

Scandlines Infrastructure ApS
Havneholmen 25, 8.
DK-1561 Copenhagen V
Business Registration No: 38 10 32 45

Annual report for 2018

The Annual General Meeting adopted the annual report on 30.04.2019

Chairman of the Annual General Meeting

Name: Søren Poulsgaard Jensen

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Entity details

Company

Scandlines Infrastructure ApS

Havneholmen 25, 8th floor

1561 Copenhagen V, Denmark

Business Registration No: 38 10 32 45

Registered in: Copenhagen, Denmark

Financial year: 21.06.2018 – 31.12.2018

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Supervisory Board

Stephen Blakeney Ridgway, Chairman of the Board

Nicolas Grant

Hamish Ambrose Lea-Wilson

Robert Wall

James Graham Hatchley

Peter Konrad Wirtz

Lars Sandahl Sørensen

Gitte Pia Kamper

Jan Raymond Saksaa

Michael Skeller Andersen

Executive Board

Søren Poulsgaard Jensen

Per Johannesen Madsen

Company auditors

Deloitte

Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P.O. Box 1600

0900 Copenhagen S, Denmark

Key figures and financial ratios 2018*

	<u>Notes</u>	<u>2018 MEUR</u>	<u>2017 MEUR</u>
Income statement			
Revenue		254	0
Result from ordinary activities, excl. special items (recurring EBITDA)		112	0
Result from ordinary activities (EBITDA)		109	0
Amortisation and depreciation		-19	0
Result from ordinary activities (EBIT)		90	0
Net financials		-10	0
Result before tax		80	0
Result for the year from continuing operations		71	0
Balance sheet			
Total assets		2,561	0
Investments (capital expenditure)		7	0
Equity attributable to owners		1,720	0
Interest bearing liabilities		768	0
Cash flow statement			
Cash flow from operating activities		172.9	0
Cash flow from investment activities		32.6	0
Cash flow from financing activities		-145.2	0
Recurring EBITDA-margin, %		<u>44%</u>	<u>0</u>
Average number of employees (FTE)		<u>1,534</u>	<u>0</u>

*) At 21 June 2018 Scandlines Infrastructure ApS acquired Scandlines Holding ApS and thereby the full Scandlines Group.

The acquired group is to be consolidated as part of the consolidated financial statements and the parent financial statements as of the closing date. Consequently, the consolidated financial statements include the activities of the Scandlines Infrastructure Group from the closing date and the rest of 2018 only, while the management commentary includes the whole year.

Management commentary

Primary Activities

Traffic Machine

Scandlines has established the concept of Traffic Machines with a primary focus on frequent and reliable transportation services combined with high capacity and attractive customer experiences. The concept is rolled out on two short routes with crossing times of no more than two hours.

In 2018, we offered the above services between Germany and Denmark on the following routes:

- Puttgarden-Rødby
- Rostock-Gedser

Four hybrid vessels, one freight and replacement vessel, together with a dangerous goods vessel, serve the Puttgarden-Rødby route at 30-minute intervals with a crossing time of 45 minutes.

Two hybrid vessels serve the Rostock-Gedser route at 2 hours intervals with a crossing time of 1 hour and 45 minutes.

BorderShops

Scandlines operates land-based retail shops under the BorderShop and Easymarked brand. Scandlines owns and runs BorderShops in the harbours of Puttgarden and Rostock and the Easymarked in the harbour of Rostock.

Development in Activities and Finances

Revenue

2018 was a good year for Scandlines as we delivered satisfactory profitability on the back of stable operations and great reliability on both our routes. Profit margin was driven by strong performance in the freight segment and continued progress from the addition of capacity on the Rostock-Gedser route despite lower BorderShop sales and a moderate decline in car traffic on the Puttgarden-Rødby route during the year.

We underlined our traffic machine's position as an invaluable part of European infrastructure as we completed more than 43,000 departures and transported around 7.4 million passengers between the shores of Germany and Denmark, connecting Continental Europe and Scandinavia with our highly reliable traffic machines.

Revenue ended up to EUR 253.5 million.

Management commentary

The Puttgarden-Rødby route maintained reliability around 95 percent in 2018, and our ferries on the Rostock-Gedser route improved reliability during the year. This level of reliability, combined with our frequent departures and the opportunity to comply with resting time regulation while sailing, is very valuable for our professional customers. On that background, we saw freight traffic on our routes increase by 7 percent to surpass 700,000 lorries in 2018. Our new and green hybrid ferries on Rostock-Gedser continued to contribute with double-digit growth in freight traffic and a moderate increase in transported cars despite external headwinds – such as the warm summer and a weakening of the Swedish currency – which subdued leisure travel and BorderShop visits in particular. This development played a role in the decline in car traffic on the Puttgarden-Rødby route as well, and we expect to return to previous levels going forward.

Result from ordinary activities

Group profitability remained strong as we posted profit from ordinary activities (recurring EBITDA) of EUR 112 million in 2018 against EUR 0 million in 2017.

Investments and cash flows

The group's intangible assets and property, plant and equipment stood at EUR 2,472 million at year-end against EUR 0 million the previous year.

We generated a cash flow from operating activities amounting to an inflow of EUR 124.8 million compared to an inflow of EUR 0 million in 2017.

Cash flows to investing activities was an inflow of EUR 32.6 million against EUR 0 million in 2017. There was in 2018 an inflow of EUR 39.9 million concerning to business combinations. Investments included preparation for the introduction of a new ERP system in 2019 as well as ordinary investments in other equipment.

Cash flows to financing activities remained at a relatively high level and came to an outflow of EUR 121.5 million against EUR 0 million in 2017. A dividend payment of EUR 90,5 million and repayment of a bank loan impacted cash flow.

Scandlines has an interest-bearing debt on EUR 768.2 million from EUR 0 million in 2017 due to the business combination.

Management commentary

At year-end, cash and cash equivalents amounted to EUR 35.9 million.

Outlook

Financial guidance 2019

We expect sustained growth and further improvement of capacity utilisation on the Rostock-Gedser route combined with slightly higher volumes and stable operations on the Puttgarden-Rødby route. Against that background, we expect revenue and profitability (recurring EBITDA margin) to increase moderately in 2019 compared to 2018 levels of EUR 254 million and 44 percent, from the closing date and the rest for 2018.

Mid-term perspectives

In the coming years, Scandlines will focus on maintaining and strengthening the competitiveness of its traffic machine comprising the group's two ferry routes between Germany and Denmark as well as port facilities and the land-based BorderShops in Puttgarden and Rostock.

Enhancing efficiency

Efforts to boost efficiency and competitiveness continue as we work to increase the capacity utilization of the new ferries on the Rostock-Gedser route. In addition, we will further develop the Puttgarden-Rødby route to meet customer demand and maintain our market position. To support and promote the progress of our traffic machine, we will introduce a new ERP system in 2019. The group will benefit from this and optimization efforts, ensuring an efficient, reliable, green and highly competitive piece of infrastructure connecting Europe and Scandinavia.

Pursuing our zero emission vision

We will continue to pursue the vision of converting the group's fleet to zero emission ferries. We want to be perceived as an industry leader with a clear vision for the sector's green future, and we are basing our efforts on our own hands-on experience from pioneering hybrid ferries and establishing the largest hybrid ferry fleet in operation as well as general technological progress allowing us to reduce our footprint further. In the mid-term, it is our ambition to introduce the first zero emission ferry on the Puttgarden-Rødby route if the investment offers a sufficient return. We remain focused on reducing power consumption per trip by improving efficiency, establishing a technical partnership and securing sufficient electrical infrastructure to the ports. We have improved the onboard generation and reuse of energy and are currently focused on enabling battery-charging from land-based electricity. During 2019, we aim to install a new seven-kilometre power line in Rødby and a battery bank in Puttgarden to support our zero emission vision. Due to the surcharge of the German Renewable Energies Act, however, it is currently financially unfeasible to replace onboard diesel-driven power generation with land-based electricity.

Management commentary

The Fehmarn Belt fixed link

At end-2018, the German authorities completed the formal plan approval process for signing by the Danish state-owned entity responsible for the construction of the fixed link. The German authority approval is expected to entail complaint cases at the Federal Administrative Court in Leipzig, anticipated to take at least two years before the construction work may commence in Germany. In addition, the EU Court has cancelled the EU Commission's approval of the financing model on which the Fehmarn Belt project is based.

Our Responsibility

The Code of Conduct is provided to all employees, and an E-learning program has been implemented to convey in detail the principles of the Code. In addition, a Supplier Code of Conduct is in place to ensure that our values are extended throughout Scandlines' sphere of influence. A whistleblower scheme has been implemented to allow for anonymous reporting of non-compliance with Scandlines' Code of Conduct.

The group's Code of Conduct is supplemented by relevant policies and procedures, guiding employees' behavior in specific situations.

Safety

The safety and well-being of our passengers and employees are of paramount importance to Scandlines' business, and our Code of Conduct emphasizes our commitment to protecting the workplace health and safety of our employees and passengers. We comply with internationally recognized standards, record and analyze incidents as well as train our employees to maintain a high safety level.

Results and outlook

Scandlines remained fully compliant with the demands of the International Safety Management Code (ISM) in 2018 and passed the annual company audits performed by the maritime authorities. In addition to the maritime authorities, our classification society, Lloyd's Register, maintains oversight of the ferries to ensure that all statutory rules and regulations are observed and that ferry maintenance procedures are performed and documented accurately.

The General Notice System (GNS) records any incidents, dangerous situations and deviations from the International Safety Management System and allows us to analyse the data as part of Scandlines' annual management review to ensure that procedures are updated and improved whenever relevant.

In 2018, Scandlines entered into an agreement to apply the SERTICA HSEQ Management programme, enabling further improvement of the group's monitoring, reporting and verification of safety data through more detailed analysis of incidents and near-misses.

Management commentary

We draw on external experts as well as analysis of incidents and near-misses recorded by safety committees on board every ferry and in every terminal when we invest in the continued improvement of the working environment. We conduct weekly and monthly exercises for crew members as well as testing of equipment in accordance with mandatory demands, and our voluntary Maritime Crew Resource Management (MCRM) training in cooperation with CAE add awareness of safety issues and culture to the officers of Scandlines. In 2018, the first course was conducted on our own premises in the simulator in Puttgarden with participation by officers from other ferry operators in Denmark. The contract from 2017 granting MOLSLINJEN access to our simulator for a series of scheduled training sessions was maintained in 2018 with very good results.

To maintain a high level of awareness of HSEQ, Scandlines held its fourth internal occupational health seminar in 2018 with the participation of almost 100 employees. The seminar covered conflict coaching, the responsibility of managers and crew representatives in relation to occupational health as well as employees' responsibility for their own safety, among other things.

Human rights

Our Code of Conduct highlights Scandlines' commitment to ensuring ethical and honest behavior, show mutual respect and adhere to principles of diversity and anti-discrimination as well as properly managing potential conflicts of interest. Our commitment has been integrated in our Supplier Code of Conduct, which also includes the principles set out in the UN Global Compact; including for example our expectation that business partners refrain from using child or forced labour and respect national laws and regulations.

Results and outlook

Scandlines achieved a 90 percent completion rate of dedicated E-learning about the group's Code of Conduct for administrative employees and employees with management responsibility. In addition, 65 percent of all suppliers within retail and catering have signed the Supplier Code of Conduct. Suppliers based in higher risk countries have undergone particular review, including e.g. obtaining audit reports validating compliance with adequate working conditions (e.g. working hours, compensation, etc.).

These initiatives will be continued in 2019.

Social and employee matters

Scandlines' Code of Conduct includes social and employee matters and is part of the Scandlines onboarding programme.

Management commentary

Results and outlook

Scandlines places great emphasis on development and education of the group's employees. In 2018, all full-time employees completed an annual appraisal discussion, Personal Performance Development (PPD), as a key step in our work to ensure high performance and employee satisfaction levels. During the year, seven trainees successfully completed Scandlines' professional education in Germany, and six trainees are enrolled in the programme.

Scandlines continued to collaborate with local job centres on the Danish islands of Lolland and Falster to find up to 130 temporary staff for the high season. In 2018, around 20 percent of these staff members were later employed on a permanent basis. In Germany, Scandlines predominantly collaborates with schools on and around Fehmarn in order to recruit temporary staff. Scandlines employed an average of 1,534 full-time employees (FTEs) in 2018 against 1,524 in 2017. The group employed 670 FTEs on shore and 864 FTEs at sea in 2018.

Scandlines furthermore supports the local area on the Danish islands of Lolland and Falster as well as the German island of Fehmarn by means of sponsorship agreements with local sports clubs, shows and school projects, among other things.

Scandlines maintained the recently introduced onboarding program for new employees in both Germany and Denmark with a view to provide all employees with a thorough introduction to Scandlines. We aim to maintain the program in 2019.

Environment and climate

Our Code of Conduct states Scandlines' commitment to protecting the environment under the highest applicable standards, particularly those that relate to preserving our marine environment. As a consequence, we have defined a vision of converting the group's ferries to zero emission ferries, thus being perceived as an industry leader with a clear vision for the sector's green future.

Results and outlook

We continued to pursue our zero emission vision as described in the outlook section, and maintained a number of partnerships in 2018, including.

- Membership of The Trident Alliance and continued commitment to support robust and transparent enforcement of Sulphur regulations as well as comply with said regulations
- Membership of Green Ship of The Future, a Public Private Partnership for innovation and demonstration of technologies and methods that make shipping more environmentally friendly

Management commentary

- Long-term cooperation with German environmental non-profit organization “NABU” (Naturschutzbund) with a view to further strengthening Scandlines’ green profile by developing more environmentally- friendly and sustainability initiatives

In 2018, the cooperation with NABU included a project on underwater noise reduction, covering both scientific advice and consultancy concerning the implementation of specific technical measures. In 2019-2020, the project will lead the installation of new thrusters on Scandlines’ four hybrid ferries on the Puttgarden-Rødby route, aiming to allow a more homogenous water flow, which gives less noise and vibration and ultimately reduces emissions significantly.

Rostock Port and Scandlines initiated a research project about the digitalisation and optimization of pre-storage and loading processes in the Port of Rostock in 2018 with research partner Fraunhofer, which is Europe’s largest application-oriented research organisation. The project is co-financed by the Federal Ministry of Transport and Digital Infrastructure in Germany under the funding programme “IHATEC” and is expected to run until 2021.

Other energy-saving initiatives include the planned installation of a new generator on M/V Schleswig-Holstein as well as the consideration of fitting of Flettner rotors on M/V Berlin and M/V Copenhagen.

During the year, Scandlines’ engineers developed energy and cost reducing evaporators that separate scrubber water and clean water for reuse to avoid the use of shore treatment facilities.

Other initiatives include appliance of silicone paint on all four ferries operating the Puttgarden-Rødby route to reduce the propulsion energy requirements. Furthermore, Scandlines continued to compensate business flight trips carried out by our entire staff via atmosfair.

In 2019, Scandlines will continue to build the group’s green profile through relevant measures such as emission management, reduction of energy consumption, cooperations, etc.

Anti-corruption and business ethics

Scandlines’ Code of Conduct specifies our commitment to honest and ethical behavior as well as compliance with all relevant anti-bribery laws in all jurisdictions in which we do business. All employees receive the Code of Conduct and are expected to make the same commitment.

Management commentary

Results and outlook

Scandlines implemented a comprehensive compliance program in 2014, and we maintained the program in 2018 as potential non-compliance with relevant rules and regulations may have a significant detrimental impact on Scandlines' business, financial statements and reputation. It is thus crucial that any violation is immediately reported and acted on.

Scandlines achieved a 90 percent completion rate of dedicated E-learning about the group's Code of Conduct for administrative employees and employees with management responsibility. In addition, 65 percent of all suppliers within re-tail and catering have signed the Supplier Code of Conduct.

The anti-corruption and anti-bribery initiatives will be continued in 2019.

Management and ownership

Scandlines is led by a management team with extensive international experience and expertise of infrastructure, shipping and fast moving consumer goods. The group bases its corporate governance on Danish and German regulation and is owned by a consortium of long-term infrastructure investors.

Scandlines is subject to Danish and German law, and our corporate governance is based on Danish and German legislation, regulations and recommendations as well as the company's articles of association. In addition, Scandlines operates its business based on the guidelines laid down by the Danish Venture Capital and Private Equity Association (DVCA). See www.dvca.dk for more information.

Management

Scandlines' daily operations are managed by Executive Management. None of the shareholders are directly represented in Executive Management, but are represented through the Supervisory Board.

Gender diversity in management bodies

No females were elected to the group's super-visory board by the shareholders in 2018, and there were thus no females among the share-holder-elected members. We maintain our target of increasing the share of the underrepresented gender to a minimum of 20 percent of the shareholder-elected members by 2021.

In 2018, the proportion of female managers at other managerial levels reporting directly to the CEO was unchanged at 28 percent. We intend to sustain this gender diversity and to further nourish the environment to increase the number of female managers. Our policy on gender equality in other management serves to increase the share of the underrepresented gender and may be found on our website¹.

¹ https://www.scandlines.com/about-scandlines/about-scandlines-frontpage/policy_on_gender_equality.aspx

Management commentary

In addition, we are actively collaborating with the Danish Shipowners' Association on improving conditions for female candidates for leadership positions and invest in our employees to prepare them for a management career.

Scandlines is dedicated to promoting gender diversity. We always hire the best candidate for the job and maintained our practice of considering our commitment to gender diversity during the year in cases where a female and a male candidate for a management position were equally qualified.

Ownership

Scandferries ApS is the parent of Scandlines ApS, whilst Scandlines Infrastructure ApS has the function of the ultimate parent. Scandlines Infrastructure ApS is since June 2018 owned by a consortium of infrastructure investors First State Investments (50.1 percent), Hermes Investment Management (14.9 percent) and 3i Group plc (35 percent). The operational and administrative activities of the group are managed by Scandlines Danmark ApS and Scandlines Deutschland GmbH.

Management

Søren Poulsgaard Jensen

CEO and member of Executive Management

Joined Scandlines as member of Executive Management in 2009 and CEO in 2012.

Extensive management and commercial experience from the international shipping industry.

Previously held various management positions at A.P. Møller-Mærsk in Hong Kong, Indonesia, Russia, Thailand and Copenhagen.

Per Madsen

CFO and member of Executive Management

Joined Scandlines as member of Executive Management and CFO in 2012.

International expertise and extensive management experience from the infrastructure and fast moving consumer goods industries.

Previously worked as EVP & CFO of Copenhagen Airports and held senior positions at The Coca-Cola Company.

Management commentary

Michael Guldmann Petersen

COO

Joined Scandlines as SVP Route Management & Operations in 2017 and was appointed COO in 2018.

Significant management experience and solid international maritime experience.

Previously worked as Port, Rail & Marine Manager for an iron mine in Sierra Leone and has held various positions in the maritime business such as Operations Manager and General Manager in the Netherlands, Nigeria and Italy.

Risk Management

Scandlines is exposed to risks related to the environment in which the group operates ('Market risks') as well as specific risks related to the conduct of the group's business ('Commercial risks'). Executive Management has the overall responsibility for the group's risk management and internal control procedures. Executive Management reviews the risks that may affect Scandlines' operational and financial targets and applies an active approach to risk management with a view to identify and review risk areas and determine how to manage these risks with a strong focus on the risk-return balance. We have applied an Enterprise Risk Management framework to ensure a structured and focused process for the identification, assessment, reporting and handling of relevant risks.

Market risks

Economic and political climate

The Scandlines group's business might be affected by events impacting the historically stable and predictable economic and political environment in which we operate. Overall demand for motorway-based transport of freight and passengers is impacted by the general state of the economy, which is affected by a range of economic variables. Decreasing demand can lead to overcapacity, which may be remedied by reducing frequency of departures or by de-commissioning a ferry from a route. Potential material changes in the wider geographical and geopolitical area, including increasing tension among EU member states and weakening cohesion in the EU, could have a material impact on our business through reduced trade and travel between Continental Europe and Scandinavia. Other political risks include material changes in tonnage taxation schemes in Germany and Denmark and material changes to the VAT differentials or product and country-specific taxation in the region, among other things.

Management commentary

Rules and regulations

The Scandlines group's operations are subject to complex national and international rules and regulations governing the transport and shipping sector in the Baltic Sea region including international conventions adopted by the International Maritime Organization (IMO). Applicable rules and regulations concern, among other things, environmental and safety issues. In addition, the group is subject to regulations governing food and product safety, data protection, anti-bribery and anti-money laundering, among other things. Changes to applicable rules and regulations as well as failure to comply with these may have a detrimental effect on Scandlines' business. The group has invested significantly in reducing its ferry operations' environmental footprint by implementing hybrid and scrubber solutions, ensuring an industry-leading position and full compliance with applicable environmental regulations in the region. Scandlines also complies with relevant safety and manning requirements and specific regulations concerning working conditions for seafarers.

Competitive environment

Our ferries on the Puttgarden-Rødby and Rostock-Gedser routes compete with The Great Belt Bridge, a Danish state-owned infrastructure business, direct ferry routes between Germany/ Poland and Sweden, and several alternatives for regional air travel. The current competitive landscape is stable and offers varying travel options across the professional and private segments. Our competitive position is strong as Scandlines offers the fastest routes between the European continent and Scandinavia by completing the motorway infrastructure with two highly efficient traffic machines. Changes to the current competitive environment may have a negative impact on our business.

Such potential changes most significantly include the planned construction of a Fehmarn Belt fixed link, which was agreed in principle when the German and Danish governments submitted a declaration of intent in 2008. The most recent public statements made by the Danish government and uncertainty concerning the time schedule for the final approval and the subsequent construction phase indicate that the earliest possible opening of the fixed link would be at least a decade from now. Potential construction work on the Fehmarn Belt fixed link entails risk of material negative impact on our operations, reliability and, ultimately, competitiveness during the construction period. The potential opening of the Fehmarn Belt fixed link will have a significant negative impact on our operations, which will nonetheless continue in direct competition with the fixed link to provide an alternative and highly competitive transportation option for the professional and private segments.

Management commentary

Prior to, during and after the potential construction of the Fehmarn Belt fixed link, Scandlines will participate in public discussions and take legal steps where necessary to ensure a fair competitive landscape by preventing the granting of unlimited state aid to the company operating the fixed link and the deterioration of motorway access to our port in Puttgarden, among other things. In December 2018, the EU Court passed a ruling cancelling the EU Commission's approval of state guarantees issued by the Danish state to the state-owned company responsible for the construction of the Fehmarn Belt fixed link. In 2019, Scandlines has followed up on this ruling by filing an application for injunction against the Danish Ministry of Finance to ensure cancellation of loans taken out on the basis of invalid state guarantees.

Financial markets

Scandlines is exposed to a range of financial market risks related mainly to interest rates and foreign exchange rates. See notes 12 and 19 for details on exposures and sensitivities.

Scandlines' interest rate risk is limited as interest is fixed or hedged on the majority of the group's debt. Interest rates on the group's remaining interest-bearing debt fluctuate with EURIBOR, and a potential increase in EURIBOR would thus entail an increase in the absolute amount of interest payable by the group.

Significant movements in foreign exchange rates may have a negative effect on Scandlines' financial condition and operational results. The group's functional currency is EUR as the majority of transactions are denominated in either EUR or DKK. As a consequence of Denmark's fixed-rate policy vis-à-vis the EUR, the group's foreign exchange exposure is considered to be limited and mainly relates to cash flows denominated in SEK.

Management commentary

Commercial risks

Operations, environment and security

The group's main operational risks concern our owned ferries and ports in Puttgarden, Rødby and Gedser. Disruption of service may occur from technical problems, accidents, failure by suppliers - of which Scandlines has approximately 2,500 - to meet their contractual obligations, or adverse weather conditions, potentially entailing a material negative impact on our operations, the reputation of our traffic machine concept and the group's financial results and business as such. In Q1 2017, we commissioned M/V Kronprins Frederik as a freight ferry on the Puttgarden-Rødby route and a replacement ferry for both routes to counter potential disruption of service arising from technical problems or accidents. In addition, Scandlines adheres to a systematic and comprehensive maintenance program for all ferries, including regular dockings. Finally, the stable traffic machine concept is highly resistant to adverse weather, and the Puttgarden-Rødby route was open all days of 2018 with reliability of around 95 percent during the year, exceeding the comparable performance by competition from the existing fixed link on The Great Belt Bridge as well as regional air travel options and direct ferry routes between Sweden and Germany/Poland. The Rostock-Gedser route improved reliability in 2018 despite a brief disruption of service due to harsh weather conditions in March and a docking of M/V Berlin in July 2018.

Scandlines is subject to comprehensive environmental protection laws, and incidents could impose strict liability, including fines, penalties, criminal liability and remediation costs for natural resource damages in case of spills and release of oil and hazardous substances, regardless of whether Scandlines might have acted negligently. In addition, any environmental incident may entail additional regulatory initiatives or statutes that may affect Scandlines' operations and financial results. Scandlines has taken appropriate measures to reduce the risk of environmental incidents arising from the group's operations, including the transportation of hazardous goods on the Puttgarden-Rødby route.

Work accidents or incidents might endanger the health of employees, customers or other related parties. Scandlines has taken appropriate measures to reduce the risk of such accidents and incidents, including regular evaluations, trainings, and information manuals.

As Scandlines is a crucial piece of infrastructure connecting the European continent and Scandinavia, we continuously monitor the potential risk of cyber or terrorist attacks.

The group has taken out insurance to cover relevant operational, environmental and security risks, but there is no guarantee that such insurance policies will be sufficient to cover all potential risks or claims.

Management commentary

Customers and credit

Our business may be impacted by the loss of significant professional customers as well as any substantial decline in demand from these or their inability to honour financial obligations towards Scandlines. The group's customer portfolio is well-diversified with the top ten customers accounting for less than 15 percent of total revenue. The customer portfolio consists of several large professional customers, smaller customers in the professional segment and private passengers.

Scandlines' credit risks are limited and primarily related to trade receivables from professional customers. Scandlines has implemented a credit policy and structured dunning procedures as well as various early warning systems to systematically reduce bad debts, which have historically been very limited.

Maintenance and investments

The group owns and operates modern and purpose-built infrastructure assets including check-in areas, marshalling areas, ramps, berths and ferries. We utilize our assets with a strong focus on cost optimization measures to remain competitive. A constant schedule of maintenance and improvement of all assets may thus be necessary, imposing varying costs on the group in the longer term. Limited investments are required in the coming years following the recent upgrading of existing ports and ferries as well as the commissioning of new ferries on the Rostock-Gedser route in 2016.

Fuel price

The group is exposed to fuel price fluctuations arising from events beyond our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, among other things. Our fuel price exposure is commercially hedged through bunker adjustment factor ('BAF') clauses in freight customer contracts and additional financial hedging contracts, entailing an overall hedging of 80 percent of Scandlines' total bunker consumption for a period of 12 months.

IT

Our operations are exposed to disruption of the group's IT systems, including operating, booking and ticketing systems, agreements with customers and third parties, the planned maintenance system and the ERP system. Furthermore, any potential information security breach resulting in loss or exposure of freight customer or passenger data may result in severe reputational, legal and financial consequences.

We continuously work to reduce risks of IT system disruption and information security breaches by means of constant monitoring of systems, installation of back-up systems and adoption of procedures to restore system functionality as well as internal controls and adherence to rules and regulations governing information security.

Management commentary

Qualified employees and management

The Scandlines group's ability to recruit and retain qualified employees and management is critical to our success in the long term and may be affected by circumstances beyond our control, including German, Danish and international employment law, which is subject to change on a continuous basis, changes in the demand for skilled labour as well as demographic developments entailing a reduction of the available workforce.

We monitor relevant regulatory, workforce and demographic developments and make targeted efforts to attract and retain qualified personnel by offering competitive compensation packages and ensuring continued development and education of employees, thus securing a high employee satisfaction level and reducing the risk of strikes.

Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the date of release of this annual report that would materially affect the evaluation of the annual report.

Consolidated financial statements

Income statement

	<u>Notes</u>	<u>2018 MEUR</u>	<u>2017 MEUR</u>
Revenue	2	253.5	0
Other operating income		<u>7.0</u>	<u>0</u>
Total income		<u>260.5</u>	<u>0</u>
Operating costs for vessels		-25.6	0
Cost of goods sold		-58.3	0
Staff costs	3	-36.7	0
Other external expenses		<u>-30.4</u>	<u>0</u>
Total costs		<u>-151.0</u>	<u>0</u>
Result before amortisation and depreciation (EBITDA)		<u>109.5</u>	<u>0</u>
Amortisation and depreciation	4	<u>-19.0</u>	<u>0</u>
Result from operations		<u>90.5</u>	<u>0</u>
Financial expenses	5	<u>-10.1</u>	<u>0</u>
Result before tax		<u>80.4</u>	<u>0</u>
Tax for the year	6	<u>-8.9</u>	<u>0</u>
Result for the year		<u>71.5</u>	<u>0</u>

Consolidated financial statements

Statement of comprehensive income

	<u>Notes</u>	<u>2018</u> <u>MEUR</u>	<u>2017</u> <u>MEUR</u>
Result for the year		<u>71.5</u>	<u>0</u>
Other comprehensive income/loss			
Value adjustments for the year		-1.7	0
Foreign exchange adjustments, foreign enterprises		<u>-0.3</u>	<u>0</u>
Other comprehensive income/loss after tax		<u>-2.0</u>	<u>0</u>
Total comprehensive income/loss		<u>69.5</u>	<u>0</u>
Attributable to owners of the parent company		<u>69.5</u>	<u>0</u>

Consolidated financial statements

Balance sheet

	<u>Notes</u>	<u>31.12.18</u> <u>MEUR</u>	<u>31.12.17</u> <u>MEUR</u>
ASSETS			
Goodwill		1,904.8	0
Software		7.5	0
Other intangible assets		<u>5.5</u>	<u>0</u>
Non-current intangible assets	7	<u>1,917.8</u>	<u>0</u>
Land and buildings		140.5	0
Vessels		345.0	0
Other fixtures and fittings, tools and equipment		49.3	0
Assets under construction		<u>19.0</u>	<u>0</u>
Non-current tangible assets	8	<u>553.8</u>	<u>0</u>
Total non-current assets		<u>2,471.6</u>	<u>0</u>
Inventories	9	20.4	0
Receivables	10	32.4	0
Prepayments		1.3	0
Cash		<u>35.9</u>	<u>0</u>
Current assets		<u>90.0</u>	<u>0</u>
Total current assets		<u>90.0</u>	<u>0</u>
Assets		<u>2,561.6</u>	<u>0</u>

Consolidated financial statements

Balance sheet

	<u>Notes</u>	<u>31.12.18</u> <u>MEUR</u>	<u>31.12.17</u> <u>MEUR</u>
EQUITY AND LIABILITIES			
Share capital		0.0	0
Reserves		-2.0	0
Retained earnings		<u>1,722.3</u>	<u>0</u>
Total equity		<u>1,720.3</u>	<u>0</u>
Interest-bearing liabilities	12	709.0	0
Deferred tax	11	1.9	0
Pension and anniversary liabilities	13	<u>0.5</u>	<u>0</u>
Total non-current liabilities		<u>711.4</u>	<u>0</u>
Interest-bearing liabilities	12	59.2	0
Pension and anniversary liabilities	13	0.8	0
Income tax	15	8.8	0
Trade payables		36.6	0
Other provisions	14	8.3	0
Other liabilities	16	15.0	0
Deferred income	17	<u>1.1</u>	<u>0</u>
Total current liabilities		<u>129.8</u>	<u>0</u>
Total liabilities		<u>841.2</u>	<u>0</u>
Equity and liabilities		<u>2,561.6</u>	<u>0</u>

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Cash flow statement

	<u>Notes</u>	<u>31.12.18</u> <u>MEUR</u>	<u>31.12.17</u> <u>MEUR</u>
Result before amortisation and depreciation (EBITDA)		109.5	0
Adjustments for non-cash operating items, etc.	20	1.7	0
Working capital changes	21	<u>25.3</u>	<u>0</u>
Cash flows from operating activities, gross		136.5	0
Interest received (income)		0.0	0
Interest paid (expenses)		-8.1	0
Taxes paid		<u>-3.5</u>	<u>0</u>
Cash flows from operating activities, net		<u>124.9</u>	<u>0</u>
Additions through business combinations, cash		39.9	0
Investments in vessels, net	8	-0.4	0
Investments in other fixtures and fittings, tools and equipment, net	8	-1.0	0
Investments in assets under construction, net	8	<u>-6.0</u>	<u>0</u>
Cash flows to/from investing activities		<u>32.5</u>	<u>0</u>
Payment of dividends		-90.5	0
Repayment, bank loan		<u>-31.0</u>	<u>0</u>
Cash flows to/from financing activities		<u>-121.5</u>	<u>0</u>
Cash flows for the year			
Cash at 1 Januar		0.0	0
Currency exchange adjustment		<u>0.0</u>	<u>0</u>
Cash at 31 December		<u>35.9</u>	<u>0</u>

Transactions with the owners

Payment of dividend	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total transactions with the owners						
31 December 2017	0.0	0.0	0.0	0.0	0.0	0.0
Equity at 31 January 2017	0.0	0.0	0.0	0.0	0.0	0.0

Share capital

Share capital is nominal EUR 40 thousand at €0,01 each split into EUR 39.8 thousand of A Ordinary Shares and EUR 0.2 thousand of B Ordinary Shares.

All shares are fully paid.

Reserves

Due to immaterial effects from implementing IFRS 9 and IFRS 15, the 21 June 2018 Equity has not been restated.

Hedging reserve

The hedging reserve includes the accumulated net change in the fair value of hedging interest rate and bunker fuel hedging instruments, which qualify for hedging of future cash flows.

Dividend

In 2018, there has been paid dividend of MEUR 90.5 to the shareholders.

Consolidated financial statements

Overview of notes

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Consolidated financial statements

1. Significant accounting estimates and judgements

As part of the preparation of the consolidated financial statements, Management makes a number of accounting estimates and judgements as well as assumptions as a basis for recognising and measuring the Group's assets, liabilities, income and expenses. The estimates, judgements and assumptions made are based on experience gained and other factors that are considered prudent by Management in the circumstances, but which are inherently subject to uncertainty and volatility. The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur for which reason the actual results may differ from the estimates and judgements made. The Group's accounting policies are described in detail in note 27 to the consolidated financial statements to which we refer.

Management considers the following accounting estimates and judgements to be significant in the preparation of the annual report.

Impairment test of goodwill and other non-current intangible assets

Goodwill is tested for impairment at least once a year and in the event of any indication of impairment. Impairment tests are based on the expected future free cash flow from the relevant cash-generating unit. For a more detailed description of the impairment testing of goodwill, please refer to note 7 to the consolidated financial statements.

Impairment test of vessels, including assessments of expected useful lives and scrap values

Significant accounting estimates and judgements of vessels include a breakdown of the vessel's cost into components based on their expected useful lives, the vessel's expected maximum useful life for the enterprise, scrap value and impairment testing. The vessels' expected useful lives for the enterprise and their scrap values are revalued and estimated at least once a year. In addition, impairment tests are performed in the event of any indication of impairment.

For a more detailed description of estimates and judgements concerning vessels, please refer to the accounting policies described in note 27 to the consolidated financial statements. Write-down for bad and doubtful debts receivable are measured at amortised cost less writedown for bad and doubtful debts. Such writedown is made based on customers' inability and/or unwillingness to pay. If a customer's ability to pay deteriorates looking forward, then further write-down may be necessary. The need to write-down of receivables for impairment and the adequacy of such writedown are assessed by Management based on historical data on customer payment patterns, age analyses, bad and doubtful debts, customer concentrations, customers' credit rating, any collateral received, etc. Please refer to note 10 to the consolidated financial statements.

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1. Significant accounting estimates and judgements (continued)

Leases

The Group has entered into leases agreements on buildings and other equipment. These lease agreements have been entered into on ordinary terms and conditions. Based on separate assessments of the individual lease agreements when closed, Management considers whether the individual agreements are to be regarded as a finance lease or an operating lease.

Provisions and contingencies

Management regularly assesses provisions and contingencies as well as the probable outcome of pending or possible lawsuits and similar matters. The outcome depends on future events which are inherently uncertain. When assessing the probable outcome of major lawsuits, tax matters etc, Management involves external legal advisers and existing legal practice. Please refer to note 14 and 23 to the consolidated financial statements.

Particular risks of the group are discussed in the Management commentary and note 19 to the consolidated financial statements.

Assumptions about the future and other estimation uncertainties at the balance sheet date are disclosed in the notes if they involve a material risk of changes that may lead to considerable adjustment of the carrying amounts of assets or liabilities within the next financial year.

Accounting policies

Management assesses that, when applying the Parent's accounting policies, no judgements are made other than those involving estimations that can significantly affect the amounts recognised in the parent financial statements.

Consolidated financial statements

Notes, MEUR

	<u>2018</u>	<u>2017</u>
2. Revenue		
Traffic machine	193.1	0
BorderShops	<u>60.4</u>	<u>0</u>
	<u>253.5</u>	<u>0</u>
3. Staff costs		
Salaries and wages	-30.3	0
Pension contributions	-5.9	0
Other social security costs	<u>-0.5</u>	<u>0</u>
	<u>-36.7</u>	<u>0</u>
Average number of employees	<u>1,534</u>	<u>0</u>
Remuneration to key management personnel (Executive Management) salaries and fees	<u>3.9</u>	<u>0</u>
	<u>3.9</u>	<u>0</u>
The Management is entitled to bonus dependent on specific performance measures.		
4. Amortisation and depreciation		
Amortisation, intangible assets	-2.9	0
Depreciation, vessels	-11.1	0
Depreciation, land and buildings	-2.3	0
Depreciation, other property, plant and equipment	<u>-2.7</u>	<u>0</u>
	<u>-19.0</u>	<u>0</u>
5. Financial expenses		
Interest to credit institutions etc.	<u>-10.1</u>	<u>0</u>
	<u>-10.1</u>	<u>0</u>

Consolidated financial statements

Notes, MEUR

	<u>2018</u>	<u>2017</u>
6. Tax for the year		
Current tax	-10.8	0
Changes in deferred tax	1.3	0
Adjustment previous year	<u>0.8</u>	<u>0</u>
	<u>-8.9</u>	<u>0</u>
Tax related to discontinued operations	<u>0.0</u>	<u>0</u>
	<u>-8.9</u>	<u>0</u>
Tax for year can be specified as follows:		
Result before tax	80.4	0
Of this, subject to tonnage taxation	<u>-82.1</u>	<u>0</u>
	<u>-1.7</u>	<u>0</u>
Tax calculated as 22% of result before tax	-0.4	0
Calculated tax in foreign companies adjusted to 22%	0.7	0
Non-deductable interest	2.1	0
Adjustment previous year	<u>6.5</u>	<u>0</u>
	<u>8.9</u>	<u>0</u>
Effective tax rate	<u>11%</u>	<u>0</u>

The shipping activities of Danish and German group enterprises are subject to tonnage tax schemes, with taxable income from the transport of passengers and goods being calculated based on tonnage for the year.

The group has committed itself to the tonnage tax scheme. The group does not expect to resign from the scheme, for which reason no provision has been made for deferred tax on the tonnage taxed assets and liabilities. Income from other activities is taxed under ordinary tax rules.

Tax on other comprehensive income

Value adjustments on bunker hedging instruments are related to tonnage tax and there are no separate taxes related hereto. Tax related to interest rate swaps is EUR 0.0 due to limitations on deductible interest expenses.

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Notes, MEUR

7. Non-current intangible assets

2018	<u>Goodwill</u>	<u>Software</u>	<u>Other intangible assets</u>
Cost at 1 January	0.0	0.0	0.0
Additions through business combinations	1,904.8	3.9	5.7
Reclassifications	<u>0.0</u>	<u>6.3</u>	<u>0.0</u>
Cost at 31 December	<u>1,904.8</u>	<u>10.2</u>	<u>5.7</u>
Amortisation at 1 January	0.0	0.0	0.0
Amortisation	<u>0.0</u>	<u>2.7</u>	<u>0.2</u>
Amortisation at 31 December	<u>0.0</u>	<u>2.7</u>	<u>0.2</u>
Carrying amount at 31 December	<u>1,904.8</u>	<u>7.5</u>	<u>5.5</u>
2017	<u>Goodwill</u>	<u>Software</u>	<u>Other intangible assets</u>
Cost at 1 January	0.0	0.0	0.0
Additions through business combinations	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Cost at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Amortisation at 1 January	0.0	0.0	0.0
Amortisation	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Amortisation at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Carrying amount at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>

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Notes, MEUR

7. Non-current intangible assets (continued)

Goodwill arising from an acquisition is allocated at the time of acquisition to cash generating units expected to gain economic benefits from the business combination.

The carrying amount of goodwill can be specified as follows by cash generating unit:

	<u>31.12.18</u>	<u>31.12.17</u>
Ferry services		
Puttgarden-Rødby	1,159.7	0
Rostock-Gedser	<u>626.1</u>	<u>0</u>
	<u>1,785.8</u>	<u>0</u>
BorderShops	<u>119.0</u>	<u>0</u>
Total goodwill	<u>1,904.8</u>	<u>0</u>

Goodwill is tested for impairment once a year as a minimum, and more often when indication of impairment exists.

No impairment of goodwill was made for the financial year.

The most significant uncertainties and assumptions relate to the determination of discount and rates and estimated changes in selling prices, volume and costs (particularly bunker costs) for the budget and terminal periods. Also, the date of commissioning of the Fehmarn Belt fixed link is crucial.

Using forecasts extending to the year 2040 as base for our calculation of value in use of the cash generating units are justified by the expectations of the future build of the Fehmarn Belt fixed link.

The construction of the fixed link is estimated to have a material impact on our business and the different routes.

Calculating cash flow based on budgets or forecasts of a shorter time span will not correctly consider this impact and the consequences following and, therefore, distort the values of the cash flows.

The cash flow appearing from budgets and forecasts up to 2040 last adopted by Management were used in calculating the value in use of the cash generating units. For financial years following the budget periods, cash flow from the most recent budget period were extrapolated, adjusted for the estimated growth rate of 2 percent. The discount rate applied is 7.6 percent before tax.

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Notes, MEUR

7. Non-current intangible assets (continued)

An estimated revenue growth rate of 3-4 percent is applied up to the time of completion of the Fehmarn Belt fixed link. By completion of the fixed link, we estimate a material negative impact on revenue, both on our traffic routes and BorderShops, but a continued estimate 3-4 percent growth afterwards until 2040.

The Rostock-Gedser route will not directly be impacted by the Fehmarn Belt fixed link, but we consider the secondary effects to be positive, as more traffic is expected diverted to this route as a consequence of lower frequency on Puttgarden-Rødby.

	<u>Overall growth rate in terminal period</u>	<u>Revenue growth before fixed link</u>	<u>Revenue growth after fixed link until 2040</u>	<u>Discount rate</u>
Puttgarden-Rødby	2.0%	3.3%	2.5%	7.6%
Rostock-Gedser	2.0%	4.6%	3.7%	7.6%
BorderShops	2.0%	3.6%	2.6%	7.6%

The calculated discount rates reflect market assessments of the time value of money, expressed through a risk-free interest rate and specific risk involved in the individual cash generating unit. The discount rate is generally calculated after tax based on estimated Weighted Average Cost of Capital (WACC).

Estimated changes in selling prices, volume and costs for the budget and terminal periods are based on historic experience and prudent estimated future market developments.

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Notes, MEUR

8. Non-current tangible assets

2018	Land & buildings	Vessels	Other fix- tures and fittings, tools and equip.	Assets under construc- tion
Cost at 1 January	0.0	0.0	0.0	0.0
Additions through business combinations	142.4	354.5	49.4	22.6
Reclassification	0.4	1.2	1.7	-9.6
Additions	0.0	0.4	1.0	6.0
Disposals	<u>0.0</u>	<u>0.0</u>	<u>-0.4</u>	<u>0.0</u>
Cost at 31 December	<u>142.8</u>	<u>356.1</u>	<u>51.6</u>	<u>19.0</u>
Depreciation at 1 January	0.0	0.0	0.0	0.0
Depreciation	2.3	11.1	2.7	0.0
Disposals	<u>0.0</u>	<u>0.0</u>	<u>-0.4</u>	<u>0.0</u>
Depreciation at 31 December	<u>2.3</u>	<u>11.1</u>	<u>2.3</u>	<u>0.0</u>
Carrying amount at 31 December	<u>140.5</u>	<u>345.0</u>	<u>49.3</u>	<u>19.0</u>
Carrying amount includes:				
Government grants	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>

Consolidated financial statements

Notes, MEUR

8. Non-current tangible assets (continued)

	<u>Land & buildings</u>	<u>Vessels</u>	<u>Other fix- tures and fittings, tools and equip.</u>	<u>Assets under construc- tion</u>
2017				
Cost at 1 January	0.0	0.0	0.0	0.0
Additions through business combinations	0.0	0.0	0.0	0.0
Reclassification	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.0	0.0
Disposals	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Cost at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
			Other fix- tures and fittings, tools and equip.	Assets under construc- tion
2017	<u>Land & buildings</u>	<u>Vessels</u>	<u>Other fix- tures and fittings, tools and equip.</u>	<u>Assets under construc- tion</u>
Depreciation at 1 January	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0
Disposals	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Cost at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Carrying amount at 31 December	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Carrying amount includes:				
Government grants	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
			<u>31.12.18</u>	<u>31.12.17</u>
9. Inventories				
Bunker			1.7	0
Goods for sale			15.2	0
Other inventories			<u>3.5</u>	<u>0</u>
			<u>20.4</u>	<u>0</u>

Consolidated financial statements

Notes, MEUR

10. Receivables

	<u>31.12.18</u>	<u>31.12.17</u>
Trade receivables	31.7	0
Other receivables	<u>0.7</u>	<u>0</u>
	<u>32.4</u>	<u>0</u>
Long-term receivables	0.0	0
Short-term receivables	<u>32.4</u>	<u>0</u>
	<u>32.4</u>	<u>0</u>

The allowance for expected credit losses for trade receivables and contract assets are calculated at individual level when there is an indication of impairment. For receivables and contract assets without any indication of impairment the expected credit losses are based on the historical credit loss experience combined with forward-looking information in the macroeconomic factors effecting the credit risk. In 2018 credit losses recognized in the income statements count for 0.04% of total revenue. The expected loss rates are updated at every reporting date.

Write-downs and losses realised are recognised in the income statement in other operating expenses. The Group uses a provision account to reduce the carrying amount of trade receivables if the value is impaired due to risk of loss.

	<u>31.12.18</u>	<u>31.12.17</u>
Receivables		
Provisions account at 1 January	0.0	0
Bad debt provisions for the period	<u>0.2</u>	<u>0</u>
Provisions account at 31 December	<u>0.2</u>	<u>0</u>
Due trade receivables written down (impaired value)	<u>0.0</u>	<u>0</u>
	<u>0.0</u>	<u>0</u>

Consolidated financial statements

Notes, MEUR

10. Receivables (continued)

	<u>31.12.18</u>	<u>31.12.17</u>
Due trade receivables not written down:		
Overdue by up to one month	4.3	0
Overdue by 1-3 months	0.6	0
Overdue by 3-6 months	0.4	0
Overdue by more than 6 months	<u>0.1</u>	<u>0</u>
	<u>5.4</u>	<u>0</u>

11. Deferred tax

Deferred tax at 1 January	0.0	0
Additions through business combinations	3.2	0
Deferred tax for the year recognised in the income statement	<u>-1.3</u>	<u>0</u>
Deferred tax at 31 December	<u>1.9</u>	<u>0</u>

Deferred tax is recognised in the balance sheet as follows:

Deferred tax (liability)	<u>1.9</u>	<u>0</u>
	<u>1.9</u>	<u>0</u>

Deferred tax concerns:

Property, plant and equipment	<u>1.9</u>	<u>0</u>
	<u>1.9</u>	<u>0</u>

12. Interest-bearing liabilities

Bank debt	<u>709.0</u>	<u>0</u>
Total non-current interest-bearing liabilities	<u>709.0</u>	<u>0</u>

Bank debt	<u>59.2</u>	<u>0</u>
Total current interest-bearing liabilities	<u>59.2</u>	<u>0</u>

Total current and non-current interest-bearing liabilities	<u>768.2</u>	<u>0</u>
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Please refer to note 19 with respect to financial risk etc.

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Notes, MEUR

12. Interest-bearing liabilities (continued)

	<u>31.12.18</u>	<u>31.12.17</u>
Distribution of currency, nominal principal		
DKK	768.2	0
EUR	<u>0.0</u>	<u>0</u>
Total interest-bearing liabilities	<u>768.2</u>	<u>0</u>

Bank debt 2018

	<u>Currency</u>	<u>Fixed/float interest</u>	<u>Nominal value</u>	<u>Fair value</u>
Tranche 1 (expiry 2023)	EUR	Floating	290.6	290.6
Tranche 2 (expiry 2028)	EUR	Fixed	486.5	486.5
Tranche 3 (expiry 2028)	EUR	Floating	0.0	0.0
Tranche 4 (expiry 2028)	EUR	Floating	<u>0.0</u>	<u>0.0</u>
			<u>777.1</u>	<u>777.1</u>

The fair value of the bank debt is calculated at present value of future payment and payment of interest applying the actual yield curve which derives from the actual market interest (level 2 in the fair value hierarchy).

The existing loan agreement is subject to covenants which may impact on the future interest rate level.

Facilities 2018	<u>Facility</u>	<u>Utilization</u>	<u>Remaining facilities</u>	<u>Limitations</u>
Tranche 1 (expiry 2023)	290.6	290.6	0.0	
Tranche 2 (expiry 2028)	486.5	486.5	0.0	
Tranche 3 (expiry 2028)	35.0	0.0	35.0	
Tranche 4 (expiry 2028)	117.5	0.0	117.5	Liquidity facility reserved
	<u>929.6</u>	<u>777.1</u>	<u>152.5</u>	for debt service

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Notes, MEUR

13. Pension and anniversary liabilities

The Group has entered into both defined contribution plans and defined benefit plans. The majority of the pension plans are funded by annual premium payments to independent insurance companies that assume responsibility for the pension commitments towards the employees (defined contribution plans). For these plans, the Group has no legal or actual obligation to pay additional contributions, regardless of the funding of these insurance companies. Pension contributions as part of such plans are regularly recognised as expenses. Defined pension plans are only used to a very limited extent and exist in Germany, only.

Development in present value of funded and unfunded defined commitments

	<u>31.12.18</u>	<u>31.12.17</u>
Balance at 1 January	0.0	0
Additions through business combinations	1.1	0
Calculated interests related to obligations	<u>0.2</u>	<u>0</u>
Liabilities at 31 December	<u>1.3</u>	<u>0</u>

13. Pension and anniversary liabilities (continued)

Long-term liability	0.5	0
Short-term liability	<u>0.8</u>	<u>0</u>
Total	<u>1.3</u>	<u>0</u>

Cost in profit/loss statement

Personnel costs current year	0.0	0
Calculated interests related to obligations	<u>0.1</u>	<u>0</u>
Total	<u>0.1</u>	<u>0</u>

Defined benefit plans, assumptions

Discount rate	1.8%	0
Future increases in pensions	1.0%	0

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	<u>31.12.18</u>	<u>31.12.17</u>
14. Other provisions		
Balance at 1 January	0.0	0
Additions through business combinations	4.5	0
Additions	<u>3.8</u>	<u>0</u>
	8.3	0
Other provisions are expected to fall due as follows:		
0-1 year	<u>8.3</u>	<u>0</u>
	8.3	0
Provisions are mainly related to personnel expenses and taxes.		
15. Income tax		
Income tax payable at 1 January	0.0	0
Additions through business combinations	0.8	0
Current tax for the year	10.8	0
Income tax paid in the year	-3.5	0
Adjustment previous years	<u>0.7</u>	<u>0</u>
Income tax payable at 31 December	8.8	0
16. Other liabilities		
Accrued interest	0.0	0
Public authorities (VAT, excise duties, taxes, etc.)	2.0	0
Holiday pay obligation, payroll, bonus, etc.	9.5	0
Other expenses payable	<u>3.5</u>	<u>0</u>
	15.0	0
17. Deferred income		
Prepayments from customers	<u>1.1</u>	<u>0</u>
	1.1	0

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	<u>31.12.18</u>	<u>31.12.17</u>
18. Fees to auditors appointed by the Annual General Meeting		
Statutory audit	<u>0.3</u>	<u>0</u>
	<u>0.3</u>	<u>0</u>

19. Financial risks and use of derivatives

The Group's risk management policy

Financial market risks derive from operating, financing and investment activities. The group Treasury Policy approved annually by the Executive Management defines responsibilities, procedures and risk limits per risk type. The Scandferries group does not actively speculate in financial risks. Financial risk management is performed centrally for the group and includes the responsibility for identifying, measuring, managing and reporting of financial risks in accordance with the group Treasury Policy.

Risk related to commodity prices

The primary risk associated with commodities relates to the purchase of bunker fuel. This risk is partially covered through the incorporation of variable bunker price element in the contracts with freight customers. The residual exposure for a rolling 4-quarter period is partly hedged by using financial swaps. The net bunker fuel price exposure for the coming 4-quarter period equals approximately 20 percent of total expected consumption.

An increase in bunker fuel prices by 10 percentage points at the time of balance sheet date would have a positive impact on the value of existing financial hedges and carrying amount in the equity's hedging reserve of EUR 0.3m (EUR 0.3m in 2017) and a negative cost impact in 2019 of EUR 0.3m (0.3m in 2018). A similar reduction in bunker fuel prices would have an equivalent negative impact on hedge values and a similar positive impact on the bunker fuel cost in 2019.

Risk related to interest rates

Interest rate risks derives mainly from financing agreements. Future interest payments are mostly hedged in the form of fixed-rate debt and interest rate derivatives. At 31 December 2018, 85% of the group's debt was fixed-rate or hedged. We refer to note 12 for more details on the loan portfolio.

An increase in interest rates by 1 percentage point at the balance sheet date would have a positive impact on the value of existing financial hedges and carrying amount in the equity's hedging reserve of EUR 1.7m (2.2m in 2017) and a negative cost impact in 2019 of EUR 2.9m (3.4m in 2018). A similar reduction in interest rates would have an equivalent negative impact on hedge values and a similar positive impact on the interest rate cost in 2019.

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Notes, MEUR

19. Financial risks and use of derivatives (continued)

Risks related to foreign exchange rates

Foreign exchange rate risk derives primarily from operating cash flows and financing arrangement in other currencies than EUR. The Scandlines group believes that Denmark will maintain the long-lasting fixed exchange rate policy versus the EUR and hence indirectly regards DKK also as a base currency together with EUR. A minor net exposure in SEK is continuously monitored and managed in accordance with the group Treasury Policy.

The Scandlines group has during 2018 not entered any currency hedges and has no opening currency hedge contracts as at 31 December 2018. A 10% change in the EUR/SEK exchange rate would have an immaterial effect on income and cost elements in 2018.

Credit risks

The group is exposed to credit risk from our trading partners and customers. The exposure is limited to the group's total outstanding receivables, with limited customer dependency and concentration risk and very low or no historical losses recorded in recent years. Accordingly, credit risks have not been hedged during 2018, and we have no open credit risk hedge contracts.

Liquidity risks

The Scandferries group has a strong and stable cash flow with a positive net cash flow in most calendar months. The group has a committed revolving credit facility of EUR 35m at hand, which has not been utilised since being established in 2017. The liquidity risk is considered very low.

The Group's debt falls due as follows (excl. interest):

31.12.2018	Within 1 year	1-5 years	After 5 years	Nominal values
Non-derivatives				
Credit institutions and banks*	59.2	501.1	216.8	777.1
Trade payables*	36.6	0.0	0.0	36.6
Derivatives				
Bunker / Interest swaps*	-1.8	0.0	0.0	0.0
	97.6	501.1	216.8	813.7

*Due to immaterial effects between fair values and nominal value, the difference is not shown.

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Notes, MEUR

19. Financial risks and use of derivatives (continued)

Capital management

The Group regularly evaluates the need for adjusting the capital structure in order to match the requirement for increased returns on capital invested and flexibility to realise the strategic objectives.

The group's dividend policy is closely related to the existing loan agreement. This means that dividend may be allotted only if the assumptions determined in the agreement have been met. This ensures that dividend is allotted only if specific financial ratios have been observed, and that instalments in respect of the debt are made depending on the size of the dividend.

Fair value hierarchy of financial instruments measured at fair value in the balance sheet forward exchange transactions and interest rate swaps are valued using an income approach (discounted cash flow). Expected future cash flow are based on relevant observable swap rates and forward exchange rates and discounted using a discount rate that reflects the credit risk of the relevant counterparties (level 2).

The classification of financial instruments measured at fair value is disaggregated in accordance with fair value hierarchy:

- Quoted prices in an active market for identical instruments (level 1)
- Quoted prices in an active market for similar assets or liabilities or other valuation methods where all significant inputs are based on observable market data (level 2)
- Valuation methods in which any significant input is not based on observable market data (level 3)

Carrying amount by category of derivative financial instruments:

	<u>31.12.18</u>	<u>31.12.17</u>
Interest rate contract	-0.9	0
Hedge of commercial goods (bunker)	<u>-0.9</u>	<u>0</u>
	<u>-1.8</u>	<u>0</u>

During the financial year, we had no financial instruments in level 1 or 3.

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Notes, MEUR

19. Financial risks and use of derivatives (continued)

	<u>31.12.18</u>	<u>31.12.17</u>
Categories of financial instruments		
Trade receivables	31.7	0
Other receivables	<u>0.7</u>	<u>0</u>
Loans and receivables	<u>32.4</u>	<u>0</u>
Derivative financial instruments entered into to hedge future cash flows	<u>-1.8</u>	<u>0</u>
Financial liabilities used for hedging	<u>-1.8</u>	<u>0</u>
Bank debt	777.1	0
Trade payables	36.6	0
Other liabilities	<u>15.0</u>	<u>0</u>
Financial liabilities measured at amortised cost	<u>828.7</u>	<u>0</u>
20. Non-cash transactions		
Change in provision	3.6	0
Change in other liabilities	0.0	0
Change in other assets	<u>-1.9</u>	<u>0</u>
	<u>1.7</u>	<u>0</u>
21. Working capital changes		
Increase (-)/decrease (+) in inventories	2.5	0
Increase (-)/decrease (+) in receivables etc	56.2	0
Increase (+)/decrease (-) in current liabilities	<u>-33.4</u>	<u>0</u>
	<u>25.3</u>	<u>0</u>

Consolidated financial statements

Notes, MEUR

22. Acquisition and divestment of enterprises and activities

At 21 June 2018, the Group has acquired 100% of Scandlines Holding ApS, which, via subsidiaries, operates ferry services on the routes Rødby-Puttgarden and Gedser-Rostock and retail business in the form of Border-Shops in Puttgarden and Rostock, respectively.

The Group acquired includes affiliated companies as specified in note 25.

	<u>31.12.18</u>	<u>31.12.17</u>
Software	3.8	0
Other intangible assets	<u>5.7</u>	<u>0</u>
Non-current intangible assets	<u>9.5</u>	<u>0</u>
Land and buildings	110.2	0
Vessels	354	0
Technical plant and machinery	79.4	0
Othe plant	2.4	0
Constructions in progress	<u>22.8</u>	<u>0</u>
Non-current tangible assets	<u>568.8</u>	<u>0</u>
Financial assets	<u>9.5</u>	<u>0</u>
Other non-current assets	<u>9.5</u>	<u>0</u>
Total non-current assets	<u>587.8</u>	<u>0</u>
Inventories	22.9	0
Trade receivables	59.3	0
Prepaid expenses	1.1	0
Other assets	29.4	0
Cash	<u>39.9</u>	<u>0</u>
Current assets	<u>152.6</u>	<u>0</u>

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Notes, MEUR

	<u>31.12.18</u>	<u>31.12.17</u>
22. Acquisition and divestment of enterprises and activities (continued)		
Interest-bearing debt	808.0	0
Deferred tax	3.1	0
Pension and anniversary liabilities	<u>0.5</u>	<u>0</u>
Non-current liabilities	<u>811.6</u>	<u>0</u>
Corporate tax liabilities	1.3	0
Trade payables	56.5	0
Provisions	5.6	0
Other liabilities	27.4	0
Deferred income	<u>2.4</u>	<u>0</u>
Current liabilities	<u>93.2</u>	<u>0</u>

The Group has incurred acquisition costs of EUR 2.3 million which have been recognised in other operating expenses in the income statement for 2018.

A purchase consideration was paid for the acquisition which exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired. This positive balance (goodwill) is primarily attributable to expected future earnings. Goodwill is not expected to be deductible for tax purposes.

EUR 82.3 million of the Group's profit for the period may be attributed to earnings generated by the Scandlines Holding ApS Group after the acquisition. The entire revenue of the Group is attributable to Scandlines Holding ApS. Had the Scandlines Holding ApS Group been acquired with effect from 1 January 2018, revenue for 2018 would have been approx. EUR 477 million, and profit for the year EUR 113.4 million. Management believes that these proforma figures reflect the earnings level of the Group after the acquisition of the enterprise, and that these amounts thus may form the basis of comparisons in the financial years to come.

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Notes, MEUR

23. Guarantees, contingent liabilities and collateral

	<u>31.12.18</u>	<u>31.12.17</u>
Guarantees	1.6	0

Contingent liabilities

The Group is party to a few pending lawsuits. Management believes that the outcome of these lawsuits will not affect the Group's financial position aside from the receivables and liabilities recognised in the balance sheet at 31 December 2018.

The Danish companies in the Group are part of a Danish joint taxation. Consequently, referring to the Danish Corporation Tax Act regulations, the Group is liable for any income taxes, etc. for the jointly taxed companies and the Group is liable for any obligations to withhold tax at source on interest, royalties and returns for the jointly taxed companies.

For employees engaged as public servants, the Group has a contingent liability of EUR 15.6 million in case of any dismissal thereof. The amount is related to salary in the termination period.

Collateral

The Group's bank debts, as disclosed in note 13, are obtained by the subsidiary of the Group, Scandlines ApS. All assets at any time belonging to the Group including recognised as well as not recognised assets are pledged as collateral for the bank debts.

24. Contractual obligations

For the years 2013 to 2018, operating leases have been entered into for office premises rented and cars leased. The leases have been entered into for a min. of 3 years subject to fixed lease payments. The agreements are interminable for the period in question, after which they may be renewed.

	<u>31.12.18</u>	<u>31.12.17</u>
Operating leasing commitments		
The aggregate future, minimum lease payments according to interminable leases are composed as follows:		
Within 1 year	1.2	0
1-5 years	3.9	0
More than 5 years	<u>0.0</u>	<u>0</u>
	<u>5.1</u>	<u>0</u>
Minimum lease payments recognised in the income statement for the year	<u>3.9</u>	<u>0</u>

Consolidated financial statements

Notes, MEUR

25. Related parties

Scandlines Infrastructure ApS, primary shareholders are Fulmar Holding ApS and 3i Abaco ApS managed by 3i. The activities of the Scandferries Group are managed by Scandlines Danmark ApS and Scandlines Deutschland GmbH and their subsidiaries.

The members of the Fulmar Infrastructure Holding ApS' Executive Management and these persons' close family members are also related parties.

Related parties also include all companies owned by Fulmar Holding ApS.

During the period, there have been no transactions with related parties aside from intragroup transactions (primarily charter hire, management fees, etc.) which have been eliminated in the consolidated financial statements, ordinary remuneration of Executive Management (see note 3).

The companies included in the consolidated financial statements are:

<u>Company</u>	<u>Ownership</u>	<u>Country</u>	<u>City</u>
Holding companies			
Scandlines Infrastructure ApS	100%	Denmark	Copenhagen
Scandferries ApS	100%	Denmark	Copenhagen
Scandferries Holding GmbH*	100%	Germany	Hamburg
Scandlines ApS	100%	Denmark	Copenhagen
Subsidiaries			
Scandlines Deutschland GmbH*	100%	Germany	Hamburg
Scandlines Danmark ApS	100%	Denmark	Copenhagen
Scandlines Gedser-Rostock A/S	100%	Denmark	Copenhagen
Scandlines Catering A/S	100%	Denmark	Copenhagen
Scandlines Bordershop Puttgarden GmbH*	100%	Germany	Hamburg
Scandlines Bordershop Rostock GmbH*	100%	Germany	Hamburg

* The companies use the simplified procedure pursuant to §264, section 3 HGB (German commercial code).

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26. Events after the balance sheet date

No significant events have occurred after 31 December 2018.

27. Accounting policies

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for annual reports of reporting class C enterprises (large).

At 21 June 2018 Scandlines Infrastructure ApS acquired Scandlines Holding ApS and thereby the full Scandlines Group.

The acquired group is to be consolidated as part of the consolidated financial statements and the parent financial statements as of the closing date. Consequently, the consolidated financial statements include the activities of the Scandlines Infrastructure Group from the closing date and the rest of 2018, only.

Basis of accounting

The consolidated financial statements are presented in EUR, the functional currency of Scandferries ApS. The consolidated financial statements are prepared under the historical cost convention, with the exception of derivatives, which are measured at fair value. Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount before the change in classification and fair value net of selling costs. The accounting policies described below have been applied consistently throughout the financial year.

Standards and interpretations effective in the current period

These Consolidated Financial Statements, for the year ended 31 December 2018, are the first Scandlines Infrastructure ApS has prepared in accordance with IFRS. For the periods up to and including the year ended 31 December 2017, Scandlines Infrastructure ApS prepared its Financial Statements in accordance with the provisions of Danish Financial Statements Act.

The following new and revised standards and interpretations are relevant for the Group and have been adopted as applicable in the current period:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

The impact of the implementation of IFRS 9 and IFRS 15 has been immaterial in relation to recognition and measurement. However, the new standards have led to additional disclosures. IFRS 9 - Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities was published in July 2014 and contains requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting.

IFRS 9 introduces a new impairment loss model for financial assets by replacing IAS 39's "incurred loss model" approach with a more forward-looking "expected loss model". Under the new model, it is no longer necessary that a credit event has occurred before a credit loss is recognised. We have completed an analysis to assess the impact of implementing IFRS 9, and the simplified 'expected loss model' will not significantly affect the allowance for doubtful trade receivables. Based on the current Treasury Policy for hedging of risks, the implementation of IFRS 9 will not have a significant impact on the consolidated financial statements in relation to hedge accounting.

IFRS 15 - Revenue from Contracts with Customers was published in May 2014 and establishes a single comprehensive framework for revenue recognition. IFRS 15 replaces the current standards on revenue (IAS 11 'Construction Contracts' and IAS 18 'Revenue').

The group has implemented IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach. Based on an analysis the IFRS 15 it is assessed that it will not have a significant impact on the consolidated financial statements.

Standards and interpretations in issue not yet adopted

IFRS 16 - Leases was published in January 2016 and introduces a single lessee accounting model, requiring lessees to recognise leases in the balance sheet as a right-of-use asset and a lease liability, unless the lease term is 12 months or less or the underlying asset has a low value. In the income statement, the lease cost is replaced by depreciation of the leased asset and an interest expense for the financial liability. The group will adopt the standard on the effective date, 1 January 2019.

We have completed an analysis to assess the impact of implementing IFRS 16. The changes require capitalization of the majority of the group's operating leases. This will increase non-current assets by 0.9% and EBITDA will increase by 0.5%. Cash flow from operating activities will increase as the substantial portion of lease payments will be classified as financing cash outflows. Furthermore, the implementation of IFRS 16 will lead to additional disclosures.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Critical accounting policies

Management believes that the accounting policies applied to the consolidated financial statements, business combinations, non-current intangible assets, vessels, operating leases versus finance leases and derivatives to be those most important to the group. Below, each of those fields are described together with other accounting policies applied. Significant accounting estimates and judgements made when applying the group's accounting policies are described in note 1 to the consolidated financial statements.

Description of accounting policies applied

Consolidated financial statements

The consolidated financial statements include Scandferries ApS (the Parent) and subsidiaries, in which Scandferries ApS exercises control over their financial and operating policies. Control is achieved by the Parent either directly or indirectly owning or holding more than 50% of the voting rights or in any other way controlling the relevant enterprise (affiliated company). Scandferries ApS and its affiliated companies are together referred to as the Group.

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and the affiliated companies by aggregating uniform financial statement items and subsequently eliminating intercompany transactions, intercompany shareholdings and balances as well as unrealised intercompany gains and losses. The consolidated financial statements are based on financial statements prepared in compliance with the Group's accounting policies.

Investments in affiliated companies are offset by the proportionate share of such enterprises' equity value at the time of acquisition.

The Group's investments in associates are recognised at the proportionate share of the associate's equity value. Unrealised intercompany profits or losses from transactions with associates or jointly controlled enterprises are eliminated by the Group's equity interest therein.

Business combinations

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Enterprises divested or wound up are recognised until the time of divestment or winding-up. Comparative figures are adjusted neither for enterprises added by way of acquisition or merger nor for enterprises divested.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Acquisitions of enterprises over which the Parent obtains control are accounted for under the acquisition method. The identifiable assets, liabilities and contingent liabilities of the enterprises acquired are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised if they can be separated or arise out of a contractual right. Deferred tax is recognised for the reassessments made.

The acquisition date is the date on which Scandferries ApS effectively obtains control over the acquiree.

Positive balances (goodwill) between, on the one hand, the consideration paid, the value of minority interests in the enterprise acquired and the fair value of any equity interests previously acquired, and, on the other hand, the identifiable assets, liabilities and contingent liabilities acquired are recognised as goodwill in intangible assets. Goodwill is not amortised, but tested at least once a year for impairment. Impairment tests are first made before the end of the year of acquisition.

On acquisition, goodwill is allocated to cash-generating units, which then form the basis of impairment testing. The allocation of goodwill by cash-generating unit is disclosed in note 9 to the consolidated financial statements.

Goodwill and fair value adjustments made as part of the acquisition of a foreign enterprise using a functional currency other than the presentation currency used by the Group are accounted for as assets and liabilities belonging to the foreign enterprise and translated, on initial recognition, into the functional currency applied by the foreign enterprise at the transaction date exchange rate. Negative balances (negative goodwill) are recognised in the income statement at the date of acquisition.

The consideration for an enterprise consists of the fair value of the consideration agreed in the form of assets acquired, liabilities assumed and equity instruments issued. Where parts of the consideration are conditional upon future events or fulfilment of agreed conditions, these parts of the consideration are recognised at fair value at the acquisition date. Costs attributable to business combinations are recognised directly in the income statement when incurred.

Positive and negative balances from enterprises acquired may be adjusted for a period of up to 12 months after the date of acquisition if the original recognition was preliminary or subject to error. Any other adjustments are recognised in the income statement under special items, including changes in estimates of contingent consideration.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

If an enterprise is acquired by way of more than one transaction, such equity interests as are held directly prior to the last transaction leading to control are considered sold and directly repurchased at the acquisition date fair value. Any difference between the "selling price" and the carrying amount of those equity interests results in a net profit or loss from the interests already held. Profits or losses are recognised in the income statement as financial income or financial expenses.

Step acquisitions after the achievement of control, that is acquisitions of minority interests, are taken directly to equity. Divestments of minority interests over which control is maintained are recognised directly in equity.

Profits or losses from divestment or winding-up of affiliated companies and associates are calculated as the difference between selling price or settlement price and the carrying amount of net assets at the time of sale, including any remaining goodwill, accumulated foreign exchange gains and losses previously taken to equity and estimated divestment or winding-up expenses. Any foreign currency translation adjustments attributable to the Group's equity interest which are recognised directly in equity are included in the calculation of profits. Any equity interests maintained are measured at fair value at the date that control ceases.

Foreign currency translation

Functional currency and presentation currency

Financial statement items for each of the Group's enterprises are measured applying the functional currency that is used in the primary economic environment in which the enterprise operates. The consolidated financial statements are presented in EUR, the Parent's functional currency and presentation currency.

Translation of affiliated companies

On recognition in the consolidated financial statements of enterprises using functional currencies other than DKK, the income statement items are translated using the average exchange rate, whereas the balance sheet items are translated at the balance sheet date exchange rate. Exchange differences arising from the translation of those enterprises' equity at the beginning of the year, at the balance sheet date exchange rate as well as out of the translation of income statements from the transaction date exchange rate to the balance sheet date exchange rate are recognised in other comprehensive income and transferred to equity under a separate reserve for foreign currency translation adjustments.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

The foreign currency translation adjustments are divided between the Parent's share and the minority interests' share of equity. When wholly-owned foreign enterprises are disposed of, such foreign currency translation adjustments accumulated in equity through other comprehensive income as are attributable to the enterprise are reclassified from "Reserve for foreign currency translation adjustments" to profit or loss together with any profit or loss from the disposal.

When partially owned foreign affiliated companies are disposed of, the portion of the reserve for foreign currency translation adjustments relating to minority interests is not taken to profit or loss.

When part of an associate or a joint venture is disposed of, the proportionate share of the accumulated reserve for foreign currency translation adjustments recognised in other comprehensive income is reclassified to profit or loss for the year.

Repayment of any balances deemed part of the net investment is not in itself regarded as constituting partial disposal of the subsidiary.

Derivatives

Derivatives are recognised from the trade date and are measured in the balance sheet at fair value. Positive and negative fair values of derivatives are included in other receivables or other payables, respectively, and set-off of positive and negative values is only made when the enterprise is entitled to and intends to settle several financial instruments on a net basis. The fair values of financial instruments are determined based on current market information and approved valuation methods.

Fair value hedging

Changes in the fair value of derivatives which are classified as and qualify for hedging of the fair value of a recognised asset or a recognised liability are recognised in the income statement along with changes in the value of the hedged asset or the hedged liability based on the hedged portion. Hedges of future cash flows pursuant to definite agreements, with the exception of foreign currency hedges, are accounted for as a hedge of the fair value of a recognised asset or a recognised liability.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Hedging of future cash flow

Changes in the portion of the fair value of derivatives which are classified as and comply with the requirements for hedging future cash flows and which effectively hedge changes in future cash flows are recognised in other comprehensive income. The effective portion of the fair value change is presented as a separate reserve in equity until the cash flow hedged affect profit or loss. At that time, gains or losses from such hedging transaction are transferred through other comprehensive income from equity and recognised in the same financial statement item as the transaction hedged.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains or losses previously recognised in other comprehensive income are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

If the hedging instrument no longer qualifies for hedge accounting, the hedging relationship will cease going forward. Accumulated changes in value recognised in equity are transferred to profit or loss through other comprehensive income when the cash flow hedged affects profit or loss.

If the cash flow hedged is no longer expected to be realised, the accumulated changes in value are immediately taken to the income statement.

Hedging of net investments

Changes in the fair value of derivatives which are applied to hedge net investments in foreign affiliated companies or associates and which effectively hedge changes in foreign exchange rates at such enterprises are recognised in other comprehensive income in the consolidated financial statements and transferred to a separate reserve in equity.

Other derivatives

For derivatives that do not qualify as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Government grants

Government grants for investments are offset against the purchase price of the relevant asset, thereby reducing depreciation of the assets for which the grant was received.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Rentals and leases

For financial reporting purposes, leases are divided into finance leases and operating leases.

A lease is classified as a finance lease when it transfers substantially all of the risks and rewards incidental to ownership of the leased asset. Other leases are classified as operating leases.

For assets held under finance leases, cost is the lower of the asset's fair value and present value of future minimum lease payments. The internal rate of return of the lease or the Group's alternative borrowing rate is applied as a discount factor for determining the present value. Assets held under finance leases are depreciated and written down for impairment in accordance with the accounting policies applied by the Group to similar proprietary non-current assets or over the lease period depending on the terms and conditions of the lease. The related lease commitment for assets held under finance leases is recognised in the balance sheet by an amount equivalent to the capitalised residual lease commitment measured at cost. The interest portion of the lease payment for the period is recognised in the income statement as a financial expense.

Lease payments on operating leases are recognised in profit or loss on a straight-line basis over the lease period unless other systematics better reflect the benefit from the use of the asset. The remaining rental and lease commitments of such leases are disclosed in the notes to the consolidated financial statements.

In the event of finance leases under which assets are leased out, an amount equal to the net investment in the lease is recognised as a receivable in the balance sheet. The asset is derecognised, and any gains or losses in this respect are taken to profit or loss.

Rental income from operating leases under which assets are leased out are recognised on a straight-line basis in profit or loss over the lease term.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Income statement

Revenue

Revenue from transport of passengers and freight etc. is recognised in the income statement at the time of delivery of the service to the customer, which is the time where the control is transferred and when each separate performance obligation in the customer contract is fulfilled following the “over-time principle”. Some of the ferry and freight transports have a series of performance obligations but as the duration of these transports are short term the impact from splitting these contracts into “distinct services” will not have material impact. Our transports carried out by the Traffic machine are characterised by short delivery time between 45 minutes and 1 hour and 45 minutes. On board sales and sales in the BorderShops is recognised at a “point in time”. Revenue is measured at fair value, excluding value added tax and after deduction of trade discounts.

Trade receivables are not adjusted for any financing component when recognised. The general credit terms are overall short and are following market terms. Accounting estimates and judgements are made in order to determine time of delivery and accrue for relevant income along with evaluation of pricing. These accounting estimates and judgements are based on experience and historical sales figures, along with a continuous follow-up on service delivered. The change in accounting policy compared to last year, did not have material effect, and the accounting policy for 2017 for revenue has therefore not been disclosed. Reference is made to the annual report from 2017.

Other operating income

Other operating income comprises income and expenses of a secondary nature as viewed in relation to the Company’s primary activities.

Operating costs for vessels

The operating costs for vessels comprise consumables applied for current operation of vessels and expenses of current maintenance of the safety level on the vessels. Furthermore, expenses for changes to the hulls of the vessels or for accommodation construction which do not increase the value in use are included.

Cost of goods sold

Cost of goods sold relates to sales at BorderShops and the sale of on-board goods and services.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Staff costs

Salaries and wages, social security contributions, paid absence and absence due to sickness, bonuses and non-monetary payments are recognised in the financial year in which the Group's employees have performed the related work. Costs relating to the Group's long-term employee benefits are accrued in proportion to the work performed by the individual employees.

Other external expenses

These expenses comprise expenses incurred for administration and marketing of the Group, including stationery and office supplies.

Share of profit or loss of associates

The proportionate share of associates' profit or loss after tax and after elimination of the proportionate share of intercompany profits or losses is recognised in the consolidated income statement.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, realised and unrealised exchange gains and losses on debt and foreign currency transactions, realised capital gains and losses on securities and amortisation of financial assets and liabilities, including finance lease commitments, as well as surcharges and reliefs under the Danish Tax Prepayment Scheme, etc. The item also includes realised and unrealised gains and losses from derivatives not classified as hedging transactions.

Taxation

Tax for the year, which consists of income tax, tonnage tax, and the annual joint taxation contribution for Danish affiliated companies and changes in deferred tax, are recognised in the income statement by the portion attributable to profit or loss for the year and taken directly to equity by the portion attributable to entries directly in equity. Corrections concerning previous years are included in this item as well.

When settling joint taxation contributions, the current Danish income tax is allocated among the jointly taxed enterprises proportionally to their taxable income. Enterprises with tax losses receive joint taxation contributions from enterprises that could have used such losses to reduce their own taxable profit.

Income tax and tonnage tax computed for the year are recognised in the balance sheet as current tax payable or receivable or as a joint taxation contribution for Danish enterprises, allowing for prepayments made. Pursuant to the Danish rules governing joint taxation, affiliated companies' liability for own income taxes is settled as and when the joint taxation contributions are paid to the administration company.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Deferred tax is computed on all temporary differences between the carrying amount and tax-based value of assets and liabilities. However, no recognition is made of deferred tax on temporary differences regarding goodwill not eligible for tax amortisation which arose at the time of acquisition without affecting profit or loss or taxable income.

For tonnage-taxed assets and liabilities, deferred tax is recognised insofar as it is expected to arise.

Deferred tax assets are recognised at their estimated realisable value. Adjustments are made for deferred tax on eliminations of unrealised intercompany profits and losses.

Deferred tax is computed based on the expected use and settlement of the individual assets and liabilities and on the tax regulations and tax rates that will be in effect, using the laws at the balance sheet date, when the deferred tax is estimated to crystallise as current tax. Changes in deferred tax resulting from changed tax rates are recognised in the income statement.

Assets

Current assets are defined as:

- Assets expected to be realised or are held for sale or consumption during the Scandlines Group's normal operating cycle, or
- Assets primarily held for trading or expected to be realised within one year of the balance sheet date, or
- Cash with no restrictions on use

All other assets are classified as non-current.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Non-current intangible assets and property, plant and equipment

Unless otherwise specifically stated, the following applies:

- Non-current intangible assets and property, plant and equipment are measured at cost less accumulated amortisation, depreciation and impairment losses
- The cost of non-current intangible assets and property, plant and equipment consists of expenses for sub-suppliers, materials and components (only non-current items of property, plant and equipment) as well as direct labour costs
- Interest incurred from the time of payment until an asset is put into service is included in cost. The cost also includes gains and losses from hedging transactions entered into to secure the value of a non-current item of property, plant and equipment
- The basis of amortisation or depreciation is calculated as cost reduced by estimate scrap value
- Non-current intangible assets and property, plant and equipment are amortised and depreciated on a straight-line basis to estimated scrap values over their expected useful life to the Scandlines Group
- Expected useful lives to the Scandlines Group and scrap values are estimated at least once a year. When estimating the useful lives of vessels, it is taken into consideration that the Scandlines Group continuously uses considerable funds for current maintenance
- If the depreciation period or the scrap value is changed, the future effect for depreciation is recognised as a change in the accounting estimate

Goodwill

On initial recognition, goodwill is recognised at cost in the balance sheet as described under “Business combinations”. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

Goodwill is tested at least once a year for impairment.

The carrying amount of goodwill is allocated to the Group’s cash-generating units at the time of acquisition. The allocation of goodwill by cash-generating unit is disclosed in note 7 to the consolidated financial statements.

Contractual rights

Contractual rights acquired or developed for internal use are measured at cost less accumulated amortisation and impairment losses. Contractual rights are amortised on a straight-line basis over the expected useful lives of 20 years.

Software

Software acquired or developed for internal use is measured at cost less accumulated amortisation and impairment losses. Software is amortised on a straight-line basis over the expected useful lives of three to five years.

Other intangible assets

Other non-current intangible assets are measured at cost less accumulated amortisation and impairment losses. They are amortised on a straight-line basis over their expected useful lives of three to five years.

Vessels

Rebuilding of vessels is capitalised if such rebuilding is attributable to either:

- Safety measures
- Measures extending the vessel's life
- Earnings-improving measures
- Docking

Vessel maintenance costs are charged to the income statement when incurred, including ordinary maintenance insofar as such work is attributable to ordinary maintenance (day-to-day work).

Docking costs are capitalised and depreciated on a straight-line basis over the period between two dockings. In most cases, the docking interval is two to three years.

Vessels are depreciated over a period of 30 to 40 years reckoned from the year in which a vessel is built. Improvements of engines and other mechanical installations are depreciated over the same useful life as the underlying asset. Catering and retailing equipment is depreciated over 5 to 15 years.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Profits and losses from the sale of vessels are calculated as the difference between selling price less selling costs and the carrying amount at the time of sale. Profits and losses from the sale of vessels are recognised when material risks and rewards incident to ownership have passed to the buyer, and they are presented in the income statement under the caption "Profit from the sale of vessels, properties and terminals" unless the amount is significant which will cause them to be recognised in the caption "Other operating income".

Other property, plant and equipment

Other property, plant and equipment consist of properties, terminals and operating equipment, furniture and leasehold improvements.

The expected useful lives are:

Properties	40 years
Harbour facilities and harbour installations	40 years
Operating equipment etc.	3-5 years

Profits and losses from the sale of properties, terminals, operating equipment, furniture and leasehold improvements are calculated as the difference between selling price less selling costs and carrying amount at the time of sale. Profits and losses from the sale of these assets are taken to profit or loss under "Other operating income" or "Special items" if a profit is considerable.

Investments in associates

Investments in associates are measured according to the equity method. This means that, in the balance sheet, investments are measured at the proportionate share of the enterprises' equity value, calculated applying the Group's accounting policies, plus the carrying amount of goodwill and plus or less the proportionate share of unrealised intercompany profits and losses.

Associates with a negative equity value are measured at EUR 0. If the Group has a legal or constructive obligation to cover the negative balance of the associate, this amount is recognised in liabilities.

Any receivables from associates are written down if the receivable is considered irrecoverable.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Other assets

On initial recognition, other non-current assets and current assets are measured at cost. Subsequently, these assets are measured in one of the following categories:

- Held for trading: The asset is measured at fair value, and value adjustments are recognised through profit or loss
- Available for sale: The asset is measured at fair value, and value adjustments are recognised through other comprehensive income and transferred to a separate reserve in equity
- Loans and receivables: The asset is measured at amortised cost, and value adjustments are recognised through profit or loss

Impairment

The carrying amounts of non-current intangible assets, property, plant and equipment and financial assets are reviewed regularly, at least once a year, to determine any indication of impairment. If such indication exists, the recoverable amount of the asset is determined. The recoverable amount is the higher of the asset's net selling price and value in use. The value in use is calculated by discounting to net present value the expected future net cash flows from the asset either from the asset itself or from the lowest cash generating unit that the asset belongs to.

Goodwill is tested for impairment (value in use) at least once a year. The Group's assets are tested for impairment regularly once a year, typically in December. If any indication of impairment occurs between the annual tests, the Scandlines Group will perform an impairment review.

Inventories

Inventories are recognised at the lower of cost using the FIFO method and net realisable value.

Receivables

Receivables are recognised at amortised cost net of write-downs for bad and doubtful debts if an objective indication of impairment is estimated to exist. Such estimates is made on an individual basis.

Prepayments

The item concerns expenses incurred at the balance sheet date at the latest, but which concern subsequent years.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Equity

Dividend

Proposed dividend is recognised as a liability at the time of adoption at the general meeting (time of declaration). Dividend expected to be paid for the year is disclosed as a separate equity item.

Foreign currency translation adjustments reserve

The reserve for foreign currency translation adjustments includes currency translation differences arising from the translation of financial statements of enterprises using a functional currency other than EUR as well as currency translation adjustments relating to assets and liabilities which represent part of the Group's net investments in such enterprises.

Fair value adjustment of hedging instruments

The hedging reserve includes the accumulated net change in the fair value of hedging instruments which meet the criteria for hedging future cash flow with the transaction hedged not having been carried out yet.

Liabilities

Current liabilities are defined as:

- Liabilities expected to be settled during the Scandlines Group's normal operating cycle, or
- Liabilities to be settled within twelve months after the balance sheet date

All other liabilities are classified as non-current.

Pension and anniversary commitments

Contributions to defined contribution plans are recognised in the income statement in the period which they concern, and any due payments are recognised in the balance sheet under other payables.

For defined benefit plans, an actuarial calculation is made of the net present value of future benefits to be paid pursuant to the plan. The value in use is calculated on the basis of assumptions about future developments in, for example, pay level, interest, inflation and mortality. The value in use is calculated only for the benefits that vest to the employees by way of their existing employment with the Group. The actuarial value in use net of the market value of any assets attaching to the plan is recognised in the balance sheet under pension commitments.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

If a change occurs in benefits relating to the employees' existing employment with the Group and results in a change in the actuarial value in use, this is defined as a historical cost. Historical costs are recognised directly in profit or loss if the employees have already become eligible for the changed benefit. If not, the historical costs are recognised in the income statement over the period of time during which the employees earn the right to the changed benefit.

Other provisions

Provisions are recognised when, as a result of previous events, the Group has a legal or constructive obligation that will lead to a probable outflow of the Group's economic resources, if the amount thereof can be estimated reliably. Allowance is made for the time value of money if this has a major bearing on the measurement of the obligation.

Interest-bearing liabilities other than provisions

On initial recognition, debts to mortgage credit institutions and similar institutions are measured at fair value (equivalent to the proceeds received) less transaction costs incurred.

Subsequently, interest-bearing liabilities are measured at amortised cost equal to the capitalised value using the effective interest method; the difference between the proceeds and the nominal amount is recognised in the income statement in "Financial expenses" over the term of the loan.

The capitalised remaining lease commitments from finance leases are also recognised in interest-bearing liabilities. Other liabilities are measured at amortised cost.

Other payables

Other payables include payables to staff, including wages, salaries and holiday pay payable, and to public authorities such as unsettled withholding tax, VAT, excise duties and similar levies as well as payables regarding the purchase and sale of vessels, buildings and terminals, calculated interest expenses payable, fair value of hedging transactions as well as breakdown costs etc. Other payables also include any amounts due concerning defined contribution plans.

Deferred income

The item concerns payments received at the balance sheet date at the latest, but which concern income in subsequent years.

Consolidated financial statements

Notes, MEUR

27. Accounting policies (continued)

Cash flow statement

The Group's cash flow statement is presented using the indirect method and shows cash flow from operating, investing and financing activities for the year as well as the Group's cash and cash equivalents at the beginning and end of the financial year.

Cash flow from acquisition and divestment of enterprises is shown separately under cash flow from investing activities.

Cash flow from enterprises acquired is recognised in the cash flow statement from the time of their acquisition, and cash flow from enterprises divested is recognised up to the time of sale.

Cash flow from operating activities is calculated based on profit before amortisation and depreciation (EBITDA) and special items, adjusted for the cash flow effect of special items, non-cash operating items, working capital changes, financial expenses paid and income tax paid.

Cash flow from investing activities comprises payments in connection with the acquisition and divestment of enterprises and activities as well as the acquisition and sale of non-current intangible assets, property, plant and equipment as well as financial assets. Cash flow from financing activities comprises payments arising from changes in the size or composition of the Group's share capital, dividend paid as well as the incurrence of mortgage debt and raising of and repayment of mortgage loans, other long-term debt and short-term bank debt. Cash and cash equivalents comprise cash at bank and in hand.

Parent Company Financial Statements

Parent Company Financial Statements

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Parent financial statements

Income statement

	<u>Notes</u>	<u>2018 MEUR</u>	<u>2017 MEUR</u>
Other income		3.7	0.0
Total income		3.7	0.0
Administrative expenses	2	-5.9	0.0
Total costs		-5.9	0.0
Result before amortisation and depreciation (EBITDA)		-2.2	0.0
Amortisation, depreciation and impairment		0.0	0.0
Result before financial income and expenses (EBIT)		-2.2	0.0
Dividend from affiliated company		90.9	0.0
Result before tax		88.7	0.0
Tax for the year		-8.3	0.0
Total comprehensive income/loss		80.4	0.0

Parent financial statements

Balance sheet

Assets

	<u>Notes</u>	<u>31.12.18</u> <u>MEUR</u>	<u>31.12.17</u> <u>MEUR</u>
Investments in affiliated companies	3	1,740.8	0.0
Total non-current assets		1,740.8	0.0
Other receivables		0.1	0.0
Cash		1.5	0.0
Total current assets		1.6	0.0
Assets		1,742.4	0.0

Equity and liabilities

Share capital		0.0	0.0
Retained earnings		1,726.6	0.0
Total equity		1,726.6	0.0
Payable to affiliated companies		6.5	0.0
Provision		9.3	0.0
Total current liabilities		15.8	0.0
Equity and liabilities		1,742.4	0.0

Parent financial statements

Statement of changes in equity, MEUR

	<u>Share capital</u>	<u>Pro- posed divid end-</u>	<u>Reser- ve</u>	<u>Re- tained earnings</u>	<u>Total</u>
Comprehensive income/loss for the year					
Equity at 1 January 2018	0.0	0.0	0.0	0.0	0.0
Capital Increase	0.0	0.0	1,736.7	0.0	1,736.6
Retained earnings	0.0	0.0	0.0	80.4	80.4
Dividend	0.0	96.5	0.0	-187.0	-90.5
Other	0.0	0.0	0.0	0.0	0.0
Total comprehensive income/loss 31 December 2018	0.0	96.5	1,736.7	-106.6	1,726.6

Dividend

In 2018, there have been paid dividend of MEUR 90.5 and there has been proposed a dividend of 96.5 MEUR.

	<u>Share capital</u>	<u>Pro- posed divid end-</u>	<u>Reser- ve</u>	<u>Re- tained earnings</u>	<u>Total</u>
Comprehensive income/loss for the year					
Equity at 1 January 2017	0.0	0.0	0.0	0.0	0.0
Retained earnings	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total comprehensive income/loss 31. December 2017	0.0	0.0	0.0	0.0	0.0

Parent financial statements

Overview of notes

	<u>No.</u>
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Parent financial statements

1. Significant accounting estimates and judgements

Estimation uncertainty

Determining the carrying amount of certain assets and liabilities requires an estimate of how future events will affect the value of those assets and liabilities at the balance sheet date. Estimates that are significant to the Parent's financial reporting are made, for instance, by reviewing investments in subsidiaries for impairment. They constitute a major portion of the Parent's total assets.

Subsidiaries are tested for impairment if events or other circumstances indicate that the carrying amount is not recoverable. Measuring subsidiaries requires significant estimates to be made when making different assumptions, including expected future cash flows, discount rate and terminal value growth rates. The sensitivity to changes in the assumptions applied collectively and individually may be significant.

Particular risks of the Group are discussed in the management commentary and note 19 to the consolidated financial statements.

Assumptions about the future and other estimation uncertainties at the balance sheet date are disclosed in the notes if they involve a material risk of changes that may lead to considerable adjustment of the carrying amounts of assets or liabilities within the next financial year.

Accounting policies

Management estimates that, when applying the Parent's accounting policies, no judgements are made other than those involving estimations that can significantly affect the amounts recognised in the parent financial statements.

Parent financial statements

Notes, MEUR

2. Staff costs

The Executive Management has not received remuneration in the financial period.

	<u>31.12.18</u>	<u>31.12.17</u>
3. Investments in affiliated companies		
Cost at 1 January	0.0	0
Additions for the year	<u>1,740.8</u>	<u>0</u>
Cost at 31 December	<u>1,740.8</u>	<u>0</u>
Revaluations at 1 January	0.0	0
Additions for the year	<u>0.0</u>	<u>0</u>
Revaluations at 31 December	<u>0.0</u>	<u>0</u>
Carrying amount at 31 December	<u>1,740.8</u>	<u>0</u>

Investments in affiliated companies comprise:

Scandferries ApS, Copenhagen, Denmark, 100%

The carrying amount of the Parent's investments in affiliated companies is tested for impairment if an indication of impairment exists. Impairment tests conducted have not resulted in a need for write-downs.

Parent financial statements

Notes, MEUR

4. Related parties

For specification of related parties refer to note 25 of the consolidated financial statements.

No transactions with the Executive Management or major shareholders or other related parties have been made during the year.

5. Events after the balance sheet date

No significant events have occurred after 31 December 2018.

No transactions with the Executive Management or major shareholders or other related parties have been made during the year.

Parent financial statements

6. Accounting policies

The separate parent financial statements have been incorporated in the annual report because a separate set of financial statements is required for the Parent under the Danish Financial Statements Act requirements for annual reports of reporting class C enterprises (large)

The accounting policies applied for these financial statements are consistent with those applied last year.

Description of accounting policies applied

Compared to the accounting policies described for the consolidated financial statements (see note 27 to the consolidated financial statements), the accounting policies applied by the Parent are different in the following respects:

Business combinations

In the parent financial statements, intercompany acquisitions (and divestments) of enterprises and activities are recognised and measured applying the book value method, under which any differences between the consideration and the carrying amounts of the tradable enterprises or activities are recognised directly in equity.

Foreign currency translation

Translation adjustments of balances considered part of the total net investment in enterprises using a functional currency other than EUR are recognised in financial income or financial expenses in the income statement of the parent financial statements.

Dividend income

Distribution of profits accumulated by subsidiaries is taken to income in the Parent's income statement in the financial year in which the dividend is declared. If an amount is distributed exceeding the subsidiary's comprehensive income for the period, then an impairment test is performed.

Tax on profit for the year

Enterprises using the tax losses of other enterprises pay a joint taxation contribution to the Parent that is equivalent to the tax base of the losses used whereas enterprises whose tax losses are used by other enterprises receive a joint taxation contribution from the Parent that is equivalent to the tax base of the losses used (full allocation).

Parent financial statements

6. Accounting policies (continued)

Investments in affiliated companies

Investments in affiliated companies are measured at cost in the parent financial statements. If an indication of impairment exists, then an impairment test is performed as described in the accounting policies for the consolidated financial statements. If the carrying amount exceeds the recoverable amount, investments are written down to such lower amount.

If distributions are made from reserves other than accumulated profits of affiliated companies, such distribution will reduce the cost of the investments if the distribution is in the nature of a repayment of the Parent's investment.

Taxation

The Company is subject to the Danish rules requiring joint taxation of the Group's Danish subsidiaries. Joint taxation contribution to or from subsidiaries is recognised in tax on profit or loss for the year. Tax payable and receivable are taken to current assets and current liabilities. Joint tax contributions payable or receivable are recognised in the balance sheet under receivables from or payables to affiliated companies.

Statement by Executive Management on the annual report

The Executive Management has today considered and approved the annual report of Scandlines Infrastructure ApS for the financial year 1 January 2018 - 31 December 2018.

The annual report is prepared in accordance with International Financial Reporting Standards 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 December 2018 and of the results of their operations and cash flows for the financial year 1 January 2018 - 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.

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

Copenhagen, 30 April 2019

Executive Management

Søren Poulgaard Jensen, CEO

Per Johannesen Madsen, CFO

Independent auditor's report

To the shareholder of Scandlines Infrastructure ApS

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31-12-2018, and of the results of its 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 under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31-12-2018, and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with 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.

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 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 these 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.

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.

Copenhagen, 30 April 2019

Deloitte

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