Manufactured goods and goods for resale	64,849	67,508
	184,036	178,679

The cost of inventories recognised as an expense includes DKK 6.2 million (2017: DKK 4.0 million) in respect of writedowns of inventory to net realisable value.

17. Trade receivables

Write down at 1 January	3,226	9,530
Acquired write downs	427	242
Foreign exchange adjustments	6	0
Addition	662	1,321
Reversals/realised	(945)	(7,867)
	3,376	3,226

The average credit period is 8-60 days. No interest is charged on outstanding trade receivables.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. Expected credit losses on trade receivables are estimated based on past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Historical losses are fairly limited since the majority of trade receivables relate to projects where prepayments are received.

Notes to the Consolidated Financial Statements

18. Contract assets

	2018 DKK'000	2017 DKK'000
Reconciliation of contractual assets and liabilities		
Contractual assets		
Receivables from trade ref. note 17	260,889	251,510
Construction contracts	<u>126,407</u>	<u>58,037</u>
	<u>387,296</u>	<u>309,547</u>
Contractual liabilities		
Construction contracts	<u>(234,197)</u>	<u>(148,130)</u>
	<u>(234,197)</u>	<u>(148,130)</u>

Recorded revenue related to contracts

Contracts (assets) with customers include sales value of work performed where the Group has not yet obtained an unconditional right to payment since the work has not been completed in full and thereby accepted by the customer.

Contracts (liabilities) include unconditioned prepayments for work not yet performed. The liabilities as pr. 1 January 2018 of DKK 148.1 million (2017: DKK 221.8 million) have been recognised as revenue in 2018 and 2017 respectively.

Significant changes in contractual assets and liabilities

The increase in both contractual assets and contractual liabilities are driven by higher order intake in 2018 and increased work in progress end of 2018 compared to 2017.

Not satisfied performance obligations related to construction contracts

In accordance with IFRS 15.121 the Group does not disclose information on not-satisfied performance obligations since the construction contracts have an activity range of less than one year.

	2018 DKK'000	2017 DKK'000
19. Construction contracts		
Selling price of work performed	1,254,212	1,557,580
Progress billings	<u>(1,362,002)</u>	<u>(1,647,673)</u>
	<u>(107,790)</u>	<u>(90,093)</u>
Recognised as follows:		
Construction contracts (assets)	126,407	58,037
Prepayments received from customers (liabilities)	<u>(234,197)</u>	<u>(148,130)</u>
	<u>(107,790)</u>	<u>(90,093)</u>

Notes to the Consolidated Financial Statements

	2018 DKK'000	2017 DKK'000
20. Deferred tax		
Deffered tax relates to:		
Intangible assets	(129,364)	(137,799)
Property, plant and equipment	4,985	1,069
Current assets	(16,102)	(30,950)
Liabilities	6,765	7,837
Tax loss carryforwards	<u>57,185</u>	<u>24,374</u>
	<u>(76,531)</u>	<u>(135,469)</u>
Recognised as follows:		
Deferred tax assets	54,424	15,574
Deferred tax liability	<u>(130,955)</u>	<u>(151,043)</u>
	<u>(76,531)</u>	<u>(135,469)</u>

Carry forward losses are recognized based on the expected utilization within 3-5 years. Losses of DKK 12.4 million are subject to expiry if not utilized before 2022.

21. Share capital

The Parent Company's share capital, DKK 18,270 thousand is composed of shares of DKK 0.01 or multiple hereof.

	2018 DKK'000	2017 DKK'000
January	16,570	14,990
Capital increase	<u>1,700</u>	<u>1,580</u>
31 December	<u>18,270</u>	<u>16,570</u>

22. Long term liabilities

Breakdown of certain liabilities according to long-term and short-term liabilities:

DKK'000	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31/12 2018	Due within 1 year	Total
Subordinated loan	0	0	0	0	0
Mortgage debt	4,484	5,172	9,656	1,122	10,778
Other credit institutions	153,030	775,800	928,830	32,298	961,128
Lease liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>157,514</u>	<u>780,972</u>	<u>938,486</u>	<u>33,420</u>	<u>971,906</u>

Notes to the Consolidated Financial Statements

22. Long term liabilities (continued)

At 31 December 2018 the contractual cashflow on mortgage debt is DKK 73.479 thousand, other credit institutions is DKK 86.498 thousand.

The fair value is calculated as the present value of agreed cash flows using a current market-based interest rate.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's central finance function.

	2018 DKK'000	2017 DKK'000
23. Provisions		
Warranties at 1 January	16,596	15,144
Acquisition of warranty	0	0
Exchange rate adjustments	(248)	(457)
Utilised during the year	(9,093)	(9,455)
Provision for the year	<u>3,315</u>	<u>11,364</u>
Warranties at 31 December	<u>10,570</u>	<u>16,596</u>

24. Security for loans and contingent liabilities

The shares in Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec Smørum A/S, Frontmatec Skive A/S, Frontmatec Hygiene GmbH, Accles & Shelvoke, Ltd., Frontmatec Equipements Inc, Frontmatec Inc, Frontmatec B.V. Frontmatec Holding B.V. and Jining Xinglong Food Machinery Factoring Co., Ltd. are pledged as security for all bank debt.

As security for all bank loan, mortgage is granted on the land and buildings at a book value of DKK 38.4 million with a owner's mortgage with security in the property Mommarkvej 293-301, Tandslet of DKK 5.5 million and owner's mortgage with security in the property Hassellunden 9, Smørum of DKK 1.2 million.

Notes to the Consolidated Financial Statements

24. Security for loans and contingent liabilities (continued)

As security for all bank loan floating mortgage dead over chattels is granted by Frontmatec Tandslet A/S DKK 37.7 million, Frontmatec Smørum A/S DKK 3 million and Frontmatec Kolding A/S DKK 15 million.

Furthermore the group has issued a negative pledge towards the bank.

Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec Smørum A/S and Frontmatec Hygiene GmbH, Frontmatec Equipements Inc, Frontmatec Inc, Frontmatec B.V. and Frontmatec Holding B.V. have issued a guarantee of payment for all bank debt.

Prepayment guarantees and performance bonds provided to customers amount to DKK 113.3 million.

The Group's Danish companies are jointly and severally liable for tax on consolidated taxable income etc. The total amount of corporation tax payable is disclosed in the annual report of Frontmatec Holding III ApS, which is the administration company for joint taxation.

Furthermore, the Group's Danish companies are jointly and severally liable for Danish withholding taxes on dividends, royalties and interest. Any subsequent changes to corporation taxes and withholding taxes may render the Company liable for a greater amount.

25. Financial risks

The company's financial risks comprise currency, interest, and price risks. Management identifies the level and concentration of risks and initiates policies to address these through continuous business reviews. The company is also exposed to liquidity and credit risks, but it is the company's policy not to engage in any active speculation in financial risks.

The company negotiates both global and local credit and guarantee facilities.

Currency risk

The company's currency risk derives from the impact of exchange rates on future commercial payments and financial payments. Most of the company's revenue is order-based and consists mainly of sales in the functional currency used by the individual company. The company enters into forward contracts no later than when sales contract becomes effective.

Production costs typically consist of internal costs and procurement in the company's functional currency and other currencies.

The group's main currencies for commercial purposes are DKK, EUR, USD, CAD, CNY, GBP and RUB.

Notes to the Consolidated Financial Statements

25. Financial risks (continued)

An increase of 5 percent in a given exchange rate against Danish Kroner would in 2018 have had the following impact on the profit for the year and equity.

	EUR	USD	CAD	CNY	GBP	RUB
Profit/(loss)	649	1,498	3,771	(436)	299	39
Equity	7,345	3,462	12,346	(1,940)	986	(92)

The currency exposures arising from financial instruments; thus the analysis does not include the hedged commercial transactions.

Interest risk

Interest rate risks concern the interest-bearing financial assets and liabilities of the company. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of bank and mortgage debt. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 8.8 million effect on the company's interest costs.

Price risk

The company has a low price risk on procurement and sales. The possibilities to apply price adjustments to the sales prices depend partly on the market situation.

Price changes can therefore affect the profit/loss both upwards and downwards. It is company policy not to enter into long term price agreements with neither customers nor vendors.

Liquidity risk

The purpose of the company's cash management is to ensure that the company at all times has sufficient and flexible financial resources at its disposal and is able to honour its obligations when due. The company's liquidity reserves consist of credit balances and fixed overdraft facilities.

Credit risk

Financial counterpart risk

The use of financial instruments entails the risk that the counterparty may not be able to honour its obligations. The company minimizes risk by limiting its use of financial institutions to those with an acceptable credit rating.

Commercial credit risk

The credit risk incurred from trade receivables is generally managed by continuous credit evaluation of customers and trading partners. Credit risks on counterparties other

Notes to the Consolidated Financial Statements

25. Financial risks (continued)

than banks are minimized through the use of export letters of credit, prepayments and credit insurance.

The maximum credit risk relates to financial assets corresponds to the accounting value plus write-downs.

26. Derivatives

Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)

Fair value adjustments recognized in financial items in the income statement amount to DKK 0m in 2018 and DKK 0m in 2017. At 31 December 2018, the fair value of the company's hedge agreements that are not recognized as hedge accounting amounted to DKK 0m (2017: DKK 0m).

Fair value hedge

To minimize the foreign currency exposure arising from trade receivables and firm commitments, the company uses forward exchange contracts. The change in fair value is specified below

	2018 DKK'000	2017 DKK'000
Fair value	(8,538)	(3,455)
Included in the income statement	(8,009)	(3,455)

To minimize the foreign currency exposure arising from future cash transactions, the company uses forward exchange contracts. The change in fair value is specified below

	2018 DKK'000	2017 DKK'000
Fair value	(7,469)	2,487
Included in the income statement	(1,839)	87

At 31 December 2018 the fair value of the group's fair value hedge instruments amounted to DKK -16.0 m (2017 DKK -1.0m)

At 31 December 2018 the fair value of the company's value hedge instruments amounted to DKK -7.3m (2017 DKK -3.1m)

Notes to the Consolidated Financial Statements

27. Related party disclosures

Frontmatec Holding III ApS has controlling interest in Frontmatec Holding II ApS.

Related parties with significant influence consist of the Company's Board of Directors and Executive Board plus close relatives of these persons.

Related parties also include companies on which these persons exert considerable influence.

Transactions between the consolidated group enterprises are eliminated in the consolidated financial statements. In 2018 there were no transactions between related parties not part of the Group apart from transactions mentioned below and in notes 5 and 30.

Christoffer Arthur Müller is member of the supervisory board of Müller Gas Equipment with which the Group has a MES contract. The Group has also performed various PLC programming etc. during 2018. These transactions take place at arm's length and amounted to a total of DKK 0.6 million in 2018 (2017: 0.4 million). The outstanding amount of purchases as at 31 December 2018 amounted to DKK 0.3 million (2017: DKK 0.7 million).

Ownership

The following shareholders are registered in the company's register of shareholders as holding minimum 5 percent voting rights or minimum 5% of the share capital:

Axcel IV K/S (Denmark)

Axcel IV K/S 2 (Denmark)

ATP Private Equity Partners V K/S (Denmark)

General Electric Pension Trust (USA)

Partners Group Equity (Master Fund), Llc (USA)

Partners Group Global Value Sicav (Luxembourg)

Notes to the Consolidated Financial Statements

28. Board of Directors and Executive Board

Frontmatec Holding III ApS' Board of Directors and Executive Board hold other executive positions as described below.

	Executive positions
Christian Gymos	CEO Spero Invest ApS
Schmidt-Jacobsen	Member of the supervisory board AX IV EG Holding III ApS
CEO	Member of the supervisory board Axcel GP Fonden
	Member of the supervisory board Axcel V GP ApS
	Chairman of the supervisory board Frontmatec Holding III ApS
	Chairman of the supervisory board Frontmatec Holding II ApS
	Chairman of the supervisory board Frontmatec Holding III ApS
	CEO and member of the supervisory board Axcel Management A/S
	CEO and member of the supervisory board Axcel management Holding ApS
Jesper Frydensberg Rasmussen	CEO, JNP AX-III INV ApS
	CEO, AX IV EG Holding ApS
	CEO, MNGT2 ApS
	CEO, JEBA Invest ApS
	CEO, AX MITA INVEST ApS
	CEO, AX IV EG INV 1 ApS
	Member of the supervisory board Frontmatec Holding III ApS
	CEO AX V Nissens II ApS
	CEO, AX V Nissens I ApS
	CEO, Mountain Top Holding III ApS
	CEO, Mountain Top Holding II ApS
	CEO, Mountain Top Holding I ApS
	CEO, AX V GUBI Holding III ApS
	CEO, AX V INV4 Holding III ApS
	CEO, AX V INV5 Holding III ApS
	CEO AX V INV5 Holding ApS

Notes to the Consolidated Financial Statements

28. Board of Directors and Executive Board (continued)

Peter Nygaard

Chairman of the supervisory board FIH A/S
Member of the supervisory board ØENS MURERFIRMA A/S
CEO JNP AX-III INV ApS
Member of the supervisory board AX IV EG Holding ApS
Vice chairman of the supervisory board DANMARKS SKIBSKREDIT A/S
Member of the supervisory board MNGT2 ApS
Chairman of the supervisory board FIH Holding A/S
Member of the supervisory board AX MITA INVEST ApS
Member of the supervisory board AX IV EG INV 1 ApS
Member of the supervisory board Frontmatec Holding III ApS
Member of the supervisory board Frontmatec Holding III ApS
Member of the supervisory board AX IV HoldCo P/S
CEO, Yggdrasil ApS
Member of the supervisory board AX V Nissens III ApS
Member of the supervisory board Mountain Top Holding III ApS
Member of the supervisory board Mountain Top Holding II ApS
Member of the supervisory board Mountain Top Holding I ApS
Member of the supervisory board AX V GUBBI Holding III ApS
Member of the supervisory board AX V INV4 Holding III ApS
Member of the supervisory board AX V INV5 Holding III ApS
Member of the supervisory board AX V INV5 Holding ApS

Christoffer Arthur Müller

CEO Frontmatec Holding III ApS
CEO Frontmatec Holding III ApS
CEO Frontmatec Holding III ApS
CEO Müller-Scheibye Invest ApS
CEO Mopani ApS
Chairman of the supervisory board Mountain Top Holding III ApS
Chairman of the supervisory board Mountain Top Holding II ApS
Chairman of the supervisory board Mountain Top Holding I ApS
Member of the supervisory board Mountain Top Group ApS
Member of the supervisory board Mountain Top Industries ApS
Member of the supervisory board Brødreme Müller Holding A/S
Member of the supervisory board Müller Gas Equipment A/S

Notes to the Consolidated Financial Statements

29. Fees paid to auditors appointed at the annual general meeting

	2018 DKK'000	2017 DKK'000
Total fees to Deloitte (2017: EY)		
Fee for statutory audit	880	1,311
Other assurance engagements	0	1,450
Fee for tax advice	300	170
Fee for non-audit services	<u>573</u>	<u>79</u>
	<u>1,753</u>	<u>3,010</u>
Total fees to other auditors:		
Fee for statutory audit	405	271
Other assurance engagements	0	0
Fee for tax advice	434	122
Fee for non-audit services	<u>783</u>	<u>348</u>
	<u>1,622</u>	<u>741</u>

Notes to the Consolidated Financial Statements

30. Standards and interpretations that have not yet come into force

Standards and interpretations which have not been approved for use in the EU and have therefore not yet come into force. At the time of releasing this Annual Report, the following new or amended standards and interpretations were not incorporated in the Annual Report as they were not in force:

Standard	Description
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The new standards and amendments are not expected to have a material impact on the financial statements of the Group in future periods.

31. Incentive programs

The group executive management, and a number of key employees in the Group have been granted options to purchase shares in Frontmatec Holding III ApS, at a set strike price.

The program, which can only be exercised by purchasing the shares in question, grants the right to acquire a number of shares in Frontmatec Holding III ApS at a price agreed in advance. The warrant program is contingent on employment in the Company.

The value of the allotted warrants in 2018 is DKK 6.0 million. The value of the lapsed warrants in 2018 is DKK 0 million. The value of exercised warrants in 2018 is DKK 0.0 million. The total value of the allotted warrants as of 31 December 2018 are DKK 19.6 million. The cost is booked as staff costs.

The fair value of the warrants allocated is estimated by means of the Monte Carlo simulations. The value is calculated under the following assumptions:

Notes to the Consolidated Financial Statements

31. Incentive programs (continued)

Estimated Volatility (based on a view of peer-Companies)	25%
Risk free interest	0%
Market value at the time of establishment	DKK 12,3
Expiry (number of years)	3,67

Every A1 warrant grants the right to buy 1 share in AX IV SAIC Holding II ApS with a nominal value of 0,01 at a rate of DKK 0,01 at the Exit date

Every A2 warrant grants the right to buy 1 share in AX IV SAIC Holding II ApS with a nominal value of 0,01 at a rate of DKK 10 + 8 % p.a.

Every B warrant grants the right to buy 1 share in AX IV SAIC Holding II ApS with a nominal value of 0,01 at a rate of DKK 10 + 16 % p.a.

The participants may exercise their warrants in the periods 1 October 2021 to 1 November 2021 and 1 October 2023 to 1 November 2023 and in the event of Exit.

Number of warrants	<u>A1 warrants</u>	<u>A2 warrants</u>	<u>B warrants</u>
1 January 2018	184,000	1,329,707	664,853
Allotted in 2018	74,500	1,373,846	686,924
Lapsed in 2018	<u>0</u>	<u>0</u>	<u>0</u>
31 December 2018	<u>258,500</u>	<u>2,703,553</u>	<u>1,351,777</u>

32. Business combinations

Acquisition of companies in 2018

As per 28 February 2018, the Group acquired Jining Xinglong Food Machinery Manufacturing Co., Ltd.

Name	Primary activity
Jining Xinglong Food Machinery Manufacturing Co., Ltd.	Global sales, engineering, production, installation and service of plants and machinery for industrial slaughtering.

Notes to the Consolidated Financial Statements

32. Business combinations (continued)

Financial performance in 2018 of the acquired entity

From the consolidated loss of DKK 55 million a loss of 12.1 million relate to the acquired activity. Net turnover of DKK 1,419 million was increased by DKK 49,2 million relating from the new entity.

Had the entity been acquired at 1 January 2018 turnover of DKK 55.8 million and a loss of 13.4 million would have been included.

Part of the consideration DKK15.2 million was contingent based on the entity's ability to reach certain EBIT earnings measures. After year end 2018 an agreement was reached for a settlement at DKK 9.5 million.

The acquisition of Jining Xinglong Food Machinery Manufacturing Co., Ltd. Will further strengthen Frontmatec's global position as the number one provider of advanced processing equipment and will significantly strengthen the position in China.

	<u>DKK'000</u>
Development projects	0
Other acquired intangibles	6,069
Customer relations	9,608
Order backlog	0
Brand	<u>5,980</u>
Total intangible assets	21,657
Land and buildings	58,960
Other tangible assets	8,605
Investments	45,766
Inventory	9,085
Other short term receivables	6,862
Long term debt	0
Deferred tax	16,171
Tax payable	(4)
Other short term debt	(115,696)
Bank debt	<u>(77,322)</u>
Net assets acquired	(25,916)
Goodwill	<u>110,934</u>
Total consideration	<u>85,018</u>

Notes to the Consolidated Financial Statements

32. Business combinations (continued)

After recognition of identifiable assets and liabilities at fair value, goodwill in relation to the acquisitions were assessed to DKK 111m. The goodwill represents the value of assets where the fair value cannot be measured reliably, the value of the acquired staff and knowhow, expected synergies from the merger of acquired companies and the existing activities in Frontmatec as well as the value of access to new markets.

33. Reconciliation of financing activities

	2017	Cash flows	Acquisitions	FX movement	2018
Long-term borrowings	(981,920)	10,014			(971,906)
Short term borrowings					0
Long term credit institutions					0
Short term credit institutions	(68,910)	36,634	(123,132)	0	(155,408)
Total Liabilities from financing activities	(1,050,830)	46,648	(123,132)	0	(1,127,314)

34. Events after the balance sheet date

In January 2019, Frontmatec Group acquired 40% of the shares in the Spanish based company Aira – Asessorament Industrial Robòtica, S.L. The partnership will provide Frontmatec with unique competencies in robotic solutions, complementing the already strong automation portfolio. The partnership will focus on supporting the increasing level of automation in the global meat industry.

In March 2019, Frontmatec Group acquired 100% of the shares in the Spanish based company Intecal – Industrial Técnico Alimentaria, S.A. The leading Spanish equipment distributor will strengthen the Group's position on this vital market significantly. The global demand for red meat is increasing along with a growing global population. Spain has been especially successful in meeting this demand and increased its production to become the largest producer of pork meat in Europe. The acquisition marks another step in Frontmatec's ambition to become the global preferred supplier of equipment, projects, automation and robotics by strengthening its position on the attractive Spanish market.

Other than the two acquisitions mentioned, there have been no events since 31 December 2018, which could significantly affect the evaluation of the Group's financial position and revenue.

Parent Income Statement 1 January – 31 December

	<u>Note</u>	<u>2018</u> <u>DKK'000</u>	<u>2017</u> <u>DKK'000</u>
Administrative gains/expenses		(30)	(65)
Operating profit/loss before depreciation and special non-recurring items		(30)	(65)
Operating profit/loss		(30)	(56)
Other financial income	1	36	272
Other financial expenses	2	(751)	(610)
Profit before tax		(745)	(403)
Tax for the year	3	123	60
Profit for the year		(622)	(343)

Statement of Comprehensive income

Profit for the year		(622)	(343)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealised loss on forward exchange contracts for the year		0	0
Unrealized gain on forward exchange contracts transferred to profit and loss		0	0
Other comprehensive income for the year after tax		0	0
Comprehensive income for the year		(622)	(343)

Parent Company Statement of Financial Position

	Note	31.12 2018 DKK'000	31.12 2017 DKK'000
Assets			
Investment in subsidiaries	4	911,368	823,857
Deferred tax assets	5	361	238
Investments		1,272,368	1,061,857
Total non-current assets		1,272,368	1,061,857
Amounts owed by subsidiaries		24	500
Income tax receivables		0	24
Receivables		24	524
Cash at bank and in hand		215	3,043
Current assets		600	3,805
Assets		911,968	827,662

Parent Company Statement of Financial Position

	Note	31.12 2018 DKK'000	31.12 2017 DKK'000
Share capital	7	18,270	16,570
Reserve for value adjustments of hedging transactions		0	0
Retained earnings		<u>893,549</u>	<u>810,871</u>
Equity		<u>911,819</u>	<u>827,441</u>
Amounts owed to subsidiaries		122	74
Income taxes		0	105
Other payables		<u>27</u>	<u>42</u>
Current liabilities		<u>149</u>	<u>221</u>
Liabilities		<u>149</u>	<u>221</u>
Liabilities and equity		<u>911,968</u>	<u>827,662</u>

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

	Share capital DKK'000	Retained earnings DKK'000	Value adj- ustments DKK'000	Total DKK'000
Equity at 1 January 2017	14,990	733,794		748,784
Net profit/loss for the year		(343)		(343)
Unrealised loss on forward exchange contract				
Hereof tax		-		
Comprehensive income for the year in total	0	(343)	0	(343)
Capital contribution	1,580	77,420		79,000
Share-based payment				
Equity at 31 December 2017	<u>16,570</u>	<u>810,871</u>	<u>0</u>	<u>827,441</u>
Equity at 1 January 2018	16,570	810,871		827,441
profit/loss for the year		(622)		(622)
Unrealised loss on forward exchange contract				
Hereof tax				
Comprehensive income for the year in total	0	(622)	0	(622)
Capital contribution	1,700	83,300		85,000
Share-based payment				
Equity at 31 December 2018	<u>18,270</u>	<u>893,549</u>	<u>0</u>	<u>911,819</u>

Parent Company Cash Flow Statement

	Note	2018 DKK'000	2017 DKK'000
EBIT		(30)	(65)
Depreciation, amortisation and impairment losses		0	0
Changes in receivables		500	(500)
Changes in trade payables		48	74
Change in other working capital		(15)	(8)
Financial income		36	272
Financial cost		(751)	(610)
Tax for the year		<u>(105)</u>	<u>105</u>
Cash flows from operating activities		<u>(317)</u>	<u>(732)</u>
Addition of property, plant and equipment		0	0
Addition of investments		(87,511)	(71,956)
Capital movement		<u>85,000</u>	<u>79,000</u>
Cash flows from investing activities		<u>(2,511)</u>	<u>(7,044)</u>
Cash flows from financing activities		<u>0</u>	<u>0</u>
Net cash flows for the year		(2,828)	(6,312)
Cash and cash equivalents 1 January		<u>3,043</u>	<u>(3,269)</u>
Cash and cash equivalents at 31 December		<u>215</u>	<u>3,043</u>

Notes to Parent Company Financial Statements

	2018 DKK'000	2017 DKK'000
1. Other financial income		
Interest income from subsidiaries	0	229
Other interest receivable, exchange rate gains and similar income	<u>36</u>	<u>43</u>
	<u>36</u>	<u>272</u>
2. Other financial expenses		
Interest expense from subsidiaries	3	0
Interest expense, exchange rate losses and similar expense	748	610
Calculated interest expense for right of use assets	<u>0</u>	<u>0</u>
	0	229
3. Tax for the year		
Current tax for the year	0	(24)
Current tax for last year	0	0
Changes in provision for deferred tax	<u>(123)</u>	<u>(36)</u>
	<u>(123)</u>	<u>(60)</u>
Specified as follows:		
Tax for the year	(123)	(60)
Tax for last year	0	0
Tax on changes in OCI	<u>0</u>	<u>0</u>
	<u>(123)</u>	<u>(60)</u>
Reconciliation of tax rate:		
Tax according to Danish tax rate	(164)	(89)
Differences in the tax rates in foreign subsidiaries relative to 22%	0	0
Non-taxable income and non-deductible costs	41	29
Difference due to adjustment of tax rate	0	0
Not recognised deferred tax asset	0	0
Adjustments of current tax regarding previous years	<u>0</u>	<u>0</u>
	<u>(123)</u>	<u>(60)</u>
Effective tax rate (%)	16.5	14.9

Notes to Parent Company Financial Statements

4. Investments in subsidiaries	DKK'000
Cost at 1 January 2017	751,901
Addition of entities	85,745
Adjustment to prior year acquisitions	(13,789)
Cost at 31 December 2017	<u>823,857</u>
Cost at 31 December 2017	<u>823,857</u>
Cost at 1 January 2018	823,857
Addition of entities	103,350
Sales of investmenst	(15,839)
Cost at 31 December 2018	<u>911,368</u>
Carrying amount at 31 December	<u>911,368</u>

Investment in subsidiaries are specified as follows:

Subsidiaries	Legal Form	Domicile	Voting rights and ownership
Frontmatec Holding II	ApS	Kolding, Denmark	93.13
			2018
			DKK'000
			2017
			DKK'000
5. Deferred tax			
Tax loss carry forward			<u>361</u>
			<u>238</u>
Deferred tax at 31 December			<u>361</u>
			<u>238</u>
Recognised as follows:			
Deferred tax assets			361
			238
Deferred tax liability			<u>0</u>
			<u>0</u>
Deferred tax at 31 December			<u>361</u>
			<u>238</u>

Carry forward losses are recognised based on the expected utilization within 3-5 years.

Notes to Parent Company Financial Statements

6. Security for loans and contingent liabilities

The shares in Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec Smørum A/S, Frontmatec Skive A/S, Accles & Shelvoke Ltd., Frontmatec Hygiene GmbH and Jining Xinglong Food Machinery Manufacturing Co., Ltd. are provided as security for all bank debt.

Furthermore, the company has issued a negative pledge to the bank.

The Group's Danish companies are jointly and severally liable for tax on consolidated taxable income etc. The total amount of corporation tax payable is disclosed in the annual report of Frontmatec Holding III AppS, which is the administration company for joint taxation.

Furthermore, the Group's Danish companies are jointly and severally liable for Danish withholding taxes on dividends, royalties and interest.

Any subsequent changes to corporation taxes and withholding taxes may render the Company liable for a greater amount.

7. Share capital

The Parent Company's share capital, DKK 18,270 thousand, is composed of shares of DKK 0.01 or multiples hereof.

8. Fees paid to auditors appointed at the annual general meeting

Total fees to Deloitte (2017: EY)

	2018 DKK'000	2017 DKK'000
Fee for statutory audit	9	54
Other assurance engagements	0	0
Fee for tax advice	6	0
Fee for non-audit services	<u>14</u>	<u>0</u>
	<u>29</u>	<u>54</u>

Notes to Parent Company Financial Statements

9. Events after the balance sheet date

In January 2019, Frontmatec Group acquired 40% of the shares in the Spanish based company Aira – Asessorament Industrial Robòtica, S.L. The partnership will provide Frontmatec with unique competencies in robotic solutions, complementing the already strong automation portfolio. The partnership will focus on supporting the increasing level of automation in the global meat industry.

In March 2019, Frontmatec Group acquired 100% of the shares in the Spanish based company Intecal – Industrial Técnico Alimentaria, S.A. The leading Spanish equipment distributor will strengthen the Group's position on this vital market significantly. The global demand for red meat is increasing along with a growing global population. Spain has been especially successful in meeting this demand and increased its production to become the largest producer of pork meat in Europe. The acquisition marks another step in Frontmatec's ambition to become the global preferred supplier of equipment, projects, automation and robotics by strengthening its position on the attractive Spanish market.

Other than the two acquisitions mentioned, there have been no events since 31 December 2018, which could significantly affect the evaluation of the Group's financial position and revenue.