Closing the loop on food trays

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The Annual Report was presented and adopted at the Annual General Meeting of the Company on 22 May 2019

Nils Smedegaard Andersen
Chairman

faerch | *Packaging that cares*

Content

View from the chairman

Nils Smedegaard Andersen
Chairman

I am pleased to report another successful year of growth, including record top-line, earnings and operational progress. In 2018 Faerch expanded the strategic foundation with continuous growth opportunities.

On top of everyone's mind and on the global agenda is recycling. Responsible use and disposal of plastic comes under scrutiny as both consumers and brands search for the optimal ways to reduce the environmental impact. The Faerch name is a guarantee for that. This is why we are advancing the parameters of the food packaging industry by creating a true circularity in packaging with no compromises on food safety. Circularity means that our products are made from 100% recycled material and are 100% recycled to new food-grade products of the same quality – again and again.

Recycled mono PET is the best choice for responsible food packaging compared to any other material known today. While PET has well known superior benefits of plastic food packaging, it is the only material allowing to truly "closing the loop". Already today, our PET products are on average made from 80% recycled PET and we are committed to reach up to 100% by the end of 2025.

The European Union (EU) has initiated a transition from a linear towards a circular resource efficient society. We strongly support this effort. Faerch is dedicated to products made from one polymer type only (mono material) to allow efficient recycling.

In light of the above, the acquisition of 4PET is instrumental for Faerch's operating model for the future. Faerch is through this acquisition a fully integrated recycler enabling Faerch to truly close the loop on PET food trays. The acquisition of CGL Pack S.A.S. did also support the 2021 strategy establishing a strong manufacturing footprint in France, in a market that holds significant growth opportunities.

Acquiring and integrating two new businesses and continuing to deliver earnings improvement is an extraordinary effort and on behalf of the Board, I would like to thank our loyal and hardworking employees who have contributed to making this possible and successful. Faerch is strategically well positioned for the future with a unique position to deliver sustainable growth within the rigid plastic business. I look forward to the year ahead following and reporting on the continued growth of the Faerch Group.

Nils Smedegaard Andersen
Chairman

The strength of Faerch shows its value

Lars Gade Hansen
Group CEO

Like last financial year, 2018 also turned out to be challenging with polymer prices continuing to increase and UK's exit from the European Union continuously bringing uncertainty to the business and to the financial markets. Despite those considerable headwinds, Faerch produced another record year with strong results, including record sales volume, top-line and EBITDA. We believe this demonstrates the strength of Faerch. The strong customer base and manufacturing set-up allowed us to weather headwinds on several fronts, while continuing to deliver earnings improvements.

We recorded an organic growth of 0.5% measured in number of trays sold and including the acquisitions the growth was +6.3%. The counter measures taken since the Brexit referendum in June 2016 shows theirs efficiency in the strong top-line. 2018 revenue was a record of DKK 2,582m compared with DKK 2,267m in 2017. Organically revenue grew by +2.0% and including acquisitions the growth was +13.9%. The significantly stronger revenue growth compared to sales volume growth is due to the acquired recycling business where sales is not measured in pieces. The revenue growth would have been higher than the recorded 13.9% if the Sterling decline not had continued throughout 2018 with a decline of another -1% compared to 2017.

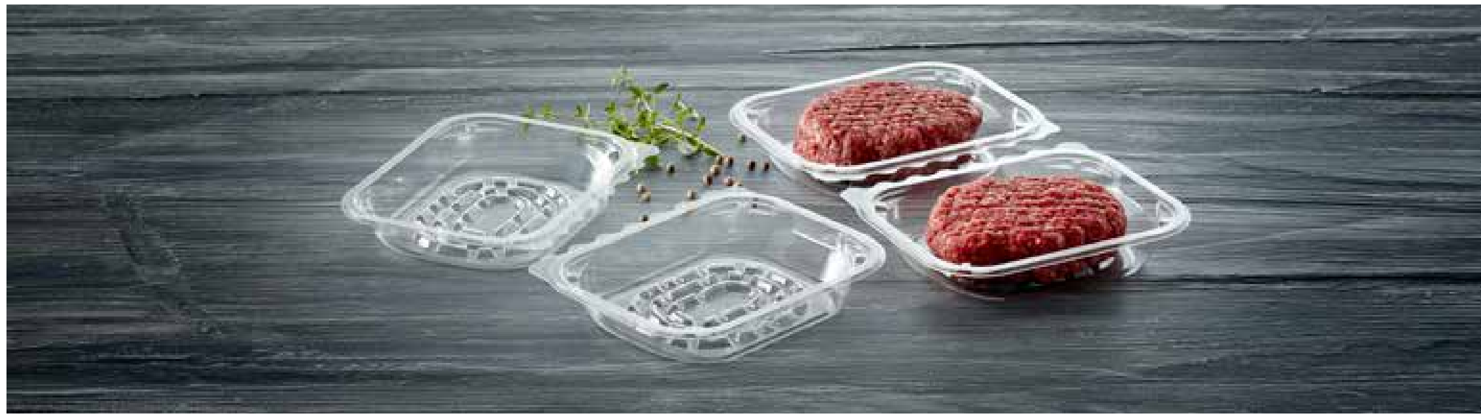
In 2018, we did not deliver on our organic growth ambition due to a contracting UK market and material conversion in Spain. The price increases implemented in UK as a countermeasure to the "Brexit" impact was a deliberate decision, carefully considering the consequence which was exiting low margin business within the Fresh Meat segment. Overall the UK market contracted more than the strong growing Continental Europe could offset and what a strong pipeline could catch-up on. The execution of the strong pipeline did not materialise with the speed and timing as anticipated which further dampened the volume growth. Finally, the recycling discussion jumped following the BBC's Blue Planet II broadcast highlighting plastics' impact on ocean wildlife this discussion created some movement between material types with PET taken market share. Faerch fully supports the recycling agenda and with the acquisition of 3PET Holding in September 2018, Faerch is the only fully integrated recycler in the world.

Despite a difficult year in UK and Spain, the business achieved the highest number of trays sold in a single year of 5.9b pieces. The revenue also grew to another record of DKK 2,582m which in light of the UK market contraction is considered satisfactory. With an EBITDA of DKK 565m the increase from DKK 514m in 2017 is contributed by 0.5% organic growth and 9.4% from the two acquisitions. EBITDA-margin declined from 22.7% in 2017 to 21.9% in 2018 which we are pleased with considering the headwind on polymer prices, the unit sales decline in UK, unfavourable exchange rates and a lower margin from the recycling business.

The negative margin impact should be seen in connection with the increase in polymer prices. Prices continued to increase in 2018 and peaked in October 2018. We saw the polymer prices increase by +15% during 2018 as a combination of an increasing oil price, high demand for especially recycled clear PET and during the year sudden supply shortage (force majeure at large polymer suppliers). Whilst the polymer price changes continued to be passed-through to the customer base, the time-lag in doing so, continued to experience a temporary headwind in 2018 estimated to be DKK 45m. With price adjustment passed-through during Q4 2018, the average selling prices per kilo increased significantly and 2018 prices ended at record high levels.

Two new acquisitions

Advent International became the majority owner of Faerch in August 2017. Already within the first year of Advent International ownership, Faerch has successfully acquired two new businesses. In June 2018, CGL Pack S.A.S was acquired from PSB Industries S.A.S., supporting the 2021 strategy ambitions with a strong manufacturing footprint in France. With CGL Pack, Faerch also entered into two new business segments, Healthcare and Consumer. These are two market segments with a strong and loyal customer base and segments with tractions and 1-2% annual volume growth. In August 2018 Faerch acquired 50.00002% of the Dutch recycler 3PET Holding located in Duiven. Through this acquisition, Faerch is the first fully integrated recycler which enables Faerch to truly closing the loop on PET food trays. The first post-consumer waste PET trays were recycled during 2018.



The Group's strategy 2021 which sets out clear priorities and focus areas remains unchanged. Faerch will continue to build on the success it has had over many years in winning market shares in selected markets and segments. In light of being an integrated recycler following the acquisition of 3PET Holding, the strategy will be revisited during the summer of 2019 as it is the intention to scale up the recycling technology country by country in Europe in corporation with a number of public waste organisations that have showed interest in the sustainability concept.

Looking to 2019, we remain confident that we will regain the strong volume growth momentum, strengthen the margins through price management and continue to champion cost leadership at all sites. 2019 will focus on the integration of the two acquired businesses and secure synergies are being executed according to the business plans. Product and platform innovation through research and development continues to be a key priority where Faerch in 2018 launched its 100% recyled PET material range. Looking to 2019 the product pipeline is stronger than ever being expanded with two new segments "Healthcare" and "Consumer" from the CGL Pack acquisition.

Thank you

I would like to thank our employees, the Board and Advent International for the support and trust they have shown and given the company throughout 2018. We can continue to be proud of achieving a number of new records. The performance remains strong and our ability to further excel in 2019 too is highly dependent on the engagement of our employees, their unique skills and dedication to go the extra mile for Faerch and our customers.

In 2019, Faerch celebrates its 50 years anniversary. We are excited as we built the foundation of Faerch's next 50 years with new colleagues in both France and The Netherlands.

On behalf of the Executive Management I would like to thank our employees for the outstanding achievement and hard work delivered during the 2018.

On behalf of the executive management team

Lars Gade Hansen
Group CEO

Presentation of Faerch

Growth at Faerch
Since being established in 1969, Faerch has grown to become one of the leading plastic packaging manufacturers for the European food industry, with more than 1.000 employees across six manufacturing facilities, and regional sales offices covering all of Europe as well as selected non-European countries. Faerch is owned by the private equity firm, Advent International.

Diverse product offering focused on three core product applications
Faerch focuses on selected food segments where a plastic tray is a key product differentiator and value enhancer for the food producer, retailer and/or the end consumer. We strive to achieve a leading position in methods and products designed to protect food and ensure high standards of safety and quality. We are committed to comply with and stay ahead of legislative and regulatory requirements within food safety at all times. Moreover, our deep process knowledge and wide range of products have been developed and enhanced over decades in close cooperation with our customers. As a result, Faerch can today present a strong product assortment within three distinct product applications, Ready meals, Fresh Meat and Food To-Go and from 2018 adding recycling to its business model:

Ready Meals
The market for prepared meals made for heating is experiencing strong growth. Development is driven by consumers' increasing demand for convenience, along with food producers' strive for individualisation of brands while maintaining a cost-efficient setup. This places major requirements for end-to-end competencies on tray producers such as Faerch. The ability to drive shelf impact through unique design while maintaining extreme temperature tolerances enables Faerch to grow further into Ready Meal sub-segments that historically have been dominated by non-plastic packaging materials as aluminium and cardboard.

Fresh Meat
Value added via the packaging format is changing the solution space within the market for chilled and marinated fresh meat, fish and poultry. Shelf life extension of premium meat through vacuum (skin) packaging and increased glass-clear transparency and robust sealing requirements for MAP packaging are providing an overall trade-up within this product application. The continued increasing interest in environmentally friendly materials and intelligent design supporting less food waste is shaping the agenda of both producers and consumers across all Fresh Meat categories. Local legislation and tariffs are expected to push forward solutions based on eco-friendly mono material, as MAPET® II, at the expense of older and more traditional material formats.

Food To Go
The market for convenience meals not requiring heating is a broad and diverse sum of sub segments, each requiring a different set of features to producer and consumer. Faerch remains focused on the advanced convenience sub-segments; where producer, retailer and end-consumers value innovative design, built-in convenience features as well as high quality and environmentally friendly materials. Delivering on these parameters allows Faerch to tap into the trend of busy lifestyle, where on-the-go consumption of quality food becomes an increasing part of most households regardless if the purchase takes place at an urban cafe or in a major supermarket.

Recycling
During 2018, Faerch became an integrated recycler through the acquisition of the Dutch recycling company 3PET Holding B.V. The recycling activities are performed in the 100% owned subsidiary 4PET.

4PET is engaged in recycling of Polyethylene (PET) bottles and trays. The bottles and trays are delivered to 4PET in form of bales from collection companies, where the initial sorting of the waste is completed. The recycling lines then process the bales and turn them into flakes or pellets. Sheet production for food packaging is the primary usage of the flakes and pellets.

4PET is the first company in the world which is able to recycle PET trays at an industrial scale. Installation of the line able to process PET trays was completed in the second half of 2018. The first trays have been recycled and used in Faerch trays, truly closing the loop.

Direct involvement in a recycling company enables Faerch to provide advice on all activities in the recycling chain. We are engaged with a number of national recycling organisations and retailers to increase the percentage of PET trays being recycled. Further, Faerch has launched a number of activities to promote recycling of trays.

Adding value across the entire value chain
Great packaging is not only about protecting a product, and Faerch persistently strives to add value to all aspects of the supply chain, starting with our own suppliers, to when the tray arrives at our customers and until the end customer purchases and consumes the final product. To succeed with this end-to-end perspective, Faerch is constantly collaborating with our stakeholders to optimise and develop processes and ultimately the final products. Working with NGO organisations like WRAP in the UK fighting food waste, to optimse tray stacking for automated food producers or R&D collaborations with top-film producers, are all examples of the wide span of activities in which Faerch engages on a daily basis in order to maintain and develop our position as adding value for the food industry.

Presentation of Faerch

continued

Continued investment to deliver best in class
The plastics packaging industry is constantly changing and the growing external demands require Faerch to evolve by investing in technology as well as in process and material knowledge. Factors like precision, efficiency and automation play a crucial role in achieving success.

To offer our customers the optimal solutions at the lowest possible cost, our factories, processes and people receive substantial investments to ensure the highest standards and use of latest technology. Faerch will continue to invest significant amounts every year to maintain and develop our leading position.

The right values
Value creation at Faerch encompasses more than just financial return, and is built on an ingrained sense of responsibility that permeates our organisation.

Responsibility – and in this case a shared responsibility with the customer – is central to our value model. Responsibility for the environment and the world around us is a natural and basic precondition for our work. Only on this basis are we able to meet our own requirements of being the leading and most recognised player in our industry in Europe. We want to be recognised for quality, credibility, responsibility and our ability to deliver. In this way, we can remain innovative and deliver optimal solutions, where we can combine our competencies. Responsibility is also about maintaining effective manufacturing processes, environmental considerations, production efficiency and sustainable energy supply. Faerch is fully supplied with renewable energy provided by sustainable energy sources, such as hydro and wind power plants.

Segment reporting
Faerch is producing and selling rigid plastic packaging primarily to the European food industry. Our approach to the market is based on a sales channel split, which is also the basis of our segment reporting.

Faerch operates with three different sales channels based on customers' characteristics; Industrial Food Producers, Distributors and Retailers. From 2018 Faerch became with the acqusition of 3PET Holding an integrated recycler and added the recycling segment to its business:

Food Producers
Food producers comprise our largest segment, and constitute 75% of the Group's revenue in 2018. Food producers are large-scale industrial processors within all chilled food and frozen segments (Fresh Meat, Ready Meals, and Food to go). They deliver mainly to independent retailers or own outlets. Faerch provides a full sales setup tailored to cater for this channel:

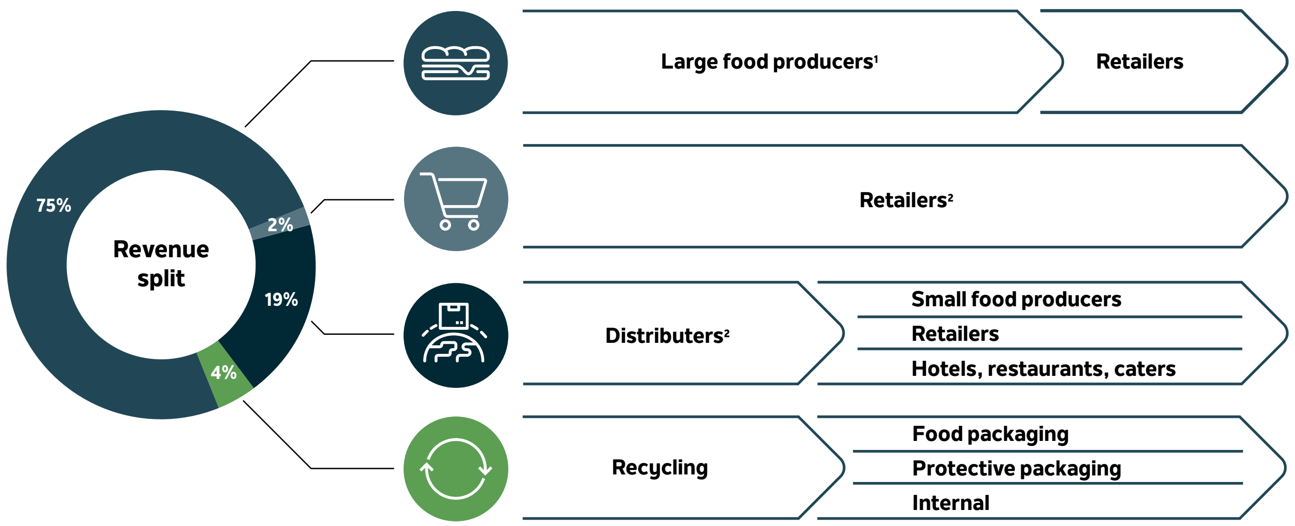
- Sales representatives focused around product applications and with clear Key Account Management responsibility
- Large portfolio of tools, which provides off-the-shelf standard solutions or can be altered to deliver a tailored solution to the individual customer
- Operational setup that allows for short lead time and dedicated stock levels if required
- Agile logistic model servicing our customers with daily deliveries when needed
- Full design and innovation team helping our customers to develop the unique packaging solution that suits their needs

Distributors
Distributors is our second largest segment representing 19% of revenue. Distributors range from full-service providers for the restaurant and catering industry carrying a wide range of utilities, to more specialised distributors servicing smaller food producers and retailers mainly with a full packaging solution inclusive tray, top film, sealing equipment etc. Faerch currently holds a strong position with select large distributors across Europe, but wishes to further expand our presence in this segment. Expansion will be driven by rolling out tailored service models building on best practices from our current sales areas incl.:

- Dedicated sales resources
- Quick response rates
- Proactive product development aimed for distributor assortment
- Standard assortment on stock

Retailers
Retailers are predominantly indirect customers through one of the above core sales channels. However, direct retail sales makes up 2% of our revenue, where we mainly supply packaging for food products, which are prepared and packed on site. Direct servicing of retailers allows Faerch to be on the forefront of innovation and customer demand, minimising dependency on any single food producer.

Recycling
Recycling is a new segment entered into with the aquisition of 4PET in 2018. Recycling represents 4% of revenue in 2018 due to the short ownership period of 4 months. Revenue from sheets sold to food packers are the main revenue generator.



1: Core distribution channel, 2: Secondary distribution channel

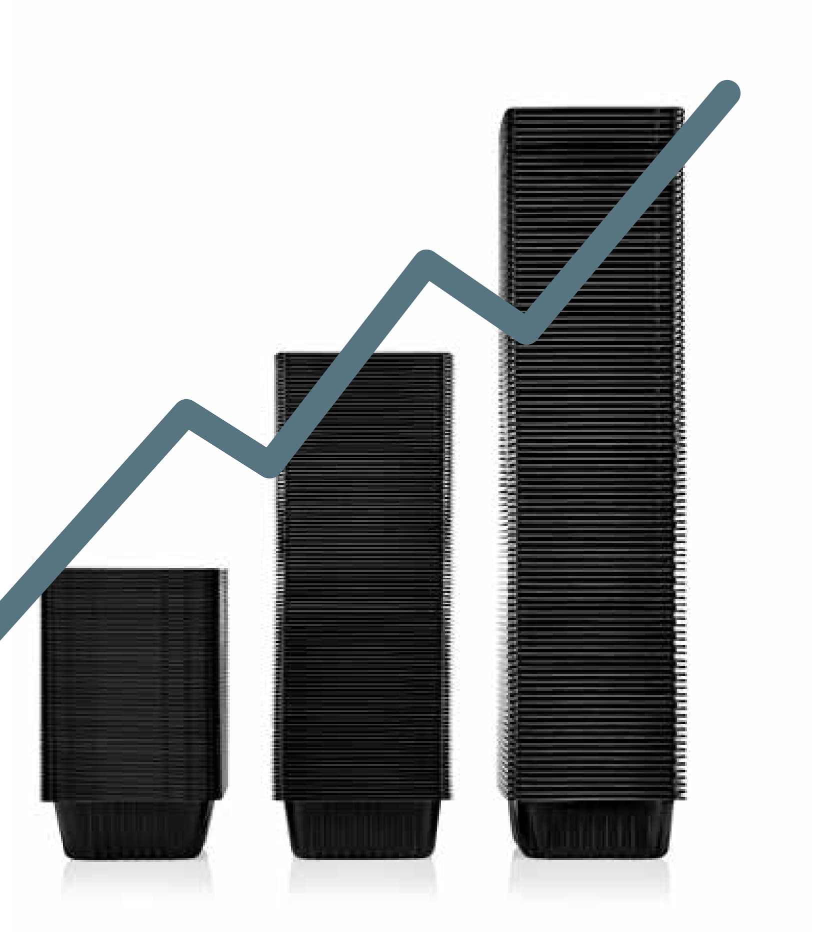
Faerch has a specialized innovation unit to maintain and constant strive for bringing new innovative material and packaging formats to the market

Our focus areas

Continued strong investments

207m

Investments to strengthen and develop cost leadership continued. In total, investments recorded DKK 207m in state-of-the-art production equipment to follow market demand, upgrade new sites and to enable further automation, which will support the Strategy 2021.



Free cash flow

50m

Free cash flow excluding acquisitions improved by a better working capital management.

EBITDA margin of

21.9%

In light of the significant increase in resin prices in 2018 combined with a lower EBIT-margin from the recycling business than the tray business, the EBITDA margin of 21,9% is considered strong.

The Group

Revenue grew by

13.9%

Continental Europe

The sales volume grew by

20.3%

The UK and Ireland

Revenue grew by

1.1%

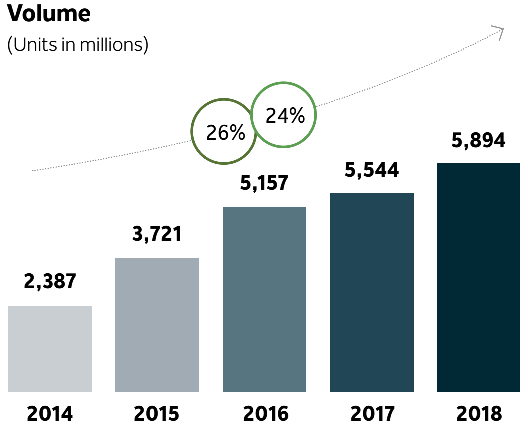
Worldwide presence

Faerch has production at 12 sites in Europe in 6 countries and sell and exports to more than 30 countries.

Financial highlights

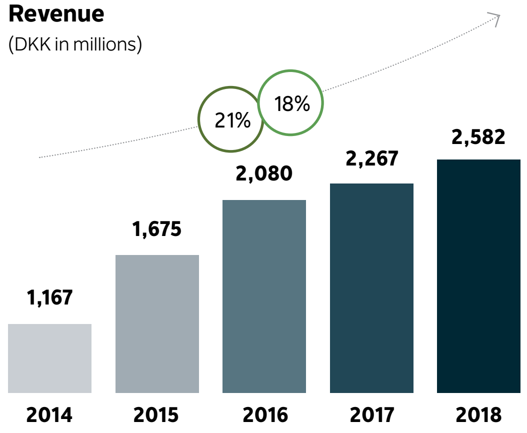
Faerch has more than doubled its business since 2014

Volume
(Units in millions)



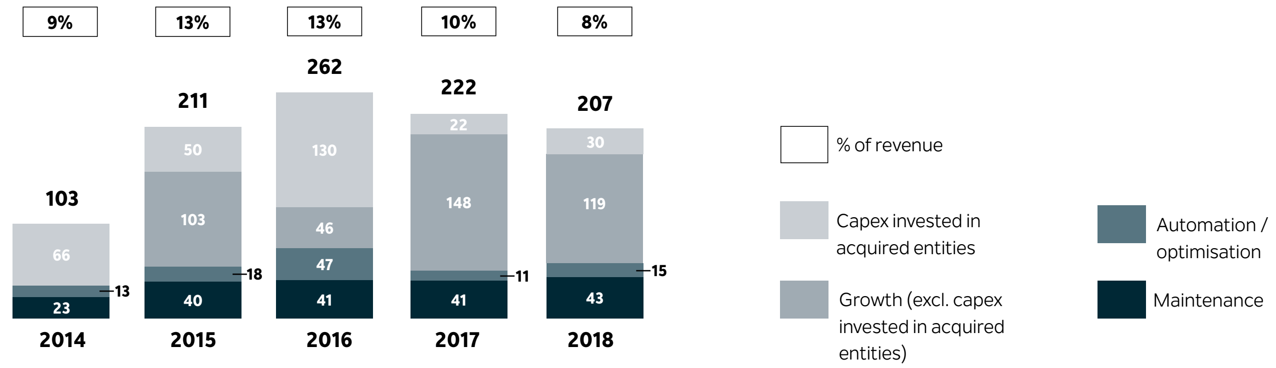
Faerch has grown from a local champion to a pan-European player with focus on the most attractive product groups of Ready Meals, Fresh Meat and Food-To-Go. In 2018 with the acquistion of CGL Pack, two new segments were added, i.e. Healthcare and Consumer.

Revenue
(DKK in millions)



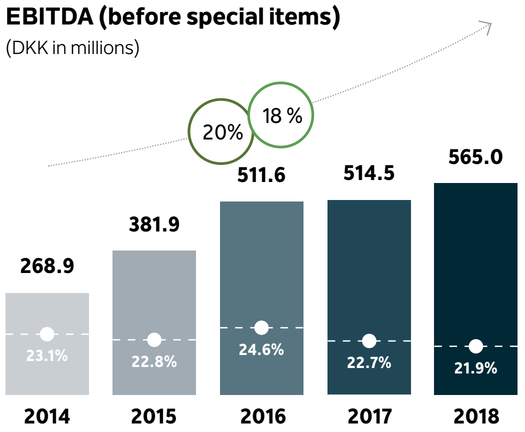
Revenue growth seen in all applications and in all markets. As the recycling business output not is measured in units/pieces the revenue growth is significant higher in percentage than the volume growth.

CAPEX
(DKK in millions)



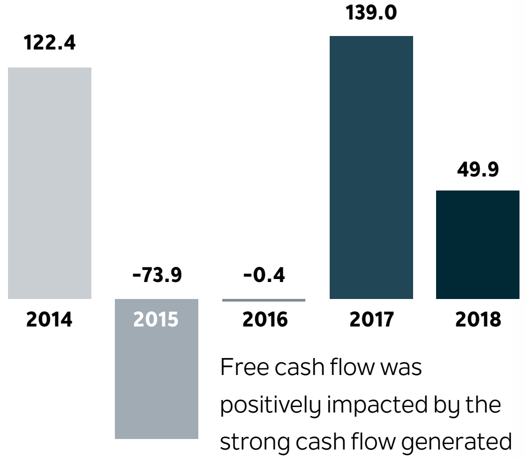
The investment level reduced to 8% of revenue and 2018 capex were mainly spent on new thermoforming capacity preparing for material conversion, new robots and other automation equipment and tooling.

EBITDA (before special items)
(DKK in millions)



Despite the significant increase in resin cost during 2018 EBITDA grew organically by 11% with the UK market negative impacted by the contracting volume. Adding the recycling business have a negative input impact on the Group margin profile.

Free Cash flow
(excluding acquistions)
(DKK in millions)



Free cash flow was positively impacted by the strong cash flow generated from the operation, offset by investments. The average trade working capital to revenue improved from 20.7% in 2017 to 20.5% in 2018.

Organic CAGR   Total CAGR   - - -O- - - % margin

Through continuous improvement Faerch strives for continued leadership in current as well as future generations of sustainable packaging and food safety

Operating and financial review

Tom Sand-Kristensen
Group CFO

Faerch is a leading supplier of rigid plastic packaging to the European food industry. It operates across Europe from twelve manufacturing facilities and five separate sales offices including three design centres located in Denmark, UK and Spain. During 2018 Faerch acquired CGL Pack S.A.S. in France from PSB Industries S.A.S and a 50% stake in 3PET Holding B.V. in the Netherlands. The acquisition of CGL Pack was closed on 28 June 2018 and the acquired business has six month impact in the Group accounts for 2018. 3PET Holding was signed on 31 August 2018 and has been consolidated for four month in the Group accounts for 2018. The 3PET Holding business has been recognised by 100% in the accounts as Faerch has an obligation to acquire the remaining 50% of the shares end of March 2020. The corresponding estimated purchase price has been included as a liability under “borrowings”.

Following the acquisitions a purchase price allocation has been prepared and part of the outcome has been additional goodwill recognised in the Group accounts of DKK 988m and intangible assets such as brands and customer relations recognised of DKK 203m.

An overview of the legal structure with the new acquired entities and with AI Roy (Luxembourg) S.á.r.l. as the ultimate owner of Faerch can be seen at page 126.

In connection with the acquisition of CGL Pack and 3PET Holding, Faerch entered into a new loan agreement, which increased the B2 facility. Part of the proceeds from the loan were used to repay the expense 2L facility. Faerch has maintained its rating with both Standard & Poors and Moody’s. The initial ratings of a “B” rating by Standard & Poors and “B3 CFR” rating by Moody’s is unchanged. Though, the outlook from Standard & Poors has been revised from “stable” to “negative” due to the higher debt following the two acquisitions.

The business continued to developed positive in 2018 recording the highest sales volume and highest revenue ever but were challenged by increasing polymer prices that continued to increase significantly. The British Sterling continued to decline following the Brexit referendum in 2016 and in light of the political and economic uncertainty going forward. In general the UK market.

A number of initiatives were introduced and executed during 2018 by the “project management office” that was established in 2017. The key projects that has been in focus were “pricing excellence”, “Sales and Operational Planning” and finally “procurement optimisation”. We have started to see the benefits from these projects in the income statement from Q4 2018. Following the two acquisitions, the project management office is also monitoring the execution of the identified synergies. End of 2018 the synergy realisation is on track despite the full ramp-up of the tray line in 4PET. Integration of the two acquired business and realisation of the identified synergies is the key priority entering 2019.

The continuous focus on factory optimization and standardisation of the Groups production platforms are paramount for Faerch to further develop and maintain its costs leadership. In 2018 especially the recipe integration with 4PET had key priority as well as planform automation at the CGL sites in Annecy and Lorient.

Income Statement
As the figures included in the consolidated income statement for 2017 reflect a period of 4 months only and is unrepresentative for the underlying performance of the business, no review of the income statement and operational performance against this period for Faerch Group A/S is provided. The review of the income statement and operational performance in this section has been compared with the full year performance of the Faerch Group in 2017. For further details on last year’s figures, reference is made to the Annual Report for Faerch Plast Group A/S for 2017.

During 2018 Faerch successfully acquired two new business, i.e. CGL Pack in France and 4PET in The Netherlands. These entities has been recognised in the income statement for their respective ownership periods of respectively 6 and 4 months in 2018.

In 2018, Faerch applied for the first time IFRS 9 “Financial instruments”. The implementation that replaces IFRS 39, has had the effect that forward exchange contracts of future cash flows are classified as hedging and consequently, unrealised gains and losses on these contracts are in 2018 recognised in equity instead of the income statement. The impact of the implementation has been immaterial in relation to recognition and measurement. As described in note 3.3 “Financial risk and instruments” Faerch only had forward contracts in GBP in both 2017 and 2018.

Operating and financial review

continued

With the acquisition of 4PET recycling (3PET Holding B.V.), Faerch became an integrated recycler. As the nature of the recycling business and the tray business is different, Faerch will going forward segregate the two business as two separate business segments. As the ownership period for 2018 of 4PET only has been four months, the impact recognised in the income statement is limited and as such only the tray business will be reviewed.

In 2018, the Group reported a net revenue of DKK 2,582m (2017: DKK 2,267m). The record revenue was due to a strong sales volume development in Continental Europe and strong sales prices in all markets. Revenue increased in all markets except for Spain where competition and material conversion from PP into PET took down sales volume and revenue. Despite the contraction of the UK market in 2018 of -5 % for Ready Meals and -1 % for the Food to Go segment, UK revenue was still increasing by 1% due to strong price management. The two acquired entities contributed combined with DKK 290m to the revenue development leaving +1% of the growth as organic. In pieces, the 5.9bn trays were sold in 2018 and organic growth of +1 %, which is below the range indicated in the 2018 Outlook of +4-5% due to the contracting UK market and the impact from Spain.

Also in 2018, the continued uncertainty on the “Brexit” impacted the business. The British Sterling continued to be volatile and weak and depreciated further by 1% on average against the average GBP/DKK rate in 2017. The depreciation was less than the prior two years but it was the third consecutive year with exchange rate headwind side for Faerch. With the further delay to 30 October 2019 for a final conclusion on the Brexit decision, the 2019 GBP/DKK exchange rate development is also expected to be volatile. Faerch decided in 2016 and again in 2017 to compensate for the declining currency and Brexit infused input costs increases through renegotiations of UK selling prices to defend margins and earnings. In 2018, the impact of these decisions was visible in the UK business with a continuous increase in revenue despite a volume decline in general for the UK market.

In 2018, polymer prices continued to increase with a peak in October 2018. Part of the polymer price increases were reciprocated through to revenues in cases where the pass-through mechanisms in the sales agreements were triggered. In organic terms, net revenue grew by +1% driven by volume growth in Continental Europe, UK price increases and pass-through mechanism mainly effective from Q4 2018. In constant currency, the growth would have been +2%, i.e. 2018 revenue at 2017 actual exchange rates.

Production costs amounted to DKK 1,862m (2017: 1,623m). Production costs per kilo increased by 6% in 2018. Production cost per kilo is a key measurement for cost leadership measuring the cost for transforming one kilo of raw material into one kilo of finished goods. The reported gross profit margin declined from 28.4% in 2017 to 27.8% in 2018 as polymer costs continued to increase in 2018 with average 13% up on 2017 levels. In the UK, input costs continued to increase and especially electricity prices saw a hike and also the increase in minimum salaries had an impact on the higher production costs. The two acquired entities accounts for DKK 264m of the increase. Finally, higher depreciations from the investments at the site also added to the higher production costs.

Sales and distribution costs amounted to DKK 383m (2017: DKK 227m). The main part of the increase of +69% is from the two acquired entities which accounts for DKK 52m. The increased sales volume required higher logistic costs, warehouse costs and customer bonuses which all increased from the higher sales activities. Also, normal salary increment and adding new resources to the sales team contributed to the increased cost base. Further, the amortisations on capitalised brands and customer relations added to the higher cost base for 2018.

Administrative costs amounted to DKK 122m (2017: DKK 97m). The increase of 26% was mainly driven by the administrative costs from the two acquired entities. Combined they contributed with DKK 17m of the increase.

Other operating income of DKK 9m (2017: DKK 25.3m) is income from realised forward contracts applied to manage the currency exposure in the UK market, gain on asset disposal, rental income and adjustment on pension obligations in France. The main reason for the decline against last year is the gain from forward contracts which in 2017 was recognised by DKK 8m and DKK 2m in 2018.

Other operating expenses of DKK 46m (2017: DKK 6m) increase by DKK 40m due to transaction costs in relation to the two acquisitions, and DKK 29m for the “project management office” mainly related to fee’s to external consultants.

Operating profit before special items was DKK 178m (2017: DKK 340m). The decline of DKK 162m (-47.6%) was due to higher input costs, and especially the continued increases in polymer prices whereby the time-lag on contractual pass-through mechanism led to a lower impact in 2018 through compensating sales price increases. The continued weakening British Sterling impacted 2018 negative as compared to last year. Increased depreciations, and especially higher amortisations from the capitalised intangible assets have a significant impact on 0perating profit before special items. Depreciations and amortisation increased by DKK 212m as compared to 2017.

Net special items (pre-tax) amounted to DKK 77m (2017: DKK 27m) an increase of DKK 50m compared with 2017. The increase in special items is attributable to acquisition costs in relation to CGL Pack and 4PET Recycling, integration costs and costs considered as “force majeure” within the polymer supplier market due to sudden shortage and abnormal polymer price levels. Also running-in costs of the new tray line at the 4PET site in Duiven has been classified as special items and amounts to DKK 8m. A more detailed breakdown of special items is included in note 1.4 of the consolidated financial statements.

Net financials amounted to DKK -260m against DKK -110m in 2017. Net interest costs were DKK -255m against DKK -91m in 2017. The increase in interest costs is due to the new funding structure following the EQT/ Advent International transaction in August 2017 and the refinancing in June 2018 in connection with the acquisition of CGL Pack and 4PET Recycling. Net other financials items were DKK -40m against DKK -2m in 2017. The increase in other financial costs is due to funding costs to financial advisors relating to the two acquisitions. Income recognised in the income statement following the adaption of IFRS 9 “Financial instruments” of DKK 2m is less than the DKK 22m recognised in 2017. Currency translation adjustments were net DKK +17m against DKK -16m last year related to the Groups positions in British Sterling.

Tax for the period amounted to DKK -5m against DKK -4m in 2017. The effective tax rate was -3.1%. The effective tax rate for the Group is impacted by non-deductible expenses related to the transaction costs from the two acquisitions and especially the interest rate deductible limitations rules increases the effective tax rate. In 2018 the transfer pricing case was settled with SKAT and the

Our results

Operating and financial review

continued

consolidated financial statement for 2018 is impacted by additional DKK 3m in tax expenses. In terms of actual payments of the corrected tax amount from the transfer pricing adjustment, this was settled in January 2019. Profit for the year recorded DKK -164m. The negative result is impacted by high special item costs, increased depreciation and amortisations, higher interest costs on the increased borrowing and finally a higher effective tax rate.

Investments
The Group's investments for 2018 increased to DKK 1,150m (2017: DKK 239m). DKK 945 of the investments is related to acquisition. The remaining investment DKK 205 is equivalent to 7.9% of revenue, which is the lowest level the last three years for the Group. The main part of the investment amount continues to be capacity investments to meet the market demand as well as automation investment at all factories to focus on cost leadership. The investments Outlook for 2018 were DKK 145m (excl. 4PET and CGL Pack) and adjusting for the acquired companies, the 2018 investment level were as expected. As at 31 December 2018, the Group had total assets of DKK 9,960m against DKK 8,674m at 31 December 2017.

Assets
As at 31 December 2018, total non-current assets amounted to DKK 8,956 an increase of DKK 1.458m against 2017. Intangible assets were higher by DKK 1,049m due to the acquisition of CGL Pack in France and 3PET B.V. in Netherlands. Tangible assets increased by DKK 397m related to the above-mentioned two acquisitions and due to the invested capital of DKK 199m. The increase in tangible assets was partly offset by assets depreciated due to the declining British Pound and furthermore from usual depreciations and disposals.

Inventories increased by DKK 119m due to higher levels of raw materials, work in progress and finished goods all related to increased business activity and higher raw material prices end of 2018. Furthermore, inventories increased due to the two mentioned acquisitions.

Trade receivables increased due to increased activity levels and higher selling prices and offset by the Group entering into non-recourse factoring in key markets. The amount of trade receivables insured under credit insurance decreased from 98.2% to 92.4% end of December.

Other receivables increased by DKK 7m in line with overall development in business activity. Prepayments decreased slightly by DKK 1m against last year.

Cash and cash equivalents amounted to DKK 36m a decrease of DKK 339m. Cash is reported on a net basis compared to 2017 where cash was reported at gross level and correspondingly borrowing has reduced by DKK 241m.

Liabilities
Total equity as at 31 December 2018 were DKK 1,100m decreasing from DKK 1,265m in 2017 due to the profit for the period of DKK -181m and DKK +16m due to currency impact. Besides the above, there were no further equity movements in 2018.

Advent International operates a Management participation program and due to the ownership structure, the program resides in the ultimate parent company. As at 31 December 2018, the management holds 13% of the share capital.

Total liabilities were DKK 8,861m compared to DKK 7,409m at 31 December 2017 meaning an increase of DKK 1,451m. The increase is mainly from the external borrowings to fund the two acquisitions.

Long-term debt increased by DKK 1,333m from DKK 3,955m to DKK 5,288m. The increase relates to the acquisition of CGL Pack and 3PET Holding with the new loan agreement entered into in June 2018.

Other short term debt
Increased by DKK 180m mainly due to reclassification of contractual obligations related to leasing contracts and

Operating and financial review

continued

steel cages (DKK 112m). Furthermore, Other Payables increased by DKK 67m due to increased business activity and the acquisitions.

Trade payables increased from DKK 269m as at 31 December 2017 to DKK 395m as at 31 December 2018. The increase in trade payables is in line with increased business activity, higher polymer prices combined with the two acquisitions.

Cash Flow

Free cash flow amounted to DKK -895m versus DKK 139m in 2017. The cash flow was negative impacted by acquisition of subsidiaries.

Cash flow from operating activities were positive by DKK 254m (2017: DKK 378m) supported by the strong organic development, but affected by higher interest cost due to the increase of loan facilities in August 2017.

The change in the working capital was DKK 44m affected by new factoring agreements on DKK 142m. Inventories increased by DKK 119m due to acquisitions of inventories in CGL Pack (DKK 45m) and 4PET (DKK 84m) and higher trading level. Trade receivables increased as well reflecting the higher activity and the acquisition of CGL Pack (DKK 74m) and 4PET (DKK 5m). The average trade working capital to revenue decreased from 20.7% in 2017 to 20.5% in 2018. The change in other net working capital items was DKK -3m mainly due to a negative development in other receivables.

Net interest paid amounted to DKK 250m versus DKK 104m in 2017. The higher interest payment in 2018 were due to the new bank facility agreement entered in August 2017 and the increase of the bank facility agreement in August 2018.

Corporation tax paid in 2018 were DKK 32m against DKK 24m in 2017.

Cash flow from investing activities amounted to DKK 1,150m for 2018. The investment in 2018 were mainly related to acquisitions. Investment in tangible assets decreased from DKK 222m in 2017 to DKK 199m in 2018.

Total financing activities amounted to DKK 696m and reflects the increase of the bank facility agreement following the acquisitions in 2018.

The Groups cash position was end of 2018 DKK -75m (2017: DKK 121m).

Volume	Gross revenue	EBITDA	Free cash flow
5.9	2.582	565	50
billion tray	DKKm	DKKm	DKKm

Outlook 2019

The Current expectations for 2019 are summarised below and reflect the Groups expectations end of 2018.

The Group Strategy that was agreed in 2016 was revisited during 2017 after Advent International acquired the majority ownership and was confirmed with some minor amendments and increased focus on product recyclability. Following the acquisition of CGL Pack and 4PET recycling in 2018, the strategy will up updated in 2019 to also include the recycling business. For 2019 the key priorities are:

Growth
Focus on profitable sales growth in UK & Ireland and in Continental Europe for the tray business and for the recycling business ramp-up the recycling volume in line with plans for sales growth. Continue to develop the business with existing customers in strongholds and accelerate growth in relevant markets, segments and geographies.

New product development
Launch new products according to the development plan to drive market share and profitability. Conversion into PET.

Cost leadership
Continue to invest, optimize and automate all productions facilities and production platforms to secure cost leadership.

Based on the above focus areas for 2019 the Group expect for 2019 to deliver:

- Organic volume growth of 4-5% for the tray business.
- Organic revenue growth higher than the volume growth for both the tray business and the recycling business
- Increasing EBIT margin for the tray business
- Financial leverage reduction

The Group has applied a DKK/GBP rate of 8.45 for 2019 (2018 actual average rate: 8.42).

The Group expects investment to approximate DKK 240m in 2019 (acquisitions are not included) and generate a positive free cash flow.

Expected investment in DKK in 2019

240m

Positive free cash flow & leverage reduced

Expected organic volume growth

4-5%

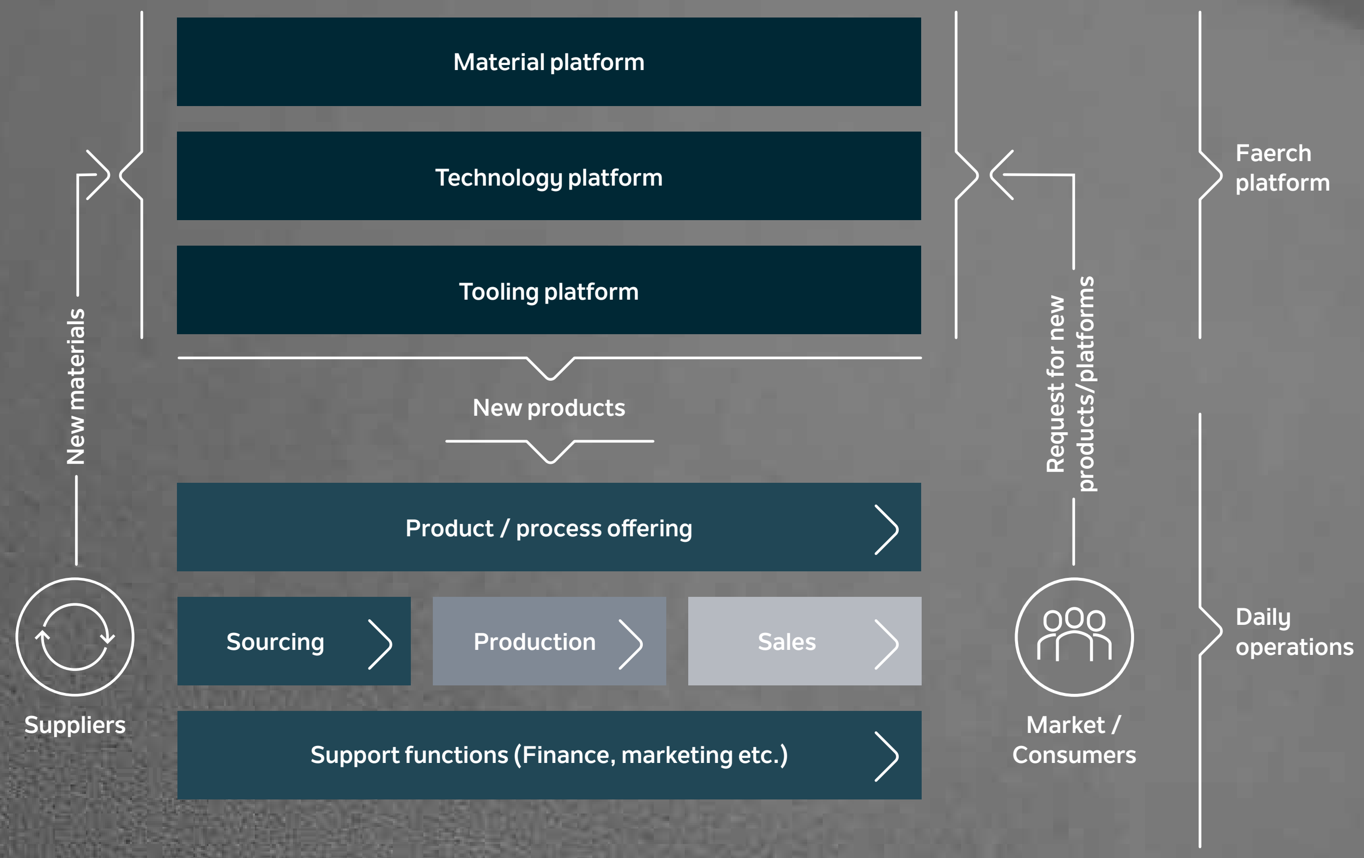
Business model

Faerch has a platform-oriented business model that drives a cost leadership position via standardisation, while providing the industry's broadest and most innovative product range to our customers. Combination of standardised manufacturing processes with a high level of operational flexibility to achieve a diverse product range, enables Faerch to provide customers with innovative quality solutions, delivered on time, and at competitive prices.

In-depth material expertise and process know-how allow optimisation and reduce material loss in the production processes. It also generates an ability to use and re-use recyclable raw materials for development of sustainable offerings across product categories. In addition, Faerch's material knowledge allows us to continue to push boundaries of our tray attributes to the benefit of customers – for example, dual color, high impact strength, 1 mm stacking height, sealing properties or glass clear transparency.

To maintain and grow our position in the market, while evolving with our stakeholders, Faerch takes a long-term approach to our own development. By competing in carefully selected markets and applications where we know we can make a difference, and by maintaining significant investments in research, quality equipment and motivated employees, Faerch is committed to staying true to our business model - our DNA.

Platform strategy at the heart of Faerch's business model



Strategy 2021

In 2016, following two strategic acquisitions and to reflect Faerch's broader product offering, we completed and started the execution of a five-year strategy plan, highlighting mid-term priorities of the new Faerch. The plan is an outcome of a six-month internal process leveraging inputs and support from all levels and functions across the Faerch organisation. The strategy plan is in many ways a logical continuation of the Faerch heritage, aiming to continue our healthy growth via a broad product portfolio tailored for attractive market segments and with an unrivaled focus on cost optimisation and process and material innovation.

Strengthen our geographical position
Our strengthened product offering in Food-To-Go and Fresh Meat, combined with our product leadership position for heated ready meal products and our ability to supply products in all leading base materials, will drive further penetration in our core western European markets as well as continue to build our position in central and Southern Europe

Our strategy will be two-folded, with the core focus on maintaining organic growth, combined with a continued screening for quality acquisition targets/partnerships for which strategic rationale is right and combined value can be realised.

Significant investment in New Product Development
With our new strategy comes an enhanced and even more explicit focus on our development work. Faerch has grown, and so has our scale facilitating the opportunity to form specialised units. Since 2016, Faerch has strengthened its full organisation to build the processes, materials and products of tomorrow. In 2018 the product pipeline were further finetuned and we enter 2019 with the strongest research pipeline in the history of the company and look forward to the expected added value delivered by both internal as well as partnering projects.

Continuous focus on cost optimisation
Driving cost improvements is a deeply embedded part of Faerch's way of operating, and our technology and operational teams possess significant experience in developing and delivering on cost improvement targets. In the coming years, Faerch will continue to invest significantly back into the business, for which a number of the identified projects will deliver cost optimisation and lowering of the overall loss of resources. Further automation across the production chain, leveraging the newest robotic technology and Faerch best practice process principles, will contribute with savings in line with historical achievements.

A crucial part of "Strategy 2021" is the continued efforts of bringing and maintaining our newly acquired production sites to the Faerch Group standard for production. This journey started in 2015, and since then a significant amount has been invested based on Faerch expertise, in combination with the deep knowledge of the local teams. We are pleased to see that at end of 2018 we are on track for delivering optimisation to all our new sites including the two sites added in France, and we look forward to continuing these efforts and gain from the full potential in the coming years.

Business risk

Introduction and Background
In 2017, Faerch Group established the Risk Management program and the program is designed to identify and assess the likelihood of risks arising across the Group's core activities within primarily Procurement, Operation and Sale.

For 2017, Faerch Group has selected 10 top risks that require management and monitoring throughout 2018 and going forward.

Executive Summary
This report on Risk Management is the first regular report that is provided by Group Legal.

The report covers a period of approximately 12 months. Due to the relatively short period elapsed since the establishment of the Risk Management program at Group Faerch, there are relatively few changes to the overall risk profile and the significant individual risks facing the organization of Group Faerch.

Since the establishment of the Risk Management program and the identification of the selected top 10 risks, no significant shifts in the overall risk exposure of Group Faerch has come to the attention of Group Legal.

Furthermore, the attention is drawn to the fact that no major 'risk event' has occurred during the period covered by this report and that the proposed mitigations are followed according to plan.

Reviewing the Portfolio of Top 10 Risk
Faerch Group's risk policy focuses on maintaining a medium-low and predictable profile for all its risks. The developments in Faerch's top 10 risks are reported in the below table (see last column). In 2019, the Divisions and key managers will have continued focus on the top 10 key risks and the continuation of key risk identification in co-work with the Risk Committee. In this respect, two new key risks have been selected for 2019.

The board
Overall responsible for corporate strategy, governance, performance, internal controls and risk management.

Audit committee
Review effectiveness of the risk management framework and internal controls on behalf of the Board.

Group executives
Management of the business and delivery of strategy.

Risk committee
Group Legal is responsible for the overall Risk Management program.

The divisions & key managers
Responsible for implementation of risk mitigation actions and monitoring compliance with internal controls and procedures at the operational level of the business.

Review the Risk Management program to identify risk trends and recommend actions.

Delivery of project level risk management activities.

Area of risk	Description of the risk	Mitigation	Developments in 2018
1. **Ability to source enough and the right raw material (volume)** Procurement	The demand for Faerch's key raw materials is tight, not only in Europe but also globally. PP & PET resins are stretched as the global economy grows approximately 2-3% pa, with little additional capacity coming on stream in the short/medium term. rPET material has become short in supply as the demand for recycled materials increases at a faster rate than any additional capacity are being added to market. Investment in recycling plastics has not been commercially attractive since the PET resin price fell, following significant resin plant investment in 2014 and the crude oil prices drop in 2015. The post-consumer PET recycling industry is still relatively young, and historically little pressure on the bottle industry to use recycled materials. In 2017, this began to change and the momentum to use recycled materials in bottles is increasing rapidly now making the ability to source enough and the right rPET even more difficult. Post-consumer recycling of 'Pots, Trays & Tubs' (PTT's) is currently very small, with the majority of the PTT's volume going to export markets like China, or to energy from waste (incineration). The recycling of PTT's is developing slowly, and Faerch must engage in this process & technology to develop suitable recipes and products.	Contracts have been entered into with the majority of key suppliers to secure Faerch the necessary volumesfor 2018. More dual and multiple-sourcing is in place for 2018, and Faerch is becoming less dependent on PP supply. In 2018, searching for new supplierswill be ongoing, both with resin and rPET suppliers. In 2017, some new raw material suppliers were approved. In 2018, this will be accelerated to approve more suppliers. Faerch's technical department are working with suppliers to develop new recipes to enable widening of the supply base. In 2018, Faerch is investigating closer working relationships with key raw material suppliers of rPET and possible acquisitions of suppliers.	During 2018, Faerch has entered into additional supplier contracts to secure additional rPET volumes. Overall, this means that the expanded supplier base for rPET suppliers now are more than 10 suppliers to ensure sufficient and the right raw material supply during high seasons. The acquisition of the Dutch 4PET Group, a leading recycling and sheet manufacturer, has led to Faerch becoming one of the world's first integrated plastic packaging suppliers to achieve a circular economy for recycling food trays on an industrial scale, turning plastic packaging into a resource and help secure Faerch's ability to source enough and the right raw material. By integrating 4PET's process and recycling knowledge into Faerch platform, Faerch is in a unique position, hence we are now in control of the entire value chain from securing the right feedstock, processing, recycling, extrusion and thermoforming. In 2019, the key objective is to maintain and continue the positive development to ensure Faerch's ability to source enough and the right raw material. In addition hereto, Faerch will introduce a buy back program for PET bottles and trays to retailers in the UK. 1 2 3 4 **Responsible** Procurement **Reviews** Half-yearly updates **Strategy** Reducing risk (going from 2 in 2017 to 1 in 2018)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
2. **Major failure on utilities** Operation	Faerch face the potential risk of operations being affected by disruption due to utilities failures. The loss of essential utility services could have a significant impact on Faerch's ability to service its customers.	Faerch ensures that alternative sources of supply are available (where possible). In 2018, Faerch's focus will be on redundant (back up electrical supply for server rooms and planned preventative maintenance programs to ensure redundant capacity are installed on most of the utilities such as electrical power and compressed air supply.	During 2018, most of the operational risks are managed within the sites and through the on-going implementation and/or updates of different redundant capacity such as back-up generators for server rooms and local arrangements with electricity companies in the event of catastrophic power failures. All sites have ensured that proper Planned Preventative Maintenance (PPM) systems are in place for air, cooling compressor and transformers. In 2019, a key objective is a continued focus on getting redundant equipment on all critical utilities areas on all sites. 1 **2** 3 4 **Responsible** Operation **Reviews** Half-yearly updates **Strategy** Reducing risk (going from 3 in 2017 to 2 in 2018)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
3. **Purchased Material – Failure** Procurement	Faerch's reputation as a quality business partner relies heavily on its ability to supply quality products on time and in full. The supply of faulty or contaminated products, especially within the food industry, could have serious consequences. The probability is low, however as mentioned above the consequences and economic impact could be high.	Faerch employs strict control measures to ensure the safety and quality of products that are manufactured. In 2018, Faerch's procurement team will carry out more internal reviews of critical suppliers. In addition, Faerch's procurement team will update internal and external procedures of supplier audits to ensure adherence and that control systems are working effectively. The so-called 'Supplier Approval Process' will also be updated to ensure that Faerch's supplier standards are not compromised as new suppliers deliver raw materials to Faerch. Furthermore, Faerch will review and update internal procedures to ensure that all raw materials delivered to Faerch comply with product specification. Faerch has also the appropriate insurances in place to cover product liability.	In 2018, Faerch has updated its 'Supplier Audit Control System' to ensure that Faerch's suppliers have continuous focus on quality and safety regarding the products manufactured for Faerch. Faerch has also conducted internal reviews on a number of critical suppliers and identified potential weaknesses are being handled with appropriate actions. Faerch has implemented internal quality procedures on selected suppliers and all suppliers must submit technical specification before delivery of raw materials to Faerch. In 2019, a key objective is to conduct more audits on key suppliers. 1 **2** 3 4 **Responsible** Procurement **Reviews** Half-yearly updates **Strategy** Reducing risk (reducing but still rated as 2)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
4. Reputation of Plastic (in UK and in general) + CPET (black tray) Sale	Plastic is an important material in our world and daily lives. However, the reputation of plastics is challenged because plastics are often produced and used in a circular approach that harms the environment (not recycled). Such reputation factors can change customers' preferences and perception to plastics and packaging trends, which can affect demands.	In 2018, Faerch will lay the foundation to a new plastics strategy where all of Faerch's designs and productions of plastic trays can be reused. More recycling (cradle-to-cradle) and sustainable materials will be developed and promoted. In addition, Faerch will take a leading position on plastic packaging recyclability with the focus on 'closing the loop', and proactively influence the industry and marked by an offensive effort. Faerch actively monitoring the economic environments in which it operates and patterns of demands.	The acquisition of 4PET Group is Faerch's answer in closing the loop for PET trays and leading the way towards a sustainable circular economy. Faerch is becoming one of the world's first integrated packaging suppliers to recycle PET trays on an industrial scale and transform used trays into raw material for new food contact products of the same quality. With 4PET's bespoke technology, 4PET has achieved a break-through in sorting and processing PET of any color including black. This will allow us to offer 'tray-to-tray' solutions on an industrial scale and provide a safe and sustainable choice for the food industry. In 2019, a key objective is the on-going development of Faerch's new plastic strategy and to further strengthen this, Faerch is looking for a new Head of Communication & CSR to provide content, stories and campaigns on key topics such as circularity, sustainability and recycling. In 2019, Faerch will also initiate the process of replacing all carbon black-based colors of CPET Ready Meal in the UK. 1 **2** 3 4 **Responsible** Sale **Reviews** Half-yearly updates **Strategy** Reducing risk (going from 3 in 2017 to 2 in 2018)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Risk management

Area of risk	Description of the risk	Mitigation	Developments in 2018
5. Major breakdown on machinery Operation	Faerch faces the potential risk of operations being affected by disruptions due to major breakdown of machinery. Major breakdown of machinery could have significant impact on Faerch's ability to service its customers.	In many cases, Faerch has ensured that it will be possible to manufacture products from another site within the Group. In addition, all sites have established procedures to ensure business continuity in the event of a major breakdown of machinery. In 2018, Faerch will further strengthen this area with planned preventative maintenance programs on the capacity and to ensure that critical spare parts are in stock (at least within Group sites). In case of major breakdown on extruders, Faerch has already purchase arrangements for sheets in place with several suppliers.	All sites have Planned Preventative Maintenance (PPM) programs in place for thermoform machines and extruders and all machinery has been serviced according to plan. Another focus area is the continuous monitoring of Faerch's spare part stock that contains recommended spare parts from all suppliers of machinery. In 2019, Faerch will have an ongoing focus on safeguarding critical spare parts. 1 **2** 3 4 **Responsible** Operation **Reviews** Half-yearly updates **Strategy** Reducing risk (going from 3 in 2017 to 2 in 2018)
6. RansomWare and other cyber attacks IT	Ransomware is a real threat to Faerch, and potential exposure to this kind of attack is current and can result in major business disruption and loss of data.	Mitigate the risk by implementing a web-filtering solution. In the first quarter of 2018, Faerch will test potential web-filtering solutions. The solution will help identifying infected machines (which are not detected by antivirus), and proactively identify IT-systems with high exposure level to future infections.	In first quarter of 2018, the required web-filtering solution was implemented as planned. Since, Faerch has gained much value utilizing the improved protection from the new web-filtering solution. Estimated risk reduction per 31/1-2019 is 70 % compared to 31/1-2018. In particular, the improved protection from Internet based threats and better vulnerability management are the main contributors to the significant risk reduction. 1 **2** 3 4 **Responsible** IT **Reviews** Half-yearly updates **Strategy** Reducing risk (going from 3 in 2017 to 2 in 2018)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
7. **Key Employees** Procurement Operation	Faerch has long established relationship with key employees. In the short term, the loss of any one of these employees could affect the business.	In 2018, Faerch will strengthen formal procedures to ensure that employee knowledge is well documented and filed. In 2018, Faerch will develop and strengthen the procurement team.	In 2018, the procurement team has been strengthened with a category manager and a procurement director. In 2019, the procurement team will continue to be strengthened to ensure the organization is able to meet future demands for competencies, including knowledge within bale procurement for raw material production at 4PET. All sites have procedures in place for identifying and training key personnel and some sites go further and have developed a 'leaned lesson' tool in order to get all critical knowledge written down. In 2019, Faerch will have an ongoing focus on expanding the 'learned lesson' tool throughout the organization and on ensuring a more agile organization that is able to work across different departments/sites. 1 2 3 4 **Responsible** Operation & Procurement **Reviews** Annual update **Strategy** Reducing risk (reducing but still rated as 2)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
8. **Logistic** Procurement	The delivery to the customers are the final part of Faerch's supply-chain process.	In second quarter of 2018, Faerch will review the service level requirements. The future supplier(s) will be more cost effective and need to introduce improved tracking systems to enable tracking by pallet to final destination. Furthermore, a process will be established to monitor and audit external warehouse service level.	During 2018, Faerch has entered into new long-term logistic service contracts for Europe and UK with leading logistic suppliers. Together with the logistic forwarders, Faerch's procurement team is involved in the day-to-day logistic business to provide a deeper understanding of potential market risks and how to manage and mitigate the specific challenges of today's road transportation (e.g. fleet safety, cargo damage, claim administration, compliance and regulations). 1 2 3 4 **Responsible** Procurement **Reviews** Annual update **Strategy** Reducing risk (reducing the risks but is still rated as 1)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
9. **Fire -** **On sites + external warehouses** Operation	The risk of fire represents a significant physical risk to Faerch and the impact of a major catastrophe of this nature could be considerable. The health and safety of our employees is the number one priority at all of Faerch sites and warehouses. The impact of a fire may result in major loss of stock and/or production area.	All sites have fire prevention (sprinklers and smoke detectors), which are regularly inspected by both internal and external specialists in order to drive Faerch's sites to best practice. Most of our external warehouses have also sprinklers and smoke detectors. 'Health and Safety' audits are regularly performed, in conjunction with internal and external specialist, to drive sites to best practice. All necessary insurances are in place and Faerch follows to a great extent the recommendations stated in the technical site reports conducted by Willis Towers Watson.	The overall aim of fire safety management is to identify and implement fire risk control measure with the aim of preventing fires, saving lives and preventing business loss. During 2018, a number of preventative measures have been taken to avoid fires. For example, Faerch has installed several new fireproof doors and gates in order to prevent a potential fire from escalating. The focus for 2019 is ongoing fire risk assessments and to carry out frequent inspection patrols to ensure continued safe practices and that good house-keeping is employed, e.g. fire doors remain closed, safe storage, safe waste arrangement etc. All necessary insurances are in place and renewed for 2019. 1 2 3 4 **Responsible** Operation **Reviews** Annual updates **Strategy** Reducing risk (reducing but still rated as 1)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Area of risk	Description of the risk	Mitigation	Developments in 2018
10. **Resin Pass-On Mechanism** Sale	Faerch is exposed to economic risks in relation to the movement of the raw material prices. Typically, sales prices are adjusted at fixed intervals (mainly every quarter) based on the average raw material index development.	Today, over 75 % of Faerch's customers are contractual regulated by a raw material price adjustment provision. In 2018, Faerch will review the contractual raw material price adjustments and consider relevant changes to get balanced and optimized approach.	In 2018, Faerch updated all its standard sale templates including the raw material price adjustment provision to reflect the price development of raw material to a greater extent and thus Faerch's exposure to raw material increases. With the 4PET acquisition, Faerch has also eliminated part of the input cost exposure on rPET. 1 2 3 4 **Responsible** Sale **Reviews** Annual updates **Strategy** Reducing risk (going from 3 in 2017 to 2 in 2018)

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Business risk

continued

New Key Risks for 2019

New risk for 2019	Description of the risk	Mitigation	Risk level assessment
11. **BREXIT** **Sale** **Operation**	Following the decision of the United Kingdom to leave the European Union, there is unfortunately still a significant amount of uncertainty about the overall impact of Brexit.	Since 2016, Faerch has prepared a worst-case scenario following Brexit. Faerch has established a special risk committee to manage and monitoring the developing of Brexit. All three UK sites has built up maximum stocks to withstand the first impact of a possible hard Brexit. In 2019, Faerch will continue the evaluation on how Brexit could affect the business and mapping out the potential risks and opportunities.	1 **2** 3 4 **Responsible** Sale & Operation **Reviews** Half-yearly updates **Strategy** Reducing risk
11. **Single-Use Plastic (SUP) Directive** **Sale** **Operation** **Group Legal**	The purpose of the SUP Directive is to reduce the amount of plastic waste on beaches and in the ocean. According to the SUP Directive some plastic products will be completely banned such as plastic cotton buds, cutlery, plates, straws, drink stirrers, sticks for balloons, products made of oxo-degradable plastic and food and beverage containers made of expanded polystyrene For other products (primarily take-away food containers made of plastics and plastic cups for beverage), the SUP Directive focuses on limiting the use of these products through i) a national reduction in consumption, ii) awareness campaigns, iii) design and labelling requirements and finally iv) waste management/clean-up obligations for producers. The new SUP Directive will probably enter into force during first half of 2019. Hereafter each Member State will have two years to bring the SUP Directive into force on a national level. This means that the SUP Directive probably will become effective throughout EU by Mid-2021.	The SUP Directive implementation on a national level is still in a very non-concrete stage and no impact conclusions towards Faerch can be made at present. In 2019, Faerch will follow the development of the SUP Directive closely and how the directive will be implemented at national level in EU. This work will happen in co-work with associations and different authorities, e.g. the Danish Plastics Federation, PlasticsEurope and the Danish Ministry of Environment and Food.	1 **2** 3 4 **Responsible** Sale, Operation & Group Legal **Reviews** Half-yearly updates **Strategy** Reducing risk

Risk Rating 1: Most Unlike 2:Unlikely 3:Likely 4:Most Likely

Financial risk

Faerch's financial risk relates to:

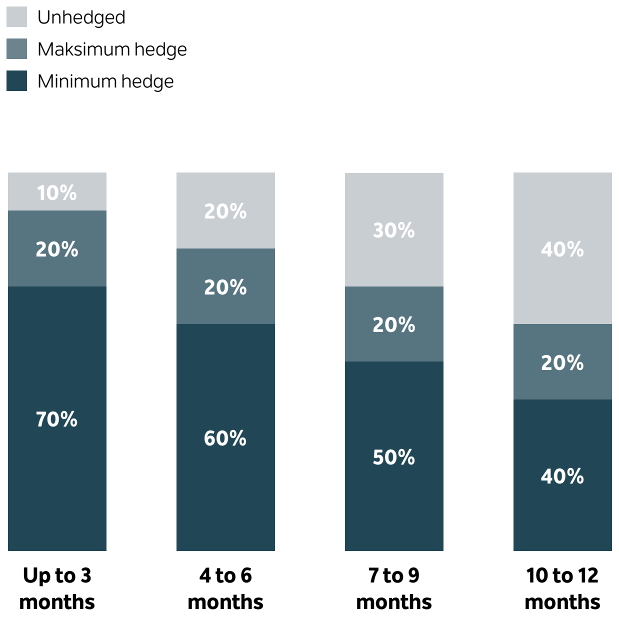
- Currency
- Interest rate
- Credit risk
- Liquidity risk
- Tax

The Board has approved the Treasury Policy at the end of 2018, which covers the risk exposure related to currency, interest and credit. The policy is reviewed minimum once a year. The Group's CFO is responsible for the Treasury Policy and the Treasury Department is responsible for the daily management.

Currency Risk
The reporting currency is Danish Kroner, which is closely linked to the Euro within a narrow range of +/- 2,25%. However, a large part of the Groups invoiced sales are in British pound.

British Pound
The Group has a surplus of approximately GBP 60 million yearly. Exchange rate movements in relation to the GBP is considered the company's biggest financial risk.

Descending hedge ladder methodology



Before entering a financial year, the Group forecast the expected net GBP exposure the coming financial year.

The expected net GBP exposure will be recalculated three times the following financial year, and immediate if any events should occur that would have a significant impact at the forecast, i.e. like a Brexit.

To manage the exchange risk of the net GBP exposure, the Group use the following descending hedge ladder methodology.

Entering into a new financial year the Group can according to the treasury policy have an unhedged GBP exposure of GBP 27 million (45%). A 5% +/- change in the GBP/DKK exchange rate will affect the Groups result by DKK 11.5 million.

Other currencies
The FX risk related to other currencies is considered low, as no other currency contributes more than 0.5% of the Group's total turnover besides DKK and EUR.

Interest rate risk
Faerch is exposed to interest rate risk, as the Group borrows funds at variable rates of interest. The risk is monitored by Faerch and hedging is applied in accordance with the Treasury Policy.

In accordance to the Treasury Policy, the Group's total debt (Senior and subordinated) must be hedged at a minimum of 50% for a future period of minimum three years.
In 2018 the Group entered into new loan agreements and at the end of 2018 the Group has hedged 68% of the loans for a two year period. All new loans and Interest Rate Swaps has been executed by Faerch Bidco ApS, as Faerch Bidco ApS also is the counterparty to the external debt.

For the remaining unhedged debt (32%), an increase on

100 basispoints in the floating interest rate will affect the Groups interest cost with DKK 14.2m.

The Group's mortgage loans are hedged to a fix rate or with a cap. 84% of the outstanding principal has been hedged.

At the end of 2018 the value of the interest rate hedges was DKK -7.8m, reflecting the fixed rate on the hedges is higher than the fixed market rate.

Credit risk
Further information in note 3.3 (see page 109)

Liquidity risk
Further information in note 3.3 (see page 110)

Loan Covenants
The Group entered into new loan agreements in August 2017. The Group has complied with all covenants in the bank agreement, that was fully settled on 23 August 2017.
The new loan credit facilities are not subject to any financial covenants. However, the Groups revolving credit facility (RFC) is subject to a springing senior secured net leverage covenant of 8.66x. This covenant will be tested quarterly only if RCF is at least 40% drawn. During the reporting period the revolving Facility has been drawn more than 40%.

End 2018 the Groups senior secured net leverage ratio was 6.6x.

Tax
By operating business globally, transfer pricing disputes with tax authorities may occur. Faerch's policy is to pursue a competitive tax level in a responsible way, which means paying relevant tax in jurisdictions where its business activity generates profit. To manage uncertainties regarding tax, Faerch has transfer pricing agreements on market terms.

Leverage of
6.6x

Debt with fixed interest
68%

Risk management

Internal control and risk management

The Board of Directors and management are responsible for ensuring that the structure and control systems in the Group are suitable and function satisfactorily. The Board of Directors regularly assesses the overall and specific risks associated with the business and operation, and seeks to ensure that such risks are managed in a proactive and efficient manner.

A detailed annual planning and budget process has been established and variances are monitored on a weekly and monthly basis. This includes particular attention to development in sales and earnings. To ensure high quality in the financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting including follow-up on variance from budgets and use of Group accounting policies and reporting instructions to secure alignment and transparency within the Group.

The responsibility for maintaining sufficient and efficient internal control and risk management in connection with financial reporting lies with the Executive Board. The Board of Directors has assessed the Group's existing control environment and concluded that it is adequate at the current stage in the company's development.

We are committed to make a difference applying the principles of a true closed loop by taking ownership on actual recycling

Achieving circularity in food packaging

Sylvain Raux
Director of Group Sustainability and External Affairs

In recent years, concerns about global challenges have increased. This has given rise to a debate about plastic packaging. As a responsible company producing packaging we are not only obliged to produce and recycle in a sustainable manner but also to provide the public and consumers with fact-based and objective information. This includes difficult and complex questions like: “What is the best material for food packaging”?

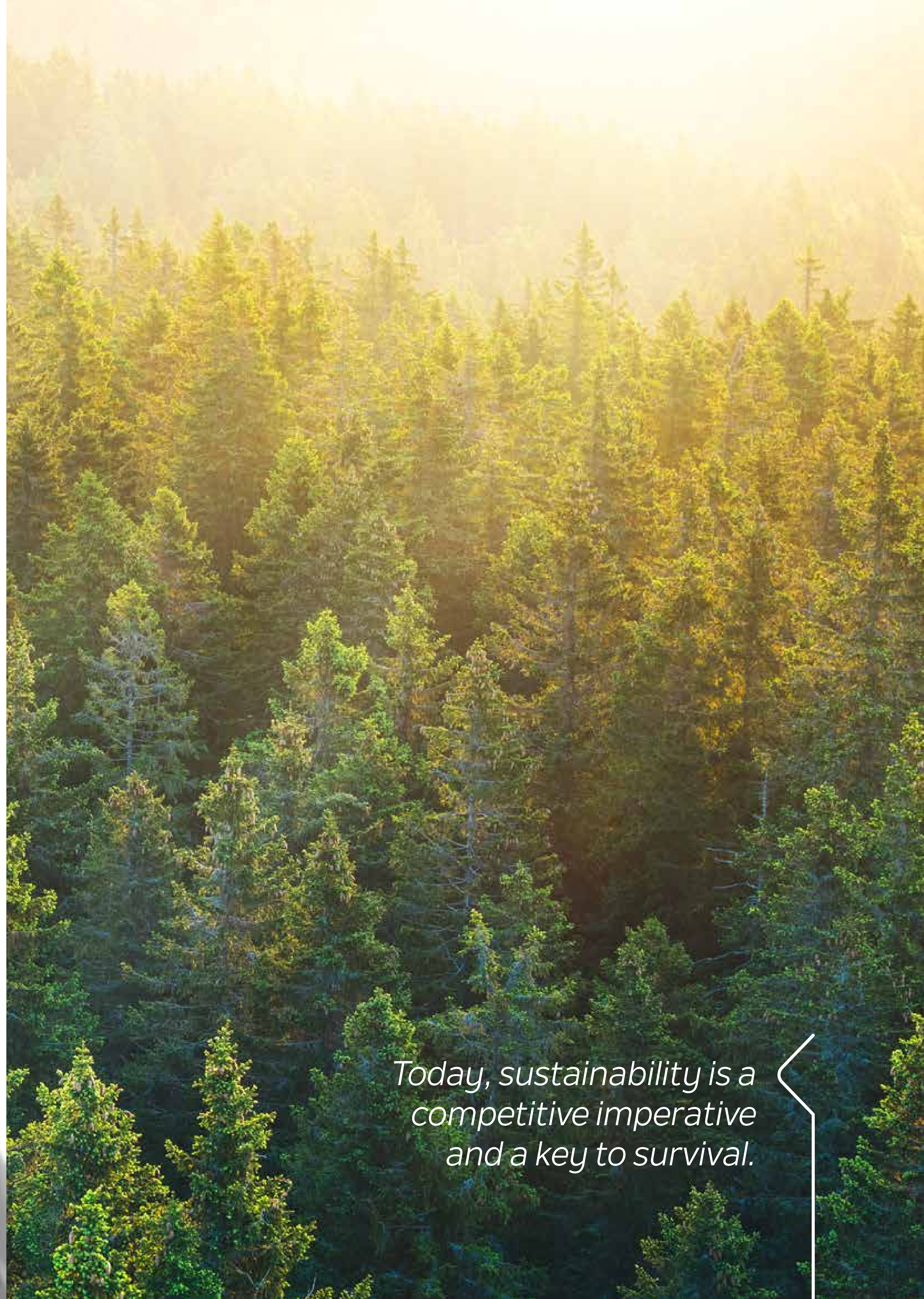
Customers expect food suppliers to make sustainable environmental choices. Food packaging should keep products safe and fresh. It should reduce food waste as well as environmental impact. As a leading manufacturer of plastic packaging for the food industry, we are committed to make a positive difference and to raise the standards of sustainable food packaging.

Today, sustainability is a competitive imperative and a key to survival. But at Faerch, it is not something new. It has been embedded in our corporate strategy, daily operations and priorities for years.

To create change we need to focus on sustainability-driven innovation. And we need to bring innovation closer to the market. In July 2018, we acquired the Dutch recycling company 4PET. With the acquisition, we succeeded in integrating a circular economy in which materials flow in a “closed loop”. We are now able to sort and process disposed PET trays of all colours, and to transform them into raw material for new food contact products. In other words, we have achieved 100% recycling of the same material, for the same use, turning used food trays into a valuable resource rather than waste.

On the following pages, you will read about our 2018 activities and progress across our five focus areas. Naturally, there is still room for improvement. And that is why we continue to challenge our approach to sustainability. However, we are convinced that we are on the right path and I am looking forward to continuing the journey and to pushing the boundaries even further.

Sylvain Raux
Director of Group Sustainability and External Affairs



Sustainability governance structure

Sustainability is one of Faerch's core values and we operate with responsibility, integrity and fundamental respect for labour rights, environmental and climate consideration, principles of anti-corruption and fair competition.

We support the principles of the UN Global Compact, OECD's Principles of Corporate Governance, the UN Sustainability Development Goals and recognised best practice.

Managing performance
To ensure continual progress towards our sustainability goals, Faerch has a formal sustainability governance structure that sets a clear framework for our priorities, roles and responsibilities. The structure provides a solid foundation for developing and anchoring our sustainability strategy and targets across the Group, and it ensures that sustainability is embedded in our long-term, corporate strategy, daily operations and priorities.

The governance structure is divided into four levels: The executive management level, business unit level, regional level and local level. Through policies, standards, management systems, procedures and risk management, we ensure that sustainability is truly embedded throughout the entire Faerch Group.

Executive management level
- Setting direction for the comprehensive long-term work related to Faerch's sustainability development.

Business unit level
- Resource allocation to enhance continuous sustainability development in the individual business units
- Reporting on non-financial data.

Regional level
- Specific focus areas supporting Faerch's ambition levels and priorities
- Stakeholder engagement and collaboration.

Local level
- Implementation of concrete initiatives and improvements in line with the Group's overall long-term plans and vision.

Assessing our areas of priority

Faerch operates in a constantly changing world, and we need to be aware of and react to the external changes that can impact our business. Assessing materiality helps us identify and prioritise the sustainability issues that matter the most to our business and stakeholders. And it helps us channel our resources and activities to the areas where we can have the strongest impact.

In 2018, we conducted a re-evaluation of our materiality assessment from 2016 that identified our main economic, environmental, ethical and social impacts. The assessment engaged both external and internal stakeholder groups. The materiality matrix below shows the 14 most important issues that were identified, their relevance to our stakeholders, their influence on our business, as well as their link to the UN Sustainable Development Goals. We still believe that these 14 issues are relevant and important to Faerch today, and they therefore continue to form the basis for our defined 5 focus areas.

Our key stakeholders

- Our customers (food producers, distributors and retailers)
- NGOs
- End-users
- Employees
- Local communities

Our 5 focus areas

Based on the materiality assessment

- **Sustainable packaging**
- **Food safety**
- **Responsible operations**
- **People & organisation**
- **Business ethics**

Our focus areas & ambition levels

Our planet is facing severe economic, social and environmental challenges. Holding a leading position within plastic packaging and recycling for the food industry, we need to take responsibility and define priorities and actions for our business, today and in the future.

Based on our materiality assessment, we have identified 5 main focus areas that are material to our business. These are directly linked to 5 UN Sustainable Development Goals where we believe we can create the biggest impact.

For each focus area, we have established a long-term level of ambition supported by actions. Our ambition is to be the leader in sustainable packaging and food safety. Each focus area has defined KPIs supporting our long-term ambition and sustainable development.

Sustainable packaging

Be the leader in "closing-the-loop" and plastic recyclability

13 CLIMATE ACTION
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Food safety

Be the leader in methods and products, which protect food, extend shelf life and reduce food waste

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible operations

To minimise CO2 emissions from own activities

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
7 AFFORDABLE AND CLEAN ENERGY

People and organisation

To secure workplace with focus on employee development

8 DECENT WORK AND ECONOMIC GROWTH

Business ethics[1]

To ensure orderly and responsible business practice

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Level of ambition
LEAD
"To lead" means we will create competitive advantages and market differentiation through innovative and sustainable products.

Level of ambition
DEVELOP
"To develop" means we will strengthen and ensure our position and good practice by being a responsible producer and company.

Level of ambition
COMPLY
"To comply" means that we will adhere to legislation and applicable standards within responsible and ethical business practice.

[1] The focus area "Business Ethics" is covered in section "Governance".

The UN Sustainable Development Goals

In 2015, the United Nations drew up a roadmap for peace and prosperity for people and the planet, now and in the future. This resulted in 17 Sustainable Development Goals (SDGs) that represent an unprecedented opportunity to take sustainability to a new level.

While we support all the SDGs, we focus our efforts on the goals and targets that are the most important to our business and where we believe we can make the most meaningful contribution. As we move forwards, we will continue to add actions and initiatives to support the SDGs.

Our priority SDGs

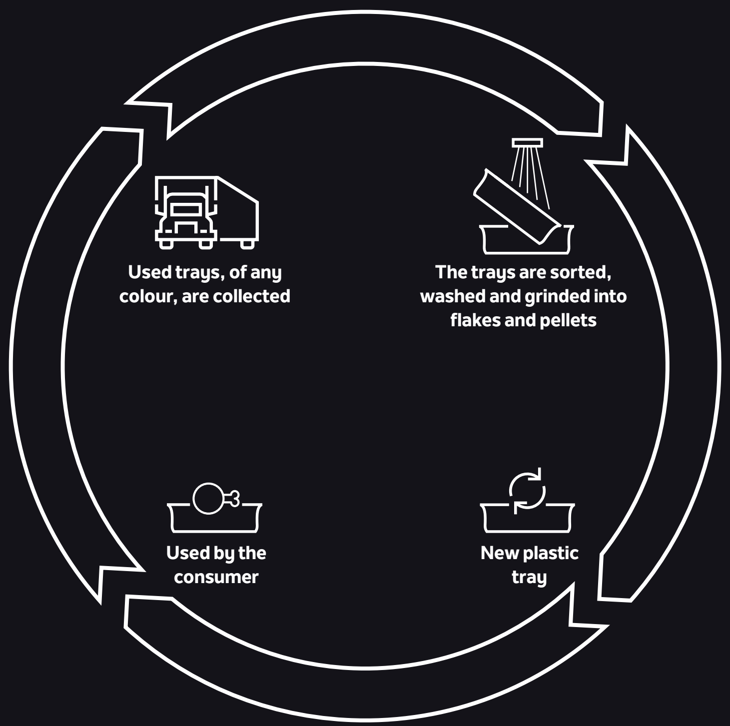
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

Closing the loop on food trays

Large quantities of plastic waste end up in oceans and landfills causing significant economic and environmental damage. Public concerns are growing, and it is time to change. We need to rethink the way we design, produce and dispose of plastic food packaging. We need to stop wasting resources and make sure that plastic packaging is properly collected at the end of its life and reused in a circular economy.

Plastic food packaging keeps our food safe and fresh. But it comes with a cost to the environment if it is thrown away and not reused. As a leading manufacturer of plastic packaging for the food industry, we acknowledge our responsibility and we are committed to make a difference. For years, sustainability and the use of rPET have been embedded in our corporate strategy and it is an integrated part of our daily operations and priorities.

With a position as an industry leading supplier, we are able to make an important contribution to sustainability on a global level. Our aim is to lead, not follow, in the use of recycled plastic. And we are constantly working to bring recyclability to the next level.



Tray-to-tray recycling on an industrial scale
Creating circularity in food packaging has topped our agenda for many years. In 2018, we took a huge step in closing the loop on food trays with the acquisition of Dutch 4PET Group, a leading sheet manufacturer with unique recycling capabilities. With the acquisition, we have become one of the world's first integrated plastic packaging suppliers to achieve a circular economy for food trays on an industrial scale.

With the recycling system and infrastructure offered by 4PET, we are able to sort and process disposed plastic trays of all colours, and transform them into raw material for new food contact products. In other words, we have achieved 100% recycling of the same material, for the same use, turning used food trays into a valuable resource rather than waste.

Tray-to-tray: How does it work?
Used plastic trays of any colour are collected, sorted, washed and grinded and turned into food-approved pellets and flakes in a food grade EFSA approved process. These are then processed into new trays in the same quality you know and expect from Faerch. With no loss of micro plastic into the environment. We ship the trays to our customers. Packed with food, they go back to the stores where the circle begins again.

Closing the loop on food trays

continued

Using recycled plastic material

Since 2010, we have significantly increased our use of recycled plastic material in our recipes and products. Today, over 70% of our produced volume of PET material is based on recyclability. And with the technology and systems offered at 4PET, we are able to take recycling to the next level by integrating a closed loop where used trays are returned to our sites as flakes. And a new lifecycle begins.

Recycling of black food trays

Faerch has worked with several industrial players, organisations and supermarket chains to improve the recyclability of black food trays. The aim has been to reduce the amount of plastic that ends up in incineration plants or landfill sites and to find qualified methods for sorting and reusing black plastic. Since 2012, we have offered a black CPET ID packaging material that is detectable by the NIR (Near InfraRed) optical sorting equipment currently used by most recycling companies. Where the right infrastructure is in place, trays produced from CPET ID can be sorted from mixed household waste, cleaned and used as recycled raw material.

Faerch signs up to The UK Plastics Pack

In May 2018, Faerch signed up to the UK Plastics Act, a bold initiative set to transform the UK plastic industry. By bringing together the entire plastics value chain behind a common set of ambitious targets, the new Pact will move us towards a circular system which keeps plastic in the economy and out of the environment.

As part of our commitment to the UK Plastics Pact, we will invest in further innovation, research and new business models to rethink and redesign the packaging we deliver to the food industry, as well as encourage more reuse.

The goal is to build a stronger recycling system where we as industry take more responsibility for our waste and ensure that plastic packaging can be effectively recycled and made into new products and packaging.

Sustainability

Sustainability in our value chain

Faerch is a leading manufacturer of plastic packaging and we are aware that the scale of our business and our activities have far-reaching environmental, social and economic impacts.

A circular economy

Creating circularity in food packaging has topped our agenda for many years and in 2018, we took a significant step in closing the loop on food trays with the acquisition of 4PET Group. The acquisition enables 100% recycling of the same material, for the same use, turning used food trays into a valuable resource rather than waste. When a tray is consumed, it is disposed, collected and processed into a new tray – and the circle repeats itself.

To reduce negative impacts and to make sure that we continue to add value and deliver competitive advantages to our customers, we have defined a set of actions to each stage in our value chain.

Suppliers & Sourcing
- Supplier Code of Conduct
- Supplier audits
- Responsible packaging activities

Product Development
- Delivering technical solutions for Cradle-to-Cradle
- Packaging to extend food shelf life and reduce food waste
- Reducing packaging weight
- Reducing stacking height
- Meeting high standards & going beyond food safety legislation
- Innovative mono material solutions improving recyclability

Production: Extrusion/Thermoforming
- Raw material: Recycled plastic
- Reducing energy consumption through specific environmental projects
- Minimising plastic waste in the production
- Investing in energy effective technology
- Implementing specific activities to reduce work-related accidents
- Training our employees in occupational health

Logistics
- Reducing shipment by producing trays closer to customer locations
- Compiling transportation by delivering more trays in one truckload due to reduced stacking height
- Optimising vehicle motors
- Reducing outer packaging

At the customer
- Helping customers to extend food shelf life and optimise their packaging solutions
- Working with retailers on improving recycling rates of plastic trays
- Bringing new knowledge on sustainable packaging to our customers
- Testing packaging used in a closed loop system
- Helping customers reduce their CO2 footprint by offering alternatives to aluminium foil and cans
- Training our employees in anti-corruption and fair competition

At the end-user
- Convenient packaging for single household, helping reduce food waste
- Long shelf life reducing food waste
- Positive food experience

MAIN IMPACTS | **Minimising plastic waste** | **Minimising CO2 emissions** | **Reducing work-related accidents**

Sustainable development goals

The UN's 2030 Sustainable Development Goals have created a framework for addressing sustainability issues and creating a plan of actions in the areas of critical importance to the global society.

We are committed to making the SDGs operational and to identifying future business opportunities. By reviewing the areas of importance determined by the materiality assessment, we explore how we can support the SDGs linking them to our value chain and our business.

Currently, the Faerch business will focus on how we can make the biggest impact on the five UN SDG's highlighted in the table.

Materiality Area	Sustainable Development Goal	Sustainable Development Target	Faerch's Focus Area	Faerch's KPI	Value chain involvement
Reduction of CO2 emissions	13 Climate Action Take urgent action to combat climate change and its impacts	13.2. Integrate climate change measures into policies, strategies and planning	Sustainable Packaging	CO2 emissions with increased use of recycled plastic.	Suppliers & Sourcing Product Development Production
Recycled plastic	12 Responsible Consumption and Production Ensure sustainable consumption and production patterns	12.4. Achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment	Sustainable Packaging	Quantity of recycled plastic used in production	Production Product Development
Technical solutions for waste sorting	9 Industry, Innovation and Infrastructure Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation	9.4. Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes	Sustainable Packaging	Development of Cradle-to-Cradle approach through a colour pigment - black ID – to identify and sort black trays in the mixed household waste	Customers End-users
Reduction of food waste	12 Responsible Consumption and Production Ensure sustainable consumption and production patterns	12.3. Reduce food waste at the retail and consumer levels and reduce food losses along production and supply chains	Food Safety	Number of reported cases of migration tests Improvement sealing properties of trays to prolong food shelf life and reduce food waste	Suppliers & Sourcing Product Development Customers End-users
Recycled plastic	12 Responsible Consumption and Production Ensure sustainable consumption and production patterns	12.5. Substantially reduce waste generation through prevention, reduction, recycling and reuse	Responsible Operations	Plastic waste as percentage of raw materials	Product Development Production
Effective production	7 Affordable and Clean Energy Ensure access to affordable, reliable, sustainable and modern energy for all	7.2. Increase substantially the share of renewable energy	Responsible Operations	Energy consumption '100% powered by electricity from renewable energy sources'	Production Logistics
Safe workplace	8 Decent Work and Economic Growth Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	8.8. Protect labour rights and promote safe and secure working environments for all workers	People & Organisation	Accident frequency	Production

Supporting international standards

Our progress and reporting are based on the principles of the UN Declaration of Human Rights, the ILO conventions and the UN Global Compact.

Even though Faerch has not joined the UN Global Compact, we see it as an important framework for our sustainability efforts. To meet fundamental responsibilities in areas of human rights, labour, environment and anti-corruption, we therefore align our strategies, policies and procedures to its principles and guidelines.

The table below illustrates how we approach and implement the ten principles of the UN Global Compact.

Our Policies	How the Policy Supports the UN Global Compact	Example of Policy Implementation
• **Sustainability Policy** • **Human Rights Policy** • **Statement on the Prevention of Slavery and Human Trafficking** • **Trade Sanctions in the Product Supply Agreements for raw materials and packaging**	Ensuring continuous growth and development supporting and respecting the protection of internationally proclaimed human rights and good business ethics.	Anchoring sustainability by ensuring that roles and responsibilities related to sustainable development in Faerch are defined and communicated through Group Form on Sustainability Governance. Monitoring and measuring progress towards sustainability through Group Procedure on non-financial data on sustainable development. Ensuring that our economic and financial transactions are in line with the applicable economic sanction laws and international trade restrictions, including providing information to our distributors about product final destination.
Supplier Code of Conduct	Ensuring responsible supplier management, defining and communicating expectations to our suppliers in terms of developing responsible business practices.	Carrying out supplier audits of top suppliers of raw materials, additives, colours, packaging and supplementary range.
Environment, Health & Safety Policy	Reducing own footprint, meeting high health & safety standards and creating a workplace culture based on commitment and responsibility.	• ISO 14001 Management System • Risk assessment of production equipment • Prevention of work-related injuries through analysis tools.
People Policies • Health Promotion Policy • Employee Development Policy	Ensuring equal opportunities at the workplace, eliminating discrimination in respect of employment and occupation and recognising the right to collective bargaining.	Initiating health promoting initiatives; performing external training; defining individual development plans (as a part of Employee Performance and Development Review); supporting employee intercultural & professional development through international secondments.
Legal Compliance Policy • Gifts Policy • Anti-corruption Policy • Fair Competition Policy • Procurement Policy	Working against corruption in all its forms, increasing employees' understanding of the rules and minimising the risk of breaking the rules.	Training in fair competition and anti-corruption, including e-learning programme.

Sustainable packaging

The focus area "Sustainable packaging" involves everything we do to minimise the environmental impact of our products. In terms of manufacturing, it is important that we look at the composition of our products and continuously aim to increase the share of recycled plastic in our product recipes and production processes and aim to integrate a true closed loop where used trays are collected and processed into new trays.
This will help us reduce plastic waste and CO_2 emissions. Our aim is to take a leading position in the use of recycled plastic.

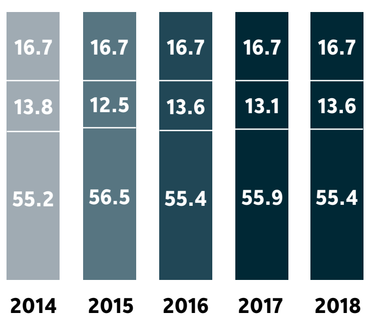
Scope	Guidelines	Impact	Risk & challenges
Manufacturing and recycling of plastic trays creating a closed loop within food packaging.	European Strategy for Plastics in a Circular Economy. Reuse and recyclability of own materials in own operational setup and the market, reaching a true "closed loop".	**Impact waste** Impact mitigation by optimising design proposals to minimise material consumption, by developing partitioned packaging, and by designing trays with smaller portion sizes to avoid dispose of surplus food. **CO2 emissions** Impact mitigation by increasing the share of recycled plastic in our product formulas and manufacturing processes; by rethinking product composition in existing and new products, material and processes.	Plastic waste management, mainly outside Europe, remains an immense challenge. We need to build a new mentality and customer behaviour moving away from the throwaway culture.

13 CLIMATE ACTION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Performance progress

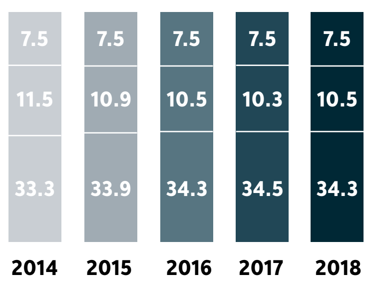
CO2 emissions with increased use of recycled plastic (21g CPET tray)[1]
Kg/CO2 equivalents per 1,000 trays

Bottom bars =Emissions with initiatives
Middle bars = Saved due to rPET
Top bars = Saved due to renewables

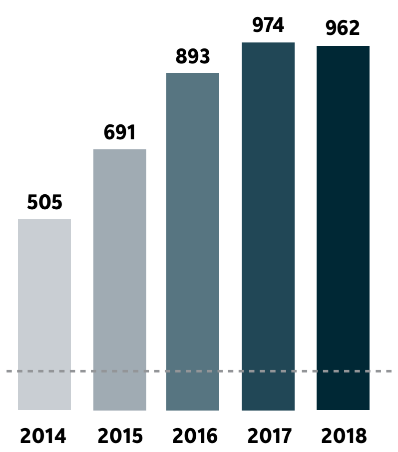


CO2 emissions with increased use of recycled plastic (12g APET tray)[1]
Kg/CO2 equivalents per 1,000 trays

Bottom bars =Emissions with initiatives
Middle bars = Saved due to rPET
Top bars = Saved due to renewables



Quantity of recycled plastic used in production
2010 = index 100



[1] Changed calculation principle. The historical figures were recalculated accordingly.

Food safety

Food safety is essential to our business. Our aim is to maintain a leading position in methods and products designed to protect food and to ensure high standards of safety and quality. We continuously develop methods and routines to approve and re-check the food contact status for products being manufactured. It is our ambition to meet the highest approval level supported by detailed migration tests.

Scope	Guidelines	Impact	Risk & challenges
Continuously developing methods and approaches to improve food contact safety; optimise the benefits from protecting food; and reduce the environmental impact of plastic packaging.	Commission Regulation (EU) No. 20/2011. Guidelines of best practice on the risk assessment of NIAS in food contact materials and articles (July 2015, ILSI-Europe report). Europe Strategy for Plastics in a Circular Economy (16 January 2018).	**CO2 emissions** Impact mitigation by developing skin-vacuum packaging solutions that enable increase in food product shelf life and by this obtain waste reduction. Totally, this contributes positively to minimising our carbon footprint.	It may be difficult for end-users to distinguish between different types of plastic packaging and their purpose. We need to improve our external communication letting our stakeholders know what we are doing to protect food and to ensure high standards of food safety and quality.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Performance progress

Number of reported cases of migration tests

0 cases

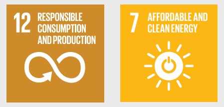
out of 32 tests in 2018

2017: 0 cases out of 21 tests
2016: 0 cases out of 21 tests
2015: 0 cases out of 10 tests
2014: 0 cases out of 24 tests

Responsible operations

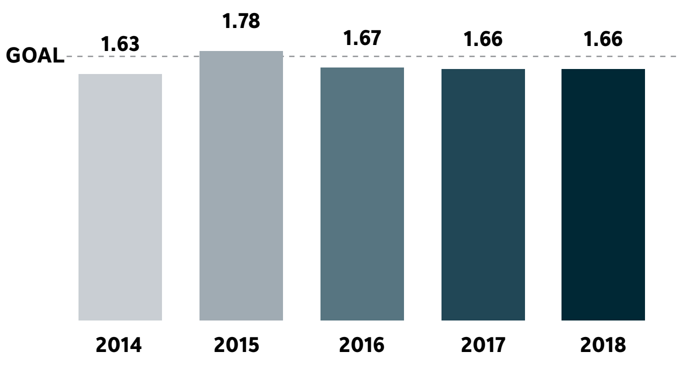
The focus area "Responsible operations" involves everything we do to ensure that our production is effective. We are aware that the reach and scale of our activities can impact the environment, society and people. It is therefore important to keep our factory footprints as low as possible.

To ensure that we significantly reduce the environmental impact of producing, using and disposing our packaging solutions, we continuously pursue new ways and methods to reduce emissions and to improve resource consumption and waste management.

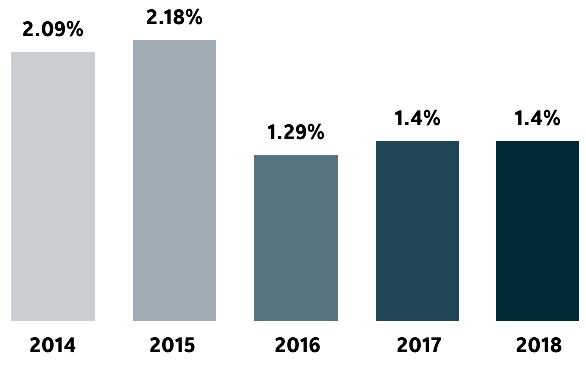
Scope	Guidelines	Impact	Risk & challenges
Ensure that our production is effective in the way we utilise resources and by this, minimising our environmental footprint. 	Group Quality Policy Group Environment, Health & Safety Policy ISO 14001 Management System	**Plastic waste** Impact mitigation by establishing a common solution for transparent and comparable reporting on waste management. **CO2 emissions** Impact mitigation by defining and implementing specific projects; investing in sustainable technology, optimising transportation and minimising imperfections resulted in repeated work.	It is important that we strive to strike a balance between sustaining a high level of product quality while also ensuring high production efficiency and responsible manufacturing processes.

Performance progress

Energy Consumption[1]
Mwh / tonne produced finished goods



Plastic Waste
Plastic waste as a percentage of raw materials



[1] Changed calculation principle. The historical figures were recalculated accordingly.

People & organisation

Health & safety

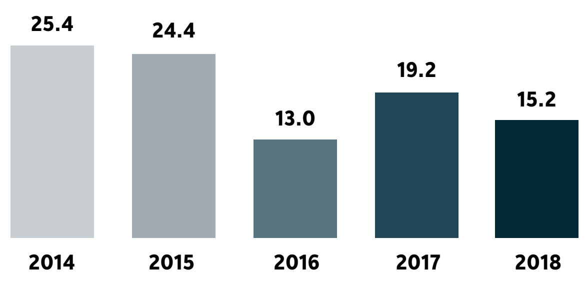
We strongly believe that it is our people and organisation that bring our values to life and generate our business results. Their commitment to our business and our customers is vital to the success and long-term growth of our business. People & Organisation is therefore an important focus area.

We are committed to maintaining high standards of health and safety across the Group's business units and we continue to implement new initiatives to help us ensure that our workplace is attractive. We believe this is key to achieving our long-term objectives.

Scope	Guidelines	Impact	Risk & challenges
Maintaining high standards of health & safety at our workplace. 	Environment, Health & Safety Policy Health Promotion Policy	**Work-related accidents/heavy lifting** Impact mitigation by automating work processes in the operation areas and investing in equipment to remedy risk of manual movements and muscular strain.	It is important to continue addressing safety performance as a key element of our operations and to prevent workplace hazards and occupational risk in a busy working environment.

Performance progress

Accident frequency
Total work accidents per one million working hours



People & organisation

People

Scope	Guidelines	Impact	Risk & challenges
Ensuring our position as a responsible company by focusing on employee development and successor planning. 8 DECENT WORK AND ECONOMIC GROWTH	Human Rights Policy (incl. health & safety; training & development; and diversity). - People Policies incl. Employee Development Policy).	**Opportunities for individuals** Creating the preconditions for equal rights and opportunities for employee development.	To catch up with the recent years' strong growth, it is important that we develop our people and structures further. We need to develop our people and systematise career and successor planning in both the production and office area. It is important to ensure a smooth onboarding process for all new employees.

Performance progress

Systematise Career Development and Successor Planning

With the acquisition of two new companies; CGL Pack in France and the Dutch recycling company 4PET, 2018 was a year of further growth. It has therefore become increasingly important to systematise our tools and procedures within employee development and successor planning and to consolidate our practices across our business units.

Despite the fact that we have a comprehensive on-boarding process and induction, we have seen a need for further mentoring of new employees at certain levels. This aims to ensure that new employees are succeeding in their new roles in a very fast-paced business.

Career Development

At Faerch, we practice career development through internal recruitment. We see it as our responsibility to encourage employees to improve their skills in their daily work and remain aware of the opportunities available for their continued development.

We believe that the expansion of our activities has broaden the options for career development. At the same time, it has established a basis for good and trustworthy collaboration between employees from different business units. Therefore, in 2018, we carried out an organisational review to systematise people development and successor planning - especially of our management and key players. In 2019, we will follow-up on local and site level.

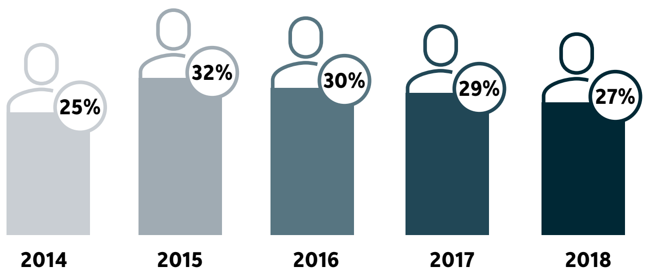
Our business is constantly changing and to keep up, we need to develop the skills of our employees. It is important that we are able to identify potential and to encourage employees to take on more responsibility and new roles. In addition, we need to ensure that successors are available for key players through individual development plans.

In 2018, at group level, 27 % of our employees experienced career development with 56% in business unit North & Central and 14% in business unit UK & Ireland.

In 2019, we have a target of 50% internal recruitments and to develop and implement a traineeship to attract graduate talents.

Employee Development

Career development, internal recruitments



Diversity

We want to ensure a workplace with equal opportunities and where differences are valued. We have a clear objective to enhance diversity in our workforce, regardless of age, gender, sexual orientation, nationality, ethnic background and religion. To attract candidates from a broad, diverse applicant pool, our recruitment process promotes fairness and equality.

One of our focus areas is to provide equal opportunities for women and men, valuing and respecting individual differences. Different recruitment platforms are applied to implement this effort.

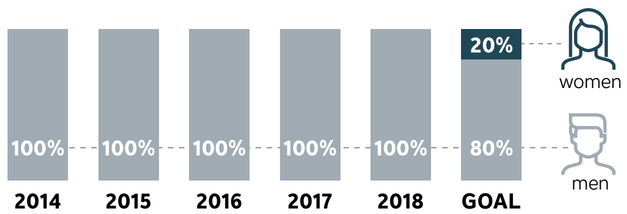
Our policy on gender proportion aims to increase the number of women at management level and to improve the representation of women in management at Faerch in general, in accordance with Danish Company Act No. 610 of 28 April 2015, Section 139a. In practice, we strive, as far as possible, to include both female and male candidates in both internal and external recruitment. In addition, we promote women's and men's equal career opportunities, covering the company's hiring procedures, recruitment and parental leave conditions.

We aim to encourage and develop our female employees to obtain a Manager and/or a Senior Manager position, as well as to recruit more women with the potential of achieving a managerial position. In 2018, we had more internal promotions of female managers e.g. from Production Co-ordinator to Team Leader and Production Manager.

Gender Proportion among the Members of the Board of Directors

It was not required to find any new members of the Group's Board in 2018. The current members of the Board have not changed. The Group's Board continues to be engaged in increasing the total number of female members.

Members of the Board elected at the annual general meeting

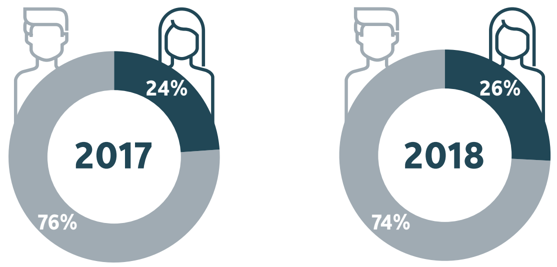


Gender Proportion on Manager Level

In 2017, due to a structural re-organisation of our company with a subsequent split into the 'Region 'Continental Europe' and the 'Region UK & Ireland', we reviewed the approach to report on gender proportion on manager level. In 2017, we reported on the total gender proportion for all managers in the Faerch Group. In this connection, "Senior Manager" and "Manager" were merged into one reporting category.

In 2018, we further strengthened the organisational structure by establishing more business units. However, we are following the same reporting line as in 2017.

Manager level



Governance

We take on responsibility
Faerch Group is an international organization that is committed to acting as a proper and responsible company at all times, and we have imposed strict requirements on ourselves and our business partners through internal and external policies and guidelines.

Training in fair competition, anti-corruption and GDPR
At Faerch Group, we actively support international anti-corruption and fair competition efforts and are dedicated to upholding the highest standards of integrity and business ethics among our employees and business partners.

Faerch Group has a zero tolerance for corruption and anti-competitive activities.

By implementing guidelines, policies, e-learning and conducting on-site training for executives, managers, sale and procurement departments etc., Faerch Group works actively to combat inappropriate business conduct.

In 2018, 29 employees were trained on-site in anti-corruption and fair competition - against 18 employees in 2017 and 118 employees in 2016. The training of employees is often done in smaller groups of 5-10 employees in order to obtain a good face-to-face dialogue. The training enables our employees to execute business negotiations, attend meetings and social event with knowledge and understanding of basic competition law and anti-corruption law in order to protect themselves and the reputation of Faerch Group.

At Faerch Group, we are processing personal data in many areas and in order to support our employees' understanding of personal data and how to deal with it, Group Legal has launched a GDPR e-learning program in co-operation with Plesner (a Danish Law firm). In 2018, 292 employees completed the GDPR e-learning course.

In 2019, Group Legal will focus on providing CGL Pack and 4PET with on-site training in Faerch Group policies and internal guidelines within fair competition, anti-corruption and GDPR.

Reported cases about corruption

0

2018: 0 cases
2017: 0 cases
2016: 0 cases
2015: 0 cases
2014: 0 cases

Reported cases about unfair competition

0

2018: 0 cases
2017: 0 cases
2016: 0 cases
2015: 0 cases
2014: 0 cases

Reported cases about gifts over EUR 200

0

2018: 0 cases
2017: 4 cases
2016: 3 cases
2015: 0 cases
2014: 1 cases

Reported cases in our whistle-blower solution

0

2018: 0 cases
The program was launched in 2018

Whistle-blower hotline
Faerch Group's governance program is designed to identify and prevent serious offences and criminal acts. However, even the most effective compliance procedures cannot fully protect against every conceivable situation.

Consequently, Faerch Group has developed a whistle-blower hotline in co-operation with Plesner that can be used by our customers, business partners and employees to report suspicions or knowledge of unethical conduct and criminal acts.

The whistle-blower hotline was launched 1 December 2018 and can be found on our website. In 2018, no issues were reported through the whistle-blower hotline.

A good relationship with our suppliers
Faerch Group values long-term supplier relationships based on mutual trusting collaboration. As part of this collaboration and to ensure that our suppliers adhere to the same guidelines as we do, Faerch Group has developed a 'Supplier Code of Conduct'.

The 'Supplier Code of Conduct' reflects the ten principles of the UN Global Compact, which covers human rights, labour rights, the environment and anti-corruption. Today, the conduct has been accepted and signed by more than 475 suppliers.

Board of directors

Nils Smedegaard Andersen | Sönke Renk | Ronald John Edward Marsh | Laurent Bendavid | Markus Brettschneider | Sven Seidel

Nils Smedegaard Andersen (1958)
Chairman
Member since:
2018
Current position:
Professional advisor and investor
Other Board positions:
Chairman of Dansk Supermarked Group, AkzoNobel, and WWF Denmark
Non-Executive Director in BP and Unilever
Nationality:
Danish

Sönke Renk (1965)
Member since:
2018
Current position:
CEO HOMANN Group
Other Board positions:
Currently no other board positions
Nationality:
German

Ronald John Edward Marsh (1950)
Member since:
2014
Current position:
Professional advisor
Other Board positions:
Currently no other board positions
Nationality:
British

Laurent Bendavid (1970)
Member since:
2018
Current position:
CEO at Logista France
Other Board positions:
Currently no other board positions
Nationality:
French

Markus Brettschneider (1974)
Member since:
2018
Current position:
Global Head of Sales at ABB Group/SVP
Other Board positions:
Currently no other board positions
Nationality:
German

Sven Seidel (1973)
Member since:
2018
Current position:
Member of the Executive Board of the Otto Group
Other Board positions:
Currently no other board positions
Nationality:
German

Governance

Executive management

Lars Gade Hansen | Tom Sand-Kristensen | Jesper Emil Jensen | Arne Holme | Spencer Johnston

Lars Gade Hansen (1968)
Group CEO
Member since:
2009
Previous experience:
Bodilsen - CEO
Vestfrost - COO
Kirk Acoustics - CEO
Terma - Vice President Man.

Tom Sand-Kristensen (1971)
Group CFO
Member since:
2016
Previous experience:
Rockwool Asia - Regional Finance Director, South East Asia, India and Greater China
Rockwool Greater China - Managing Director
Privathospitalet Hamlet - CFO
Gourmet Bryggeriet A/S - Managing Director
Carlsberg Brewery Malaysia Berhad - CFO

Jesper Emil Jensen (1978)
Regional CEO - Continental Europe
Member since:
2018
Previous experience:
Faerch - Sales and Markerting Director North
Faerch - Vice President NPI and NPD
Faerch - Sales Director Central
Faerch - Product Manager

Arne holme (1973)
Group CTO
Member since:
2018
Previous experience:
Faerch - Director Operational Development
Faerch - Site Director Holstebro
Faerch - Production Manager
Faerch - Project Manager

Spencer Johnston (1978)
Regional CEO - UK & Ireland
Member since:
2019
Previous experience:
Multi-Packaging Solutions - Vice President, European Label Division
Multi-Packaging Solutions - General Manager, UK & Ireland
Multi-Packaging Solutions - Site Director
Multi-Packaging Solutions - Commercial Manager, UK & Ireland

With twelve manufacturing sites across six countries Faerch factory footprint secures a flexible supply chain and enables the servicing of customers close to their home markets

Consolidated financial statement

Consolidated income statement and consolidated statement of other comprehensive income

1 January - 31 December

Note	(DKK million)	2018	24.07.17 -31.12.17
1.1	Revenue	2.582	798
1.2	Production costs	-1.862	-647
	Gross profit	**720**	**151**
1.2	Sales and distribution expenses	-383	-114
1.2	Administrative expenses	-122	-38
1.3	Other operating income	9	13
1.3	Other operating expenses	-46	-13
	Operating profit (EBIT) before special items	**178**	**-1**
	Specification:		
	Earnings before interest, tax, depreciations and amortisation (EBITDA)	565	119
	Depreciation, amortisation and impairment losses	-387	-120
	Operating profit (EBIT) before special items	**178**	**-1**
1.4	Special items	-77	-18
	Operating profit (EBIT)	**101**	**-19**
3.1	Financial income	181	26
3.1	Financial expenses	-441	-129
	Profit before income tax	**-159**	**-122**
4.3	Tax on profit for the year	-5	-4
	Profit for the year	**-164**	**-126**
	Statement of comprehensive income		
	Profit for the year	-164	-126
	Items that will be reclassified subsequently to the income statement when specific conditions are met:		
	Foreign exchange adjustment on translation	-8	-15
	Total comprehensive income for the year	**-172**	**-141**
	Total comprehensive income for the year is attributable to:		
	Shareholders in Faerch Group A/S	-172	-141

Consolidated balance sheet

31 December

Note	(DKK million)	2018	2017
	Assets		
	Goodwill	3,710	2,723
	Brand	1,389	1,276
	Customer relations and others	1,702	1,753
2.1, 2.2	**Intangible assets**	**6,801**	**5,752**
	Land and buildings	554	436
	Plant and machinery	1,241	967
	Fixtures and fittings, tools and equipment	262	288
	Fixed assets under construction	81	50
2.3	**Tangible assets**	**2,138**	**1,741**
4.2	**Deferred tax assets**	**17**	**5**
	Total non-current assets	**8,956**	**7,499**
2.4	Inventories	421	302
2.5, 3.2	Trade receivables	463	436
3.2	Other receivables	24	17
3.2	Prepayments	11	12
	Current tax assets	49	34
3.2	Cash at banks	36	375
	Total current assets	**1,004**	**1,176**
	Total assets	**9,960**	**8,674**

Consolidated balance sheet

31 December

Note	(DKK million)	2018	2017
	Equity and liabilities		
3.5	Share capital	14	14
	Reserve for currency translation	-6	-15
	Retained earnings	1,092	1,266
	Total equity	**1,100**	**1,265**
3.2	Borrowings	5,288	3,955
	Debt to Parent Company	1,764	1,764
4.2	Deferred tax liabilities	861	831
	Total non-current liabilities	**7,914**	**6,550**
3.2	Borrowings	111	352
3.2	Trade payables	395	269
	Current tax liabilities	90	70
3.2, 3.4	Other short term debt	343	163
3.2	Deferred revenue	8	7
	Total current liabilities	**947**	**859**
	Total liabilities	**8,861**	**7,409**
	Total equity and liabilities	**9,960**	**8,674**

Consolidated statement of changes in equity

(DKK million)	Share capital	Reserve for currency translation	Retained earnings	Total Equity
Equity at 1 January 2018	**14**	**-15**	**1,266**	**1,265**
Profit for the year	-	-	-164	**-164**
Hedging reserves	-	-	7	**7**
Other comprehensive income	-	-8	-	**-8**
Total comprehensive income	**14**	**-23**	**1,109**	**1,100**
Equity at 31 December 2018	**14**	**-23**	**1,109**	**1,100**
Equity at 24th of July 2017	**14**	**-**	**1,392**	**1,406**
Profit for the year	-	-	-126	**-126**
Other comprehensive income	-	-15	-	**-15**
Total comprehensive income	**-**	**-15**	**-126**	**-141**
Capital issued to new owners	0	-	-	**0**
Purchase of own shares	0	-	-	**0**
Total transactions with owners	**0**	**-**	**-**	**0**
Equity at 31 December 2017	**14**	**-15**	**1,266**	**1,265**

Consolidated cash flow statement

1 January - 31 December

Note	(DKK million)	2018	24.07.17 -31.12.17
	Profit before tax	-176	-123
4.1	Adjustments for non-cash transactions	669	297
2.6	Change in working capital	44	204
	Interest paid	-250	-53
	Interest received	-1	0
	Income taxes paid	-32	-24
	Cash flow from operating activities	**254**	**302**
2.1	Purchase of intangible assets	-8	-5
2.3	Purchase of tangible assets	-199	-84
	Proceeds from sale of tangible assets	2	1
	Acquisition of subsidiaries	-945	-5,227
	Cash flow from investing activities	**-1,150**	**-5,316**
	Free cash flow	**-895**	**-5,014**
	Proceeds from capital increase	0	1,406
	Proceeds from borrowings	729	3,691
	Repayments of borrowings	-34	-1
	Cash flow from financing activities	**696**	**5,096**
	Net increase in cash and cash equivalents	**-199**	**82**
	Cash and cash equivalents at 1 January	121	0
	Foreign exchange rate adjustments on cash and cash equivalents	3	39
	Cash and cash equivalents at 31 December	**-75**	**121**
	Cash and cash equivalents are specified as follows:		
	Cash at bank and in hand	36	375
	Credit institutions	-111	-254
	Cash and cash equivalents at 31 December	**-75**	**121**

Consolidated financial statements

Note 1.1 Segment information

Accounting policies

Revenue recognition
Revenue from the sale of trays and other similar products is recognised in the income statement, when delivery and risk of the products have passed to the buyer, the amount of revenue can be measured reliably, and collection is probable. Revenue comprises invoiced sales for the year less sales rebates, cash discounts, VAT and duties.

Segment information
The Group operates in three business segments based on distribution channels: Industrial, Distribution and Retail. The information is based on the management structure and internal management reporting to Group Management and constitutes the reportable segments.

Industrial include sales to food producers, where products are directly fed into production lines and packed.

Distribution include products sold through distributor channels, which mainly address smaller customers.

Retail include products sold directly to large retailers.

Recycling include sales of recycled PET trays or PET bottles in the form of sheets, flakes or pellets.

Headquarters costs are allocated to the business segments based on allocation keys used in the internal management reporting. These allocation keys are reassessed annually based on planned activity in the segments. Allocation keys for amortisation and depreciations are based on revenue to the distribution channels and are reassessed yearly. Financial income and expenses and income taxes are managed at Group level and are not allocated to business segments.

Total assets are allocated to the business segments based on allocation keys. Central functions' assets, cash and cash equivalents and deferred tax assets are unallocated."

Trade between the Group's reportable segments is carried out at arm's length.

(DKK million)	Industrial	Distribution	Retail	Recycling	Unallocated	Total
2018						
Volume (m'pcs)	**4,459**	**1,111**	**324**	**-**	**-**	**5,894**
Revenue	1,938	485	62	97	-	2,582
Operating profit (EBIT) before special items	142	34	4	-2	-	178
Financial items	-	-	-	-	-260	-260
Profit before tax	-	-	-	-	-159	-159
Total assets	**6,828**	**1,709**	**218**	**1,169**	**36**	**9,960**
2017 24.7.17-31.12.17						
Volume (m'pcs)	**1,440**	**359**	**39**	**-**	**-**	**1,838**
Revenue	632	144	22	-	-	798
Operating profit (EBIT) before special items	-15	-3	-1	-	-	-19
Financial items	-	-	-	-	-103	-103
Profit before tax	-	-	-	-	-122	-122
Total assets	**6,575**	**1,496**	**228**	**-**	**375**	**8,674**

Note 1.1 Segment information (continued)

1 January - 31 December

Geographical information - total revenue

(DKK million)	Total non-current assets 2018	Total non-current assets 2017	Total revenue 2018	Total revenue 2017
North Europe	7,005	7,129	1,546	543
South Europe	814	222	415	148
Central Europe	1,137	143	581	99
Rest of the world	–	–	40	7
Total	**8,940**	**7,493**	**2,582**	**798**

Non-current assets do not include deferred tax assets.

The geographical distribution of "Total revenue" is based on the external customers country of residence.
The distribution of "Total non-current assets" is based on the actual geographical location of the assets.

No customer exceeds 10% of the group's net sales neither this year nor last year.

Note 1.2.a Staff expenses

Accounting policies

Production costs
Production costs comprise cost incurred to achieve revenue for the year. Costs comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance, depreciation and amortisations etc.

Sales and distribution expenses
Sales and distribution expenses comprise costs related to distribution of products sold during the year and sales staff, research and development, advertising and exhibition expenses etc., including depreciations. Furthermore, provisions for bad debt are included.

Administration expenses
Administration expenses incurred in the course of the year relate to management and administration, including administrative staff, office premises and office costs, as well as depreciations.

Note 1.2.a Staff expenses (continued)

(DKK million)	2018	24.07.17 -31.12.17
Wages, salaries and remuneration	377	164
Termination benefits	0	-
Pension contribution	15	8
Other social security costs	21	17
Total staff costs	**414**	**189**
Staff costs relate to:		
Production costs	263	130
Sales and distribution expenses	86	25
Administrative expenses	56	27
	406	182
Staff cost recognised as inventory or fixed assets	8	7
Total staff costs	**414**	**189**
Average number of full time employees	**1,559**	**1,175**
Remuneration for Key Management Personnel (Executive Management)		
Salaries and wages	11	4
Pension expenses	1	0
Termination benefits	0	2
Total	**12**	**6**
Fee to Board of Directors	**2**	**0**

Note 1.2.b Depreciation, amortisation and impairment losses

(DKK million)	2018	24.07.17 -31.12.17
Intangible assets, amortisation	149	49
Intangible assets, impairment	–	-
Property, plant and equipment, depreciation	238	71
Total depreciation, amortisation and impairment losses	**387**	**120**
Depreciation/amortisation and impairment losses relate to:		
Production costs	254	75
Sales and distribution expenses	130	45
Administrative expenses	3	0
Total depreciation, amortisation and impairment losses	**387**	**120**

Note 1.2.c Research and developments costs

(DKK million)	2018	24.07.17 -31.12.17
Research and development costs expensed during the year	5	1
	5	**1**

Note 1.3 Other operating income and expenses

Accounting policies

Other operating income and expenses comprise items secondary to the Group's primary activities.
These items comprise gains and losses relating to:

- Divestment of intangible assets and property, plant and equipment
- Gains and losses relating to financial instruments

(DKK million)	2018	24.07.17 -31.12.17
Gain on disposal of intangible assets and property, plant and equipment	1	-
Rent and other secondary income	0	1
Gain on financial instruments	2	4
Other items	6	9
Total other operating income	**9**	**13**
Loss on disposal of intangible assets and property, plant and equipment	-	0
Transaction costs	10	-
Financial instruments	-	-
Other items	36	13
Total other operating expenses	**46**	**13**

Note 1.4 Special items

Accounting policies

Special items include significant income and expenses of a special non-recurring nature which cannot be attributed directly to the Group's ordinary operating activities. Such income and expenses include acquisition and integration cost relating to acquired new business, costs to external consultants for strategic reviews or specific market reviews and costs considered as "force majeure" within the polymer market due to sudden supply shortage and abnormal price levels.

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

(DKK million)	2018	24.07.17 -31.12.17
Acquisition	34	5
Integration	4	0
Force Majeure in relation to polymer supply	23	-
Other	16	13
Total Special items	**77**	**18**

Note 2.1 Intangible assets

Accounting policies

Goodwill
Goodwill increased by 988mDKK during 2018 due to the acquisition of CGL Pack in France and 3PET in the Netherlands. CGL Pack is a specialist designer and manufacturer of responsible and eco-designed thermoformed packaging for food, healthcare and other industry applications. 3PET is a leading recycler and unique in offering products manufactured by recycling, extrusion and thermoforming. Goodwill is initially recognised at the amount by which the purchase price for a business combination exceeds the recognised value of the identifiable assets, liabilities and contingent liabilities. Subsequently to initial recognition goodwill is measured at cost less impairment losses. The carrying amount of goodwill is allocated to the Group's cash-generating units that follow the management structure and internal financial reporting. Goodwill is not amortised and impairment loss charges in previous years are not reversed.

Brand
During 2018 the Brand value increased by 134mDKK due to the acquisition of CGL Pack in France. Furthermore, the brand value includes the Anson Brand acquired in 2015 in connection with the Anson Packaging Ltd. acquisition.

Both the Anson and the CGL brands are strong brands with more than 40 years of presence in the rigid thermoforming packaging food market in their recpective home markets. Anson provides packaging solutions for all major UK retailer outlets and CGL pack in France provides unique custom-made packaging.

Brand is initially recognised at cost. The cost is subsequently amortised on a straight-line basis over 10 years. The amortisation expenses are recognised under production cost in the income statement.

Customer relations and others
Customer relationship is recognised as fair value based on corresponding customer revenue. Useful life has been set on churn-rate and customer relationship are amortised over 15 years.

Projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future commercial or utilization opportunity within the Group is demonstrated, and where the Group intends to produce, market or use the project, are recognized as intangible assets provided that future benefits are probable. These projects are recognised in the income statement when incurred.

Completed projects are amortised on a straight-line basis over 3 years. Projects in progress are not amortised, but are annually tested for impairment.

(DKK million)	Goodwill	Brand	Customer relations and others	Total
2018				
Cost at 1 January	2,723	1,283	1,795	5,800
Exchange rate adjustments	-1	-2	-1	-7
Additions	-	-	-	-
Increase due to company acquisition	988	134	81	1.206
Transfer	-	-	10	10
Disposals	-	-	-	-
Cost at 31 December	**3,710**	**1,415**	**1,884**	**7,010**
Amortization and impairment at 1 January	-	7	42	48
Exchange rate adjustments	-	0	-0	-0
Increase due to company acquisition	-	4	7	11
Amortization for the year	-	15	134	149
Amortization and impairment at 31 December	**-**	**26**	**182**	**208**
Carrying amount at 31 December	**3,710**	**1,389**	**1,702**	**6,801**

Note 2.1 Intangible assets (continued)

(DKK million)	Goodwill	Brand	Customer relations and others	Total
2017				
Cost at 24th of July	-	-	-	-
Exchange rate adjustments	7	6	-2	11
Increase due to company acquisition	2,716	1,277	1,789	5,782
Additions	-	-	2	2
Transfer	-	-	6	6
Cost at 31 December	**2,723**	**1,283**	**1,795**	**5,800**
Amortisation and impairment at 24th of July	-	-	-	-
Exchange rate adjustments	-	1	-2	-0
Amortizarion for the year	-	5	43	49
Depreciation and impairment at 31 December	**-**	**7**	**42**	**48**
Carrying amount at 31 December	**2,723**	**1,276**	**1,753**	**5,752**

Note 2.2 Impairment tests

Accounting policies

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Group estimate the recoverable amount of the asset.

Goodwill
Goodwill relates to acquisition of the R. Faerch A/S in 2014, Anson Packaging Ltd. in 2015, Færch Group A/S in 2017, CGL Pack Service SAS and 3PET Holding B.V. in 2018.

The carrying amount of goodwill is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The recoverable amount is calculated as the present value of future net cash flows from the cash-generating unit to which the goodwill is related.

The estimated future free net cash flows is based on budgets for 2019 and business plans and projections for 2020-2023. The long-term growth rate in the terminal period has been set to equal the expected long-term rate of inflation of 2% for the euro region. Key parameters are revenue development, profit margins, proposed capital expenditure and growth expectations for the following years.

A discount rate (WACC) is applied for the specific business areas based on assumptions about interest rates, tax rates and risks premiums. The goodwill capitalised relates to the geographical area "Northern Europe" and the WACC applied accordingly

The impairment tests did not show any need for impairment losses to be recognised. In the Management's opinion, changes in key assumptions mentioned above will not cause significant impairment losses.

Significant accounting estimates and adjustments
Due to the nature of the business estimates are made of anticipated cash flows together with an assessment of the long-term growth rate and profitability. Additionally, an assessment of a reasonable discount rate is made, reflecting the risks inherent in the asset or cash-generating unit. This naturally result in a degree of uncertainty. Changes in the future cash flow or discount rate estimates used may result in materially different values.

Development projects in progress
For development projects in progress, the Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition. The development projects are evaluated on technical as well as commercial criteria. In the Management's opinion, the development projects qualify for recognition.

The most significant goodwill allocations as well as the most significant assumptions for the performed impairment tests have been described below.

(DKK million)	Carrying amount, goodwill	Discount rate, before tax	Growth in terminal period in %
2018			
Færch Plast Group A/S	1.163	8%	2%
Faerch A/S	1.363	8%	2%
CGL Pack S.A.S.	319	8%	2%
Faerch UK Ltd. (former Anson Packaging Ltd)	195	8%	2%
3PET Holding B.V.	671	8%	2%
Total carrying amount at 31 December	**3.710**	**-**	**-**
2017			
Færch Plast Group A/S	1.163	8%	2%
Faerch A/S	1.363	8%	2%
Faerch UK Ltd. (former Anson Packaging Ltd)	198	8%	2%
Total carrying amount at 31 December	**2.723**	**-**	**-**

Consolidated financial statements

Faerch has a specialized innovation unit to maintain and constant strive for bringing new innovative material and packaging formats to the market

Note 2.3 Tangible assets

Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment. Assets in progress and land are not depreciated.

Cost
Cost comprises the the acquisition price as well as cost directly associated with the asset until such time as the asset is ready for its intended use. In case of self-constructed assets, cost comprises direct and indirect costs relation to materials, components and payroll that directly concerns the construction of assets. Subsequent expenditure items of property, plant and equipment are only recognised as an addition to the carrying amount of the item, when it is likely that incurring the cost will result in financial benefits for the Group. Other costs such as general repair and maintenance are recognised in the income statement when incurred.

Depreciation
The basis of deprecation is cost less estimated residual value. Property, plant and equipment are depreciated on a straight-line basis from the time of acquisition, or when the assets are available for use based on an assessment of the anticipated useful life.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The estimated useful lives are as follows:
- Buildings 30-50 years
- Plant and machinery 10-20 years
- Other fixtures, tools and equipment 3-5 years

Leases
The cost of assets held under finance leases is stated at the lower of fair value of the asset and the net present value of future minimum lease payments. When calculating the net present value, the interest rate implicit in the lease or an approximated rate is applied at the discount rate. Assets held under finance leases are depreciated and amortized like other property, plant and equipment.

Assets held under operation leases are systematically expensed over the lease period.

Uncertainties and estimates
Estimates are made in assessing the useful lives of items of property, plant at equipment that determine the period over which the depreciable amount of the asset is expensed to the income statement. The depreciable amount of an item of property, plant and equipment is a function of the asset's cost or carrying amount and its residual value. Estimates are made in assessing the amount that the Group can recover at the end of the useful life of an asset. An annual review of the appropriateness of the depreciation method, useful life and residual values of items property, plant and equipment is undertaken.

Note 2.3 Tangible assets (continued)

(DKK million)	Land and buildings	Plant and machinery	Fixtures and fitting, tools and equipment	Fixed assets in progress	Total
2018					
Cost at 1 January	437	988	322	50	1.796
Exchange rate adjustments	-2	-6	-2	-0	-11
Additions	21	124	34	78	258
Increase due to company acquisition	198	427	23	3	651
Transfer	0	23	16	-49	-10
Disposals	-3	-3	-7	-	-14
Cost at 31 December	**651**	**1,553**	**385**	**81**	**2,671**
Depreciation and impairment at 1 January	1	21	33	-	55
Exchange rate adjustments	-0	-3	-1	-	-4
Increase due to company acquisition	74	175	8	-	257
Depreciation for the year	22	125	90	-	238
Reclassifications	-	-	-	-	-
Depreciation on disposals	-	-6	-7		-13
Depreciation and impairment at 31 December	**97**	**313**	**124**	**-**	**533**
Carrying amount at 31 December	**554**	**1,241**	**262**	**81**	**2,138**
Of which assets held under finance lease	81	22	8	-	111
Depreciation for the year related to leased assets	10	3	5	-	18

Addition of leased assets for the year were 26 mDKK
Total cash outflow for leases in 2018 was 18 mDKK

(DKK million)	Land and buildings	Plant and machinery	Fixtures and fitting, tools and equipment	Fixed assets in progress	Total
2017					
Cost at 24th of July	-	-	-	-	-
Exchange rate adjustments	0	12	-3	1	11
Increase due to company acquisition	413	934	290	102	1,739
Additions	21	30	36	-24	63
Transfer	4	18	1	-29	-6
Disposals	-2	-7	-2	-	-11
Cost at 31 December	**437**	**988**	**322**	**50**	**1,796**
Depreciation and impairment at 24th of July	-	-	-	-	-
Exchange rate adjustments	-3	-0	-4	-	-7
Depreciation for the year	6	27	38	-	71
Depreciation on disposals	-2	-6	-2	-	-9
Depreciation and impairment at 31 December	**1**	**21**	**33**	**-**	**55**
Carrying amount at 31 December	**436**	**967**	**288**	**50**	**1,741**
Of which assets held under finance lease	75	27	2	-	104
Depreciation for the year related to leased assets	3	0	2	-	-

Addition of leased assets for the year were 5mDKK
Total cash outflow for leases for the period September to December 2017 was 6,4 mDKK

Note 2.4 Inventories

Accounting policies

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumable and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus production costs.

Production costs include indirect materials and wages, maintenance, rent of factory buildings and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as cost of factory administration and management.

The net realisable value of inventories is calculated at the expected selling price less cost of completion and costs necessary to make the sale.

Significant accounting estimates and judgements
Indirect production costs are calculated based on relevant assumptions with respect to capacity utilisation and other factors characterising to the product type.

The assessment of the net realisable value requires judgement in relation to the estimate of the selling price of certain raw materials.

(DKK million)	2018	2017
Raw materials and consumables	134	119
Work in progress	95	48
Finished goods	166	135
Other inventory	26	0
Total inventory	**421**	**302**

Note 2.5 Trade receivables

Accounting policies

On initial recognition, the receivables are measured at fair value and subsequently at amortised cost, which normally correspond to fair value less provisions for expected losses. Provisions for expected losses are based on an individual assessment of each outstanding account.

(DKK million)	2018	2017
Trade receivables before provision for bad debts	463	436
Write-downs for bad debts	0	0
Total trade receivables, net	**463**	**436**
Write-down for bad debts at 1 January	0	-1
Foreign currency translation adjustments	-	-
Additions through acquisition of subsidiaries	-	0
Change in write-downs	0	0
Realized loss	-	0
Write-down for bad debts at 31 December	**0**	**0**

Note 2.5 Trade receivables (continued)

Age distribution of gross trade receivables

(DKK million)	2018	2017
Not overdue	367	357
Past due and impaired	0	0
Overdue 0-30 days	34	69
Overdue 31-60 days	25	5
Overdue between 61-90 days	5	4
Overdue 91-180 days	12	0
Overdue more than 181 days	21	1
Total age distribution of gross trade receivables	**463**	**436**

Note 2.6 Working capital change

(DKK million)	2018	2017
Change in inventories	-119	-13
Change in trade receivables	-27	0
Change in other receivables	-18	-6
Change in prepayments	12	5
Change in trade payables	-52	2
Change in other payables	3	216
Total Working capital change	**-201**	**204**

Note 3.1 Financial items

Accounting policies

Financial income and financial expenses
Interest income and expenses as well as capital gains and losses are recognised in the income statement at the amounts that can be attributed to the period. Additionally, financial items comprise realised and unrealised fair value adjustments of securities and currency adjustments on financial assets and financial liabilities as well as the interest portion of financial lease payments.

Additionally, realised and unrealised gains and losses on derivative financial instruments not classified as hedging contracts are included. Borrowing costs from general borrowing, or loans that directly relate to the acquisition, construction or development of qualified assets are attributed to the cost of such assets, and are therefore not included in financial expenses.

(DKK million)	2018	24.07.17 -31.12.17
Interest of financial assets measured at amortised cost	0	0
Foreign exchange adjustments	178	13
Other financial income	3	12
Total financial income	**181**	**26**
Interest on financial liabilities measured at amortised cost	255	79
Foreign exchange adjustments	143	46
Other financial expenses	43	3
Total financial expenses	**441**	**129**

* Bank charges mainly include letter of credit fees as well as bank commitment fees.

Note 3.2 Financial assets and liabilities

Accounting policies

Loans and receivables
Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables are assessed for indicators of impairment at the end of each reporting period.

Bank debt and other financial liabilities
Bank debt and other financial liabilities are initially recognized at fair value less transaction cost and subsequently measured at amortised cost using the effective interest method. The difference between proceeds and the nominal value is recognised as a financial expense over the term of the loan. Other debt is recognised as a financial expense over the term of the loan. Other debt is recognised at amortised costs.

Derivative financial instruments
Derivative financial instruments are recognised and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively, and positive and negative values are set off (only relevant to currency hedging with banks) only where the enterprise has the right and the intention to settle several financial instruments on a net basis.

Fair values of derivative financial instruments are calculated on the basis of observable data applying generally accepted valuation methods.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future cash flows and effectively hedge changes in the value of the hedged item are recognised in other comprehensive income. Profits or losses on such hedging transactions are transferred from the hedging reserve on realisation of the hedged item and are recognised in the same item as the hedged item.

Derivative financial instruments are recognised as other receivables/payables and measured at fair value.

Changes in the fair values of currency derivative financial instruments entered into for the purpose of hedging commercial cash flow which do not qualify for hedge accounting are recognised as they arise in other income and expenses in the income statement. Gains and losses on other derivative financial instruments are recognised as they arise in financial income and expense

New loan agreements
In 2018 the Group entered into new loan agreement, which increased the B2 facility. Proceeds repaid the 2L facility. The B1, B2 and RCF facilities are established in the company Faerch Bidco A/S. All loan has floating interest rate. According to the Groups Treasury Policy minimum 50% of the Groups debt, that are exposed to floating interest rate must be hedged to a fixed rate for a period of three years. End 2018 the Group has hedged 68% of the interest rate exposure for a period of two years. All interst rate swaps has been established in Faerch Bidco A/S.

Uncertainties and estimates
The maturity analysis is based on all undiscounted cash flows, including estimated interest payments, which are estimated based on the current market conditions.

Note 3.2 Financial assets and liabilities (continued)

The undiscounted cash flows from derivative financial instruments are presented in gross amounts.

(DKK million)	Carrying amount	Fair value	Total contractual cash flows	Maturity: Due within 1 year	Maturity: Due between 1 and 5 years	Maturity: Due after 5 years
2018						
Measured at amortised cost (loans and receivables):						
Trade receivables	463	463	463	463	-	-
Other receivables	24	24	24	24	-	-
Prepayments	11	11	11	11	-	-
	498	**498**	**498**	**498**	**-**	**-**
Derivative financial instruments:						
Measured at fair value through statement of comprehensive income	-8	-8	-15	-8	-7	-
	-8	**-8**	**-15**	**-8**	**-7**	**-**
Total financial assets	**509**	**509**	**502**	**509**	**-7**	**-**
Measured at amortised cost (liabilities):						
Mortgage credit institutions	176	176	189	21	81	87
Bank borrowings	4,691	4,691	5,733	344	1,005	4,385
Finance lease liabilities	123	123	123	122	1	0
Borrowings from Group Enterprises	1,764	1,764	1,764	-	-	1,764
Deferred revenue	8	8	8	8	-	-
Trade payables	395	395	395	395	-	-
Other short term debt	343	343	343	343	-	-
	7,501	**7,501**	**8,555**	**1,233**	**1,086**	**6,236**
Total financial liabilities	**7,501**	**7,501**	**8,555**	**1,233**	**1,086**	**6,236**

Note 3.2 Financial assets and liabilities (continued)

(DKK million)	Carrying amount	Fair value	Total contractual cash flows	Maturity: Due within 1 year	Maturity: Due between 1 and 5 years	Maturity: Due after 5 years
2017						
Measured at amortised cost (loans and receivables):						
Trade receivables	436	436	436	436	-	-
Other receivables	17	17	17	17	-	-
Prepayments	12	12	12	12	-	-
	465	**465**	**465**	**465**	**-**	**-**
Derivative financial instruments:						
Measured at fair value through statement of comprehensive income	-17	-17	-37	-13	-24	-
	-17	**-17**	**-37**	**-13**	**-24**	**-**
Total financial assets	**448**	**448**	**429**	**453**	**-24**	**-**
Measured at amortised cost (liabilities):						
Mortgage credit institutions	194	194	210	21	82	107
Bank borrowings	3,848	3,848	5,296	217	839	4,240
Finance lease liabilities	86	86	86	10	21	56
Borrowings from Group Enterprises	1,764	1,764	1,764	-	-	1.764
Deferred revenue	7	7	7	7	-	-
Trade payables	269	269	269	269	-	-
Other short term debt	163	163	163	160	-	3
	6,331	**6,331**	**7,794**	**683**	**942**	**6,170**
Total financial liabilities	**6,331**	**6,331**	**7,794**	**683**	**942**	**6,170**

Financial assets and liabilities measured at fair value relate to derivatives. Calculation of fair value of these derivatives is based on observable inputs such as interest rates, currency rates etc.

Net interest-bearing debt

(DKK million)	2018	2017
Cash at banks	-36	-375
Long-term borrowings	5,362	4,042
Short-term borrowings	111	254
Total net interest-bearing debt	**5,437**	**3,921**

Looking into 2019 the Group is having the strongest product pipeline ever

Note 3.3 Financial risks and instruments

Financial risk management

Financial risks are an inherent part of the group's operating activities and hence, the Group's profit is impacted by the developments in currencies, interest rates and certain types of commodities. The global financial markets are volatile and thus, it is critical for the group to have a well implemented financial risk management approach in order to mitigate short-term market volatilities.

The Group's comprehensive financial risk management strategy builds on a thorough understanding of the interaction between the group's operating activities and the financial risks.

The treasury policy is approved by the Board of Directors, and sets the limits for the various financial risks and the derivatives used to hedge the risks. The treasury policy is adjusted on an ongoing basis and discussed in the audit committee to adapt to the market situation and states risk limits for each type of financial risk, permitted financial instruments and counterparties. The treasury policy was approved in december 2018 with a descending hedger ladder methodology for GBP exposure and a reduction of minimum interest rate hedge.

Currency risk
Currency risk arises due to imbalances between income and costs in each individual currency and also due to imbalance between assets and liabilities. Hedging of currency risk is carried out in GBP, where Faerch has the the largest exposure. The hedging is managed by entering into derivatives such as forward contracts, currency options and swaps. Loans and deposits in foreign currencies are also utilized as hedging. Hedge effectiveness is assessed on a regular basis.

From 2018 and going forward, the group will hedge GBP using the following descending hedger ladder methodology:

Exposure horizon	Hedge ratio range:
Up to 3 month:	70-90%
4 to 6 motnh:	60-80%
7 to 9 month:	50-70%
10 to 12 month:	40-60%

Forward contracts are continually used for this hedging and are used for commercial and financial transactions.

Besides the foreign exchange rate risk relating to current transactions, the Group's equity is affected by foreign exchange rate risks relating to the translation of the Group's foreign subsidiaries from local currencies to DKK. This exchange risk has not been hedged. Further to this, the currency exposure arising from debt in other currency than DKK is not hedged. The group has debt in DKK, EUR and GBP.

(DKK million)	Contract value	Carrying amount	Fair value adjustments recognised in income statement
Forward exchange contracts - GBP			
2018	290.9	2.0	0.7
2017	160.9	1.2	13.8

The sensitivity analysis below shows the impact on net profit of a change of 10% in the DKK versus GBP and 1% change in the DKK versus EUR, which are the main currencies to which the Group was exposed on December 31, 2018 adjusted for hedge accounting.

The sensitivity analyses reflects the transaction and translation risk, and assumes that the exchange rates are changed on 31 December 2018, and that all other variables remain constant. A similar negative change in exchange rates would have a similar opposite effect on profit before tax and equity.

Note 3.3 Financial risks and instruments (continued)

		2018		2017	
(DKK million)	Change in exchange rate	Profit before tax	Equity	Profit before tax	Equity
Exchange rate analysis on assets and liabilities					
GPB	10.0%	48	-128	21	158
EUR	1.0%	2	6	1	2
Total	**-**	**50**	**-122**	**22**	**160**

Interest rate risk

Interest rate risk concern the interest-bearing assets and liabilities of the Group. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of bank and mortgage debt, as set out in note 3.2. The main funding currencies of the Group are DKK, EUR and GBP.

In accordance to the treasury policy, a minimum of 50 % of loans must be at fixed interest rates for a future period of minimum three years. As at 31 December 2018, 68 % of loans were heged to fixed rate until november 2020. Hedging of the interest risk is managed by entering into fixed-rate loans and interest rate swaps.

Interest rate swaps are used to hedge the risk related to changes in interest rates. At 31 December 2018, the outstanding interest swaps had the following market value:

(DKK million)	Contract value	Carrying amount	Fair value adjustments recognised in income statement
Interest rate swaps			
2018	3,031	8	11
2017	3,043	18	-18

The sensitivity analysis below has been determined based on the exposure to interest rate for financial instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming that the amount of the outstanding liability at the end of the reporting period was outstanding for the whole year.

An increase of 1 percentage in the average interest rate on the Group's net bearing-debt would have a negative effect on profit before tax of DKK 10,8m (2017: 15,4m) and equity of DKK 10,8m (2017: 15,4m). A corresponding decrease in interest levels would mean a correspondingly positive impact on profit for the year and equity.

During 2018 the Group has entered into non-recourse factoring for key markets.

Credit risk
The Group's balance sheet items that are subject to credit risk are primarily trade receivable and bank deposits.

The Group is also exposed to commercial credit risks, which arise from customers not paying their receivables. However no customers exceed 10% of the Group's net sales neither in 2018 nor last year.

Moreover, the credit risk related to trade receivables is managed by continuous risk assessment and credit evaluation of major customers. Credit risk on counterparties other than banks are minimized to the extent possible through the use of credit insurance and guarantees. Historically, the Group has only had limited losses on bad debts. At 31 December 2018 92.4% (2017: 97,6%) of the trade receivables have been credit insured.

Funds are placed with financial institutions with high credit ratings. Derivatives, including foreign exchange forward contracts and interest rate swaps, are entered into with such institutions only. Therefore, it is deemed that the credit risk related to funds is of no significance to the annual report.

Note 3.3 Financial risks and instruments (continued)

Liquidity risk
Liquidity risk results from the Groups inability to cover its financial liabilities with cash (please refer to note 3.2).

The financial reserve is continually assessed and managed by the finance department. It is ensured, that the Group at all times has sufficient and flexible financial resources at its disposal to assure continuous operations and honour obligations when due. The finance department manages its short-term liability risks through cash pool arrangements in various currencies and by having short-term overdraft facilities in place with various financial institutions. Long-term liquidity risk is managed through committed financial facilities.

Loan covenants
In terms of financial covenants the group has to comply with the following: If the original Revolving Facilities and any springing Covenant Revolving Facilities is over 40% drawn, the Consolidated Senior Secured Net Leverage Ratio must not exceed 8,66:1. During the reporting period, the Revolving Facility has been drawn more than 40%, the Consolidated Senior Secured Net Leverage has been below 8,66:1.

Note 3.4 Other short term debt

(DKK million)	2018	2017
Wage-related payables and other charges	72	37
VAT and other indirect taxes	-16	17
Amortised debt	-	-
Discounts	33	31
Other current liabilities	262	85
Total other short term debt	**351**	**169**

Note 3.5 Share capital

Accounting policies

Own shares
Acquisition and sales prices for own shares and dividend received on these shares are recognised directly in equity under retained earnings.

Reserve for currency translation
The reserve for exchange adjustments consists of exchange rate differences that occur when translating the foreign subsidiaries financial statements from their functional currency into the Færch Plast Group's presentation currency.

Reserve for hedge accounting
Reserve for cash flow hedges comprises accumulated changes in fair value of derivative financial instruments, which meets the conditions for hedging of future cash flows, where the hedged position has not yet been realised.

The changes in fair value are transferred to the profit and loss account, when the hedged positions are realised.
The share capital consists of shares at DKK 1 or multiples thereof.
The shares have been divided into classes:

	Number	Nominal value (DKK million)
A-shares	1.117.445.276	11
B-shares	108.448.336	1
C-shares	95.906.997	1
D-shares	77.609.611	1
	1.399.410.220	**14**

The shares are fully paid up.
Each ordinary A-share of DKK 1 gives 1 vote, while each ordinary B-share, C-share and D-share do not provide any right to vote.

There is preferential right to dividends based on the class of the shares.
Changes in share capital in the past two years:

(DKK million)	2018	2017
Share capital at 1 January	14	-
Capital increase	-	14
Capital decrease	-	-
Share capital at 31 December	**14**	**14**

Note 4.1 Business Combinations

Accounting policies

Recognition date and considerations
Newly acquired companies are recognised in the consolidated financial statement at the date, when the group obtains control. The purchase consideration is generally at fair value. If an agreement relation to a business combination requires that the purchase consideration be adjusted in connection with future events of the performance of certain obligation (contingent obligations), this portion of the purchase consideration is recognised at fair value at the date of acquisition. Changes in estimates relating to a contingent consideration is recognised in the income statement. Cost directly attributable to the acquisition are recognised in the income statement as incurred. Transaction cost have been recognised as other external expenses in the income statement.

The acquired assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill arises when the aggregate of the fair value of consideration transferred exceeds the fair value of the identifiable net assets of the acquired company. Any goodwill that arises, which is not amortised, is tested annually for impairment.

Uncertainties and estimates
For acquisitions where the group acquires control of the company in question, the purchase method is applied. There can be uncertainty associated with the identification of assets, liabilities and contingent liabilities, and with measuring the fair value at the time of acquisition. Significant estimates are made in the measurement of the fair value of the consideration transferred by the group in the acquisition.

Acquisitions in 2018 **Company (DKK million)**	**Income statement consolidated from**	**Holding acquired**	**Contribution to the Group's revenue in 2018**	**Contribution to the Group's profit in 2018**
CGL Pack S.A.S.	1 July	100%	193	18
3PET Holding B.V.	1 September	50,00002%	97	-2

Assets and liabilities at the time of acquisition **(DKK million)**	**CGL Pack S.A.S.**	**3PET Holding B.V.**	**Acquisitions 2018**
Intangible assets exclusive goodwill	203		203
Property, plant and equipment	129	247	376
Inventory	52	84	136
Other assets	107	89	196
Liabilities	-224	-344	-568
Net assets acquired	**268**	**76**	**344**
Goodwill	**317**	**671**	**988**
Purchase consideration	**585**	**747**	**1,332**
Cash movements:			
Purchase consideration	585	298	883
Cash in acquired company	**-10**	**72**	**62**
Consideration, net of cash	575	370	945
Change in short term payable/receivable	0	0	0
Net cash payment during the year	**575**	**370**	**945**

Acquisition in 2018
On 28 June 2018, the Faerch Group acquired 100% of the shares in CGL Pack S.A.S in France from PSB Industries S.A.S.

On 31 August 2018, the Faerch Group acquired 50,00002% of the shares in 3PET Holding B.V. with an obligation to purchase the remaining shares based on 2019 earnings effective from 31 March 2020.

The rationale for the CGL Pack acquisition is to get a strong manufacturing footprint in France aligned with the 2021 strategy. Historically Faerch has had a strong sales into the French market with a strong local presence backed by a solid organization and a strong brand. The market holds significant growth opportunities. The acquisition of 3PET Holding B.V. is for Faerch to become a fully integrated recycler and get a closer control of raw material supplies into the tray business. Faerch has an obligation to acquire the remaining shares in the company and become a 100% shareholder effective 31 March 2020. The final purchase consideration is determined on the business performance end of 2019. The final payment has been estimated and is reflected as a liability in short-term debt at 31 December 2018. As adjustments will be made to the final payment for 3PET Holding B.V. changes will be made to goodwill.

The total goodwill of DKK 988m arising from the acquisitions is attributable to the value of staff, know-how and synergies expected from combining the operations of the Faerch Group and the acquired business. None of the goodwill recognized is deductible for income tax purposes.

Transaction costs of DKK 34m has been recognized as special items in the income statement.

If the acquisition had occurred on 1 January 2018, consolidated revenue and profit for the year ended 31 December 2018 would have been DKK 3.013m and DKK -151m respectively.

The pro-forma information is provided for comparison purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

The Group did not complete any acquisitions of entities in 2017.

Note 4.2 Adjustment for non-cash transactions

(DKK million)	2018	24.07.17 -31.12.17
Depreciation/amortization and impairment	387	120
Gain(-)/loss on disposal of tangible assets	-1	0
Financial income	-181	-26
Financial expenses	459	129
Other, including provisions	7	74
Total adjustment for non-cash transactions	**670**	**297**

Note 4.3 Tax

Accounting policies

Income tax for the year, comprising the year's current tax and the change in deferred tax, is recognised in the income statement with the amount that can be attributed to the net profit or loss for the year and under other comprehensive income with the amount that can be attributed to items in other comprehensive income.

Current income tax payable and current income tax receivable is recognised in the balance sheet as the tax calculated on the year's taxable income adjusted for prepaid tax.

When calculating current tax for the year, the tax rates and regulations prevailing at the balance sheet date in the different countries are used.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statement and the corresponding tax based used in the computation of taxable profit. No deferred tax is recognised for goodwill, unless amortization of goodwill for tax purposes is allowed.

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities, except for deferred tax on temporary differences that arise either on initial recognition of goodwill or on initial recognition of transaction that is not a business combination, and where the temporary difference on initial recognition affects neither accounting profit or loss nor the taxable income. The effect of changes in the tax rates are stated in the income statement unless they are items previously entered in the statement of other comprehensive income.

Deferred tax is measured on the basis of the tax rules and the tax rate in force in the respective countries on the balance sheet date.

Changes in deferred tax due to tax rate changes are recognised in the income statement, except to the extent that they relate to items recognised in other comprehensive income.

Uncertainties and estimates
Deferred tax assets are recognised if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. For this purpose, Management estimates the coming years' earnings based on budgets.

Note 4.3 Tax (continued)

Tax on profit for the year (DKK million)	2018	2017
Current tax	45	20
Adjustment to current tax concerning previous years	-	-
Change in deferred tax	-40	-16
Impact from change in tax rate	-	-
Adjustment to deferred tax concerning previous years	-	-
Total	**-5**	**-4**

Reconciliation of tax rates: (DKK million)	2018	2017
Calculated 22% on profit before tax	35	27
Adjustment of tax to local tax rate compared with group tax rate on 22%	8	0
Tax-effect of:		
Non-taxable income and non-deductible expenses	-50	-25
Impact of changes in the tax rate	-	-
Adjustment concerning previous years	-3	-7
Other	5	1
Total	**-5**	**-4**

Effective tax rate		
Tax on profit for the year (income statement)	-5	-4
Total taxes	**-5**	**-4**

Note 4.3 Tax (continued)

Deferred tax (DKK million)	2018	2017
Deferred tax, net at 1 January	-826	-
Exchange rate adjustments	1	-
Additions through acquisition of subsidiaries	-62	-810
Adjustments concerning previous years	3	-
Deferred tax recognised in the income statement	40	-16
Deferred tax, net at 31 December	**-844**	**-826**

Classified as:

(DKK million)	2018	2017
Deferred tax assets	17	5
Deferred tax liabilities	-861	-831
Total	**-844**	**-826**

Deferred tax (DKK million)	Deferred tax assets	Deferred tax liabilities	Deferred tax net
2018			
Intangible assets	-	-805	-
Property, plant and equipment	-	-56	-
Inventories	1	-	-
Foreign exchange hedging	3	-	-
Tax losses to be carried forward	-	-	-
Other	13	-	-
Set-off within the same legal entities and jurisdiction	-	-	-
Temporary differences	**17**	**-861**	**-844**
2017			
Intangible assets	-	-668	-668
Property, plant and equipment	2	-154	-152
Inventories	0	-2	-1
Foreign exchange hedging	-	1	1
Tax losses to be carried forward	-	-	-
Other	1	-	1
Set-off within the same legal entities and jurisdiction	2	-8	-5
Temporary differences	**5**	**-831**	**-826**

Note 4.4 Fees to auditors appointed by the board of directors

(DKK million)	2018	24.07.17 -31.12.17
Statutory audit of financial statements	2	1
Other assurance engagements	0	0
Tax advisory services	0	0
Other services	2	0
Total fees to auditors appointed by the board of directors	**4**	**1**

Note 4.5 Related parties

Related parties exercising control
Faerch Group A/S is subject to controlling influence by Al Roy (Luxembourg) S.à.r.l., which holds 87 % of the share capital.

Faerch Group A/S has registered the following shareholders who hold 5% or more of the share capital:
- Al Roy (Luxembourg) S.à.r.l., 23, Rue Beck 2-4, 1222 Luxembourg, Luxembourg

During 2018 there were no transactions with the controlling shareholder and companies owned or otherwise controlled by Al Roy (Luxembourg).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Related parties exercising significant influence
Related parties in Faerch Group A/S with significant influence include the Group's Executive Management and Board of Directors and their close relatives. Related parties also comprise companies in which these individuals have material interests.

In the financial year, no transactions took place with the Board of Directors and the Executive Management other than the transactions as a result of conditions of employment.

All transactions were performed on an arm's length basis.

Other than these transactions and remuneration as set out in note 1.2, there has been no trading with key management personnel or their close relatives.

Continued success of Faerch is highly dependent on the combined knowledge, expertise and drive of our 1.559 employees across the Group

Note 4.6 Contractual commitments and contingen liabilities

(DKK million)	2018	2017
Carrying amount of land and buildings pledged as security for bank loans and mortgages	207	155
Carrying amount of plant and machinery pledged as security for bank loans and mortgages	267	16
Leasing assets pledged as security for leasing commitments.	15	16
Guarantee commitments:		
0-1 year	1	-
1-5 years	1	-
Over 5 years	0	-
Operating rent commitments	**2**	**-**
0-1 year	17	-
1-5 years	43	-
Over 5 years	0	-
Operating lease commitments	**60**	**-**
Commitments in relation to agreements on the purchase of intangible assets	-	-
Commitments in relation to agreements on the purchase of property, plant and equipment	7	1
Total commitment in relation to agreement	**7**	**1**

The Group has concluded contracts with a number of suppliers. The contracts do not entail any obligations other than those normally involved in trading relationships.

100% of the shares in the subsidiary Faerch A/S is placed as security with the Company's credit institutions.

The Group has placed all assets in its subsidiaries as security with the Company's credit institutions.

The Parent Company and its subsidiaries have issued irrevocably and unconditionally jointly and severally guarantees towards the Group's credit institutions.

The Group is not involved in any lawsuits which are expected to have a material effecton the financial position of the Company or the Group.

Note 4.7 General accounting policies

The Annual Report for the period 1 January - 31 December 2018 comprises the consolidated financial statement of the parent company Faerch Group A/S and subsidiaries controlled by the parent company (the Group) as well as separate financial statements for the parent company, Faerch Group A/S.

Statement of compliance
The consolidated financial statement have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements.

The Annual Report is the third Annual Report presented in accordance with IFRS.

The Annual Report for 2018 was discussed and approved by the Executive Management and the Boards of Directors (the Board) on 22 May 2019 and will be presented for approval at the subsequent Annual General Meeting on 22 May 2018.

Basis for measurement
The consolidated financial statement are presented in Danish kroner (DKK), which is the parent company's functional currency and rounded to the nearest million.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments and provisions for the acquisition of non-controlling interests, which are measured at fair value.

Adoption of new or amended IFRSs
Management has assessed the impact of new or amended and revised accounting standards and interpretations (IFRSs) issued by the (IASB), and IFRSs endorsed by the European Union.

As of 1 January 2018 Faerch applied, for the first time, IFRS 9 'Financial Instruments'. The impact of the implementation of IFRS 9 been immaterial in relation to recognition and measurement. The implementation of IFRS 9 "Financial instruments" that replaces IFRS 39, has had the effect that forward exchange contracts of future cash flows are classified as hedging and consequently, unrealized gains and losses on these contracts are in 2018 recognised in equity instead of in the income statement.

The Group adopted both IFRS 15 "revenue from contracts with customers" and IFRS 16 "Leases" effective from 1 January 2017.

Other new interpretations effective 1 January 2018
It is assessed that application of other new interpretations effective on 1 January 2018 has not had a material impact on the Consolidated financial statements in 2018. Further, Management does not anticipate any significant impact on future periods from the adoption of these new interpretations.

New or amended IFRSs that have been issued but have not yet come into effect and have not been adopted early
In addition to the above, the IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. Faerch expect to incorporate the new standards when they become mandatory.

Accounting policies
Accounting policies related to specific line items are described in connection with the notes to which they relate. The description of accounting policies in the notes form part of the overall description of accounting policies. Accounting policies not directly related to a specific line item covered by a note are presented below.

Basis for consolidation
The consolidated financial statement comprise the financial statement of the parent company Faerch Group A/S and subsidiaries controlled by the parent company. Subsidiaries controlled by the parent company are fully consolidated from the date on which the parent company obtains control, and continue to be consolidated until the date that such control ceases. Control is obtained when the parent company directly or indirectly owns or controls more than 50% of the voting rights in the subsidiary or has control in some other way. The financial statements of the controlled subsidiaries are prepared for the same reporting period as the parent company, suing consistent accounting policies. All intercompany balances, income and expenses, unrealized gains and losses and dividends resulting from intercompany transactions are eliminated in full.

Upon loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value at the date that control is lost.

Translation policies
Functional currency and presentation currency
Assets, liabilities and transactions of each of the reporting entities of the Group are measured in the currency of the primary economic environment in which the entity operates (the functional currency). Transactions in currencies other than the functional currency are transactions in foreign currencies. The functional currency and the presentation currency of the parent company are Danish kroner (DKK).

Translation of transactions and amounts
Transactions in foreign currencies are initially translated into the functional currency at the exchange rates at the dates of transaction. Exchange adjustments arising due to differences between the transaction date rates and the rates at the date of payment are recognised as financial income or financial expenses

Consolidated financial statements

Note 4.7 General accounting policies (continued)

in the income statement. Receivables, payables and other monetary items in foreign currencies not settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange adjustments arising due to differences between the rates at the balance sheet date and the transaction date rates are recognised as financial income or financial expenses in the income statement.

Translation of Group entities
On recognition in the consolidated financial statements of the foreign entities with a functional currency that differs from the presentation currency of the Group, income statements are translated at transaction date rates, and balance sheet items are translated at the exchange rates at the balance sheet date. The transaction date rates are based on average rates for the individual months to the extent that this does not materially distort the presentation of the underlying transaction. Exchange adjustments arising on the translation of the opening equity of foreign entities at exchange rates at the balance sheet date and on the translation of income statements from transaction date rates to exchange rates at the balance sheet date are recognised in other comprehensive income.

Cash flow statement
The cash flow statement shows the Group's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year. The cash flow effect of acquisitions and disposals of companies is shown separately under cash flows from investing activities.

Cash flow relating to acquired companies are recognized in the cash flow statement at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flow from operating activities
Cash flow from operating activities are calculated according to the indirect method on the basis of profit before tax and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividend and paid corporation taxes.

Cash flows from investing activities
Cash flows from investing activities comprise payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment.

Cash flows from financing activities
Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term bank debt and payment of dividends to shareholders.

Cash and cash equivalents
Cash and cash equivalents comprise bank account deposits and cash balances and the portion of the liability "borrowings" which constitutes overdraft facilities.

Note 4.8 Significant accounting estimates and judgement

The consolidated financial statements have been prepared to give a true and fair view of the Group's assets, liabilities and financial position at 31 December 2018. The Executive Management makes various accounting estimates and judgments which affect the consolidated financial statements.

The judgements, estimates and assumptions made are based on historical experience and other factors that the Executive Management considers to be reasonable under the give circumstances. The actual outcome can differ from the estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The critical accounting estimates and judgements are described under the sections to which they relate.

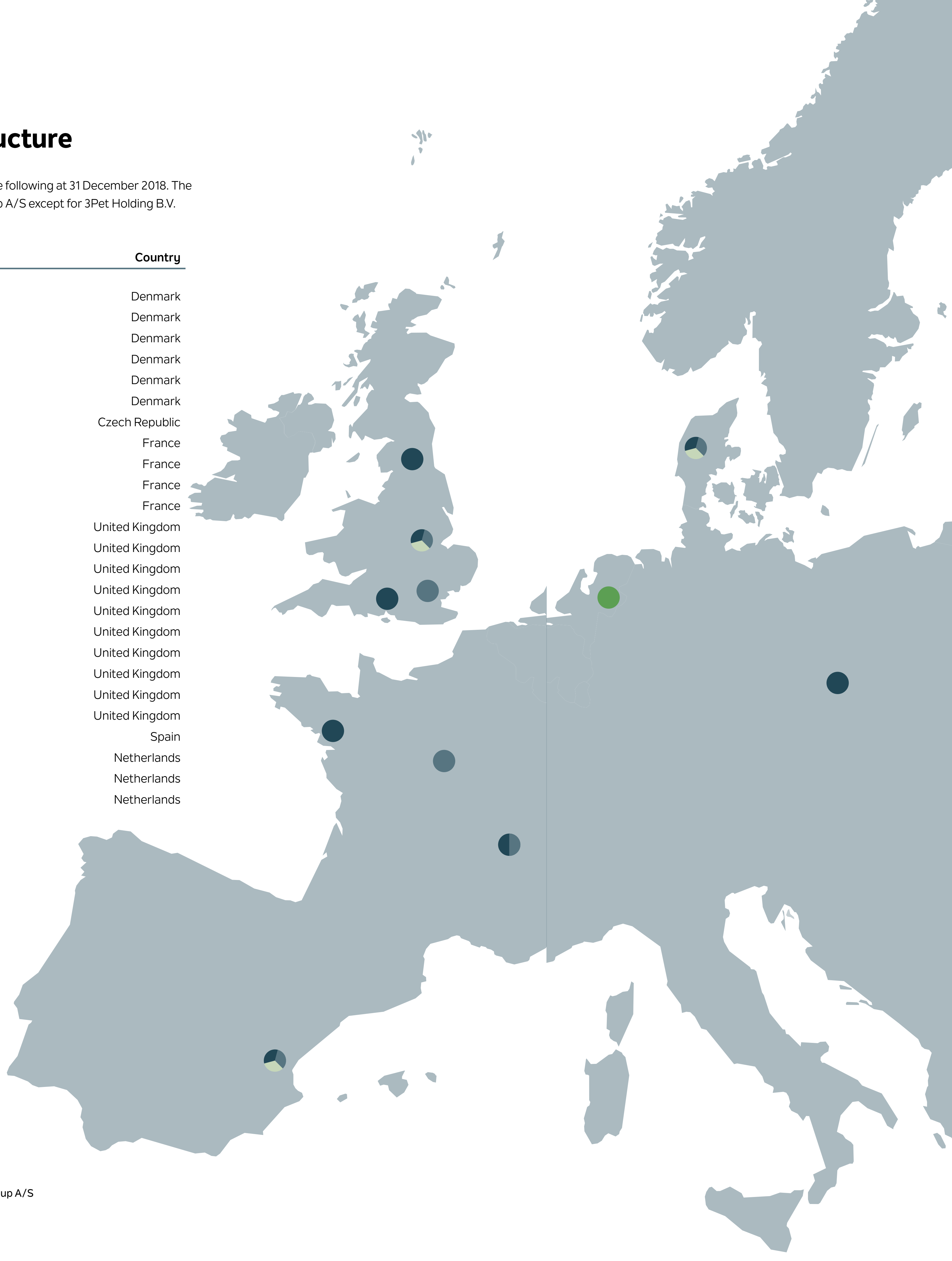
Accounting estimate/judgement	Note
Goodwill	2.1
Tangibles	2.3
Inventories	2.4

New business units have increased focus and responsibility on Regional earnings and performance

Note 4.9 Group structure

Investment in group companies comprise the following at 31 December 2018. The companies are owned 100% by Faerch Group A/S except for 3Pet Holding B.V. where the ownership share is 50.00002%

Name of entity	Country
Faerch Group A/S	Denmark
Faerch Debtco ApS	Denmark
Faerch Midco ApS	Denmark
Faerch Bidco ApS	Denmark
Færch Plast Group A/S	Denmark
Faerch A/S	Denmark
Faerch Liberec s.r.o.	Czech Republic
Faerch France SAS	France
CGL Pack Service SAS	France
CGL Pack Annecey SAS	France
CGL Pack Lorient SAS	France
Faerch London Ltd.	United Kingdom
FP1988UK Ltd. (dormant)	United Kingdom
Faerch Durham Ltd	United Kingdom
Avro Holdings Ltd.	United Kingdom
Faerch UK Ltd.	United Kingdom
BDE Plastics Ltd. (dormant)	United Kingdom
Avro Industries Ltd. (dormant)	United Kingdom
Anson Food Services Ltd. (dormant)	United Kingdom
Faerch Poole Ltd.	United Kingdom
FPH 2017 Ltd.	United Kingdom
Faerch Bunol S.L.U.	Spain
Faerch Netherlands B.V.	Netherlands
3Pet Holding B.V.	Netherlands
4Pet Holding B.V.	Netherlands



Manufacturing

Sales

Recycling (four sites)

Design & Innovation

Holstebro
Denmark

Sutton
United Kingdom

Durham
United Kingdom

Poole
United Kingdom

Buñol
Spain

Liberec
Czech Republic

Annecy
France

Lorient
France

Druiven
Netherlands

Druten
Netherlands

Arnhem
Netherlands

Raamsdonskveer
Netherlands

Note 4.10 Definition of key figures and ratio

The figures and ratios have been compiled based on the following definitions and formulas:

Gross margin = $\frac{\text{Gross profit x 100}}{\text{Revenue}}$

EBITDA margin before special items = $\frac{\text{EBITDA margin before special items}}{\text{Revenue}}$

Net interest-bearing debt = Bank debt - cash and cash equivalents

Net working capital ratio = $\frac{\text{Net working capital}}{\text{Revenue}}$

Leverage = $\frac{\text{Net interest-bearing debt}}{\text{EBITDA before special items}}$

Profit before special items, after tax = Profit for the year adjusted for special items and tax on special items

Profit margin before special items, after tax = $\frac{\text{Profit before special items, after tax}}{\text{Revenue}}$

Key figures

DKKm	2018	2017 [a]	2017 [b]	2016 [1]	2015 [1]	2014 [1]
Income statement						
Revenue	2,582	798	2,267	2,080	1,167	1,083
Gross profit	720	151	644	608	492	444
EBITDA before special items	565	119	515	512	269	236
EBIT before special items	178	-1	340	364	150	139
EBIT	101	-19	312	339	150	139
Financial items, net	-277	-103	-109	-133	-51	-2
Profit for the year	-164	-126	140	165	65	117
Financial position at 31 December						
Total assets	9,960	8,674	4,012	3,681	2469	971
Net working capital	493	493	493	443	255	208
Equity	1.100	1.265	1.420	1.277	990	481
Net interest-bearing debt	1.741	3.921	1.741	1.827	1,159	308
Cash flow and investment						
Cash flow from operating activities	254	302	378	257	227	188
Cash flow from investing activities	-1,150	-5,316	-239	-257	-1,521	-120
Investment in property, plant and equipment	-199	-84	-222	-262	-97	-114
Free cash flow, excluding acquisitions	-0	-0	-0	-74	122	67
Key ratio						
Revenue growth	n/a	n/a	9.0%	78.3%	7.7%	1.7%
Gross margin	27.9%	18.9%	28.4%	29.2%	42.2%	41.0%
EBITDA margin before special items	21.9%	14.9%	22.7%	24.6%	23.1%	21.8%
EBIT margin before special items	6.9%	-0.1%	15.0%	17.5%	12.9%	12.8%
Profit margin	3.9%	-2.4%	13.8%	16.3%	12.9%	12.8%
Net working capital ratio	19.1%	61.8%	21.8%	21.3%	21.8%	19.2%
Total number of employees	1,559	1,175	1,175	1,085	510	494
Return on equity (ROE)	-16.4%	-10.0%	9.8%	12.9%	9.1%	25.5%

2017 [a] reflects four months from September - December 2017.

2017 [b] reflects full year with CGL Pack and 4PET included for the same period in 2017 as the actual ownership period in 2018 (i.e. July - December 2017 for CGL Pack and September - December 2017 for 4PET), proforma accounts.

[1] As of 1 January 2015, accounting policies were changed to IFRS. Comparative figures for 2014-2012 are presented in accordance with the Danish Financial Statement Act. Differences between the previous accounting policies and IFRS mainly relate to the accounting for amortisation of goodwill.

2014-2016 [1] is figures for Færch Plast Group A/S

Profit before special items, after tax are defined in key figures and ratios.

IFRS 16 is applied in the 2017 figures but not adjusted in previous years.

Financial statement - Parent company

Income statement - Parent company

1 January - 31 December

Note	(DKK million)	2018	24.07.17 -31.12.17
	Revenue	-	-
	Production costs	-	-0
	Gross profit	**-**	**-0**
	Distribution expenses	-	-
	Administrative expenses	-1	-0
	Other operating income	-	-
	Other operating cost	-	-
	Earning before interest and tax	**-1**	**-0**
1.1	Financial income	-	-
1.2	Financial expenses	1	0
	Profit before income tax	**-2**	**-1**
1.3	Tax on profit for the year	-2	6
	Net profit for the year	**-0**	**-7**
	Proposed distribution of profit		
	Retained earnings	-0	-7
		-0	**-7**

Balance Sheets - Parent company

31 December

Note	(DKK million)	2018	2017
2.1	Investments in subsidiaries	1,404	1,404
	Financial assets	**1,404**	**1,404**
	Total non-current assets	**1,404**	**1,404**
	Receivables from group enterprises	1,781	1,764
2.2	Deferred tax asset	0	-
	Corporation tax	2	-
	Receivables	**1,783**	**1,764**
	Cash at banks	**-**	**1**
	Total current assets	**1,783**	**1,766**
	Assets	**3,187**	**3,170**
2.3	Share capital	14	14
	Reserve for net revaluation under the equity method	-	-
	Retained earnings	1,385	1,385
	Equity	**1,399**	**1,399**
2.4	Payables to group companies	1,765	1,764
	Long-term debt	**1,765**	**1,764**
	Credit institutions	23	-
	Current tax liabilities	-	6
	Other payables	-	-
	Short-term debt	**23**	**6**
	Debt	**1,788**	**1,771**
	Liabilities	**3,187**	**3,170**

Statement of changes in equity - Parent company

(DKK million)	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
Equity at 1 January 2018	**14**	**-**	**1,385**	**1,399**
Capital decrease, net	-	-	-	-
Other equity movements	-	-	-	-
Net profit for the year	-	-	-0	-0
Equity at 31 December 2018	**14**	**-**	**1,385**	**1,399**
Equity at 24th of July 2017	**-**	**-**	**-**	**-**
Capital increase, net, net	14	-	1,392	1,406
Other equity movements	-	-	-	-
Net profit for the year	-	-	-7	-7
Equity at 31 December 2017	**14**	**-**	**1,385**	**1,399**

1.1 Financial income

(DKK million)	2018	24.07.17 -31.12.17
Interest received from group enterprises	-	-
Other financial income	-	-
Total	**-**	**-**

1.2 Financial expenses

(DKK million)	2018	24.07.17 -31.12.17
Interest paid to group enterprises	0	-
Other financial expenses	1	0
Total	**1**	**0**

1.3 Tax on profit/loss for the year

(DKK million)	2018	24.07.17 -31.12.17
Current tax for the year	-2	6
Deferred tax for the year	**-2**	**6**
which breaks down as follows:		
Tax on profit/loss for the year	-2	6
Tax on changes in equity	**-2**	**6**

2.1 Investment in subsidiaries

(DKK million)	2018	2017
Cost at 1 January	1,404	1,404
Additions for the year	-	-
Cost at 31 December	**1,404**	**1,404**
Value adjustments at 1 January	-	
Change of accounting policies		-
Value adjustments at 31 December	**-**	**-**
Carrying amount at 31 December	**1,404**	**1,404**

2.2 Deferred tax assets

(DKK million)	2018	2017
Deferred tax, net at 1 January	-	-
Deferred tax recognised in the income statement	-	-
Deferred tax, net at 31 December	**-**	**-**

2.3 Share capital

The share capital is broken down as follow:

	Number	Nominal value
		DKK '000
A-shares	1,117,445,276	11,174
B-shares	108,448,336	1,084
C-shares	95,906,997	959
D-shares	77,609,611	776

The share capital has developed as follows:

	2018	2017
	DKK '000	DKK '000
Share capital at 1 January	13,994	-
Capital increase/decrease	-	13,994
Share capital at 31 December	13,994	13,994

Shareholders that own more that 5% of the share capital:
Al Roy (Luxembourg) S.à.r.l., Rue Beck 2-4, 1222 Luxembourg, Luxembourg

2.4 Long-term debt

Payments due within 1 year are recognised in short-term debt.
Other debt is recognised in long-term debt.
The debt falls due for payment as specified below:

(DKK million)	2018	2017
After 5 years	-	-
Between 1 and 5 years	-	-
Long-term parts	**-**	**-**
Within 1 year	-	-
Short-term part	**-**	**-**

2.5 Contractual commitments and contingent liabilities

Contingent liabilities
The Company has as security with the Parent Company, Faerch Bidco ApS', credit institutions placed shares in the subsidiary Faerch A/S.

The Company and the above mentioned subsidiaries have issued irrevocably and unconditionally jointly and severally guarantees towards the Group's credit institutions.

The Parent Company is not involved in any lawsuits which are expected to have a material effect on the financial position of the Company.

2.6 Related parties and ownership

Færch Group A/S is subject to controlling influence by Al Roy (Luxembourg) S.à.r.l., which holds 87% of the share capital.

Related parties with significant influence comprise group enterprises as well as the Board of Directors and the Executive Board of the Company and the group enterprises.

Pursuant to section 98c(1) of the Danish Financial Statements Act, the Company does not disclose any information on transactions with related parties.

2.7 General accounting policies

The Financial Statement of the Parent Company have been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class C.

The accounting policies are the same as for the consolidated financial statements with the following exceptions.

Supplementary accounting policies for the Parent Company

Taxes
Current income tax, based on taxable income for the year, is expensed together with changes in deferred tax for the year.

Deferred income tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts is provided in full using the liability method.

The provision of deferred tax reflects the effect of any tax losses carried forward etc. to the extent it is considered likely that such items can be utilised against future taxable income. To the extent calculated deferred tax is positive, this is recognised in the balance sheet as a deferred tax asset at the expected realisable value.

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

Investment in subsidiaries
The items “Income from investments in subsidiaries” and “Income from investments in associates” in the income statement include dividend adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

Equity

Dividend distribution
Dividend distribution proposed by Management for the financial year is disclosed as a separate item under equity.

Management statement

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Faerch Group A/S for the financial year 1 January – 31 December 2018.

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act and the Parent Company Financial Statements are prepared in ac-cordance with the Danish Financial Statements Act. Management's Review is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Group and the Company and of the results of the Group and Company operations and consolidated cash flows for the financial year 1 January - 31 December 2018.

In our opinion, Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Company, of the results for the year and of the financial position of the Group and the Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Holstebro, 22 May 2019

Executive Management

Lars Gade Hansen
CEO

Arne Holme
CTO

Jesper Emil Jensen
Regional CEO Continental Europe

Tom Sand-Kristensen
CFO

Board of Directors

Nils Smedegaard Andersen
Chairman

Sönke Renk

Ronald John Edward Marsh

Laurent Bendavid

Markus Brettschneider

Sven Seidel

Independent auditor's report

To the Shareholders of Faerch Group

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's financial position at 31 December 2018 and of the results of the Group's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Moreover, in our opinion, the Parent Company Financial Statements give a true and fair view of the Parent Company's financial position at 31 December 2018 and of the results of the Parent Company's operations for the financial year 1 January to 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Faerch Group for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as statement of comprehensive income and cash flow statement for the Group ("financial statements").

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

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and for the preparation of Parent Company 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company'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 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 Company'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 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 Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Aarhus, 22 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen	**Lars Østergaard**
State Authorised Public Accountant	*State Authorised Public Accountant*
mne23328	mne26806

Data basis for sustainability

Data basis for sustainability

Applied reporting practices
The reporting practices are based on the significance criteria, which were prepared in connection with certification in accordance with ISO 14001:2004, ISO 9001, BRC/IoP Global Standard and national health and safety regulations for selected production sites. This report also serves as compliance by Faerch with Sections 99a and 99b of the Danish Financial Statements Act. There are specific thresholds for when different conditions are deemed to be significant. The key figures and values in the report are calculated in accordance with the reporting practices described below.

Changes and updating of data
The same measurement and reporting method is used at all Faerch locations. The accounting policies are changed compared to 2016 related to the figures for Gender distribution on manager level (page 75). It is not possible to recalculate the historical figures.

Management report
This report contains, according to the Executive Management opinion, the information that is necessary for the evaluation of the most significant social issues in the company's activities. This information is prepared in accordance with Act on Accounting for Social Responsibility and the under-represented gender, cf. Section 99a and 99b of the Danish Financial Statements Act.

Management process
In the winter of 2013, the Faerch board and management adopted a policy whereby Faerch would work more explicitly with its CSR communication, and thereby report annually on its social responsibility activities. The management also conducted an analysis to identify five focus areas assessed as being of particular relevance to the company and its stakeholders. The materiality assessment of focus areas was revised in 2016. The focus areas cover topics that are relevant now and that Faerch believes will grow in importance in the years to come. The activities are all categorised under one of the five focus areas and will be reassessed annually by the management to ensure that the categories reflect new influences in society and the previous year's CSR activities. Stakeholders' interest in certain issues is central to Faerch 's choice of content. The collection of information and preparation of the report is carried out in collaboration with the following group functions: HR, Finance, Marketing, Legal, QHSE and Technology Development.

Data basis for key figures
Key figures are calculated by the company. The current report comprises the following companies:

- Faerch A/S
- Faerch UK Ltd. (three locations)
- Faerch Liberec s.r.o.
- CGL Pack Annecy
- CGL Pack Lorient
- Faerch Buñol S.L.U.

This report is divided into topics relating to the five focus areas. The data and reporting practices for each of the five focus areas are listed below. Demarcations are stated for the individual focus areas.

Sustainable Packaging
CO_2 emissions for Faerch trays are based on calculations made by an independent consultant using the elementary calculation requirements of ISO 16067:2018. The figures include – Raw Material Production, Manufacturing, Distribution to Customer and End-of-fife.

CPET
CO_2 emissions per 1,000 trays are calculated on the basis of average weight of produced trays in 2018 – 21 g.

APET
CO_2 emissions per 1,000 trays are calculated on the basis of average weight of produced trays in 2018 – 12 g.

The share of recycled content has been calculated using purchase data for our production sites excluding the acquired in 2018 two sites in France. For CPET, 15% additives have been assumed.

The savings from using renewable energy is not applicable to all Faerch sites.

The CO_2 from distribution to customer is calculated using transportation distance of 1000km by truck and using Steel Cages as secondary packaging.

End-of-life emissions are calculated using EU average End-of-life scenario.

Food Safety
Information in this section is based on approved certifications and legislation.

Regulation 10/2011 is complied with and all new plastic types are tested internally and by an external analysis institute. All of the plastic types are tested and the data is stored internally.
The certifications, ISO 9001 for quality and BRC/IoP Global Standard for hygiene and product safety are followed and ensured through audits by external auditors.

Number of reported cases of migration tests
From 2016, in order to measure progress related to food contact safety, a quantitative target was introduced.

The target is zero breaches of the established limits. Faerch reports the total number of tests completed during the year, as well as the amount of breaches.
The tests are performed in accordance to Faerch's migration test program, which continuously monitor products released for production and encompass analysis of a product recipe involving examination of different substances in each recipe.

Responsible Operations
Energy Sector
The consumption of electricity and natural gas is measured in absolute amounts and reported by suppliers via invoices and by reading energy consumption data on the company's electricity meters.

The consumption of raw materials is calculated based on purchasing statistics and invoices from suppliers. Changes in stock from the beginning to the end of the year are included in the calculation.

Energy from renewable energy sources were purchased for the year in relation to the actual energy consumption and for the future in relation to budgeted amounts.

Plastic Waste
Key figures for plastic waste in Denmark are calculated on the basis of statistics from the waste recipient Wastenet. The result is calculated as a percentage in relation to the share of raw materials and data is collected internally by the purchasing department. Key figures for plastic waste in the Czech Republic, Spain and the UK are provided and documented by the recipient of the plastic waste and reporting from internal sources.

Plastic waste is defined as surplus plastic material in the production of plastic packaging that is not reused in production. Plastic waste is disposed and removed by a different actor than Faerch A/S.

Data for plastic waste is calculated for all sites covered by this report.

Demarcation
This report covering electricity consumption only applies to Faerch's eight factories. Energy consumption from Faerch's two foreign sales offices are deemed insignificant in this context, as it comprises a relatively small percentage of the Group's total energy consumption.

People & Organisation
Accident Frequency
The number of work accidents is calculated as the number of injuries in the given year that resulted in one or more days of absence from work. The accident rate is calculated as the number of work accidents per one million working hours.

The accident frequency for the period 2014-2018 covers both production and office employees.

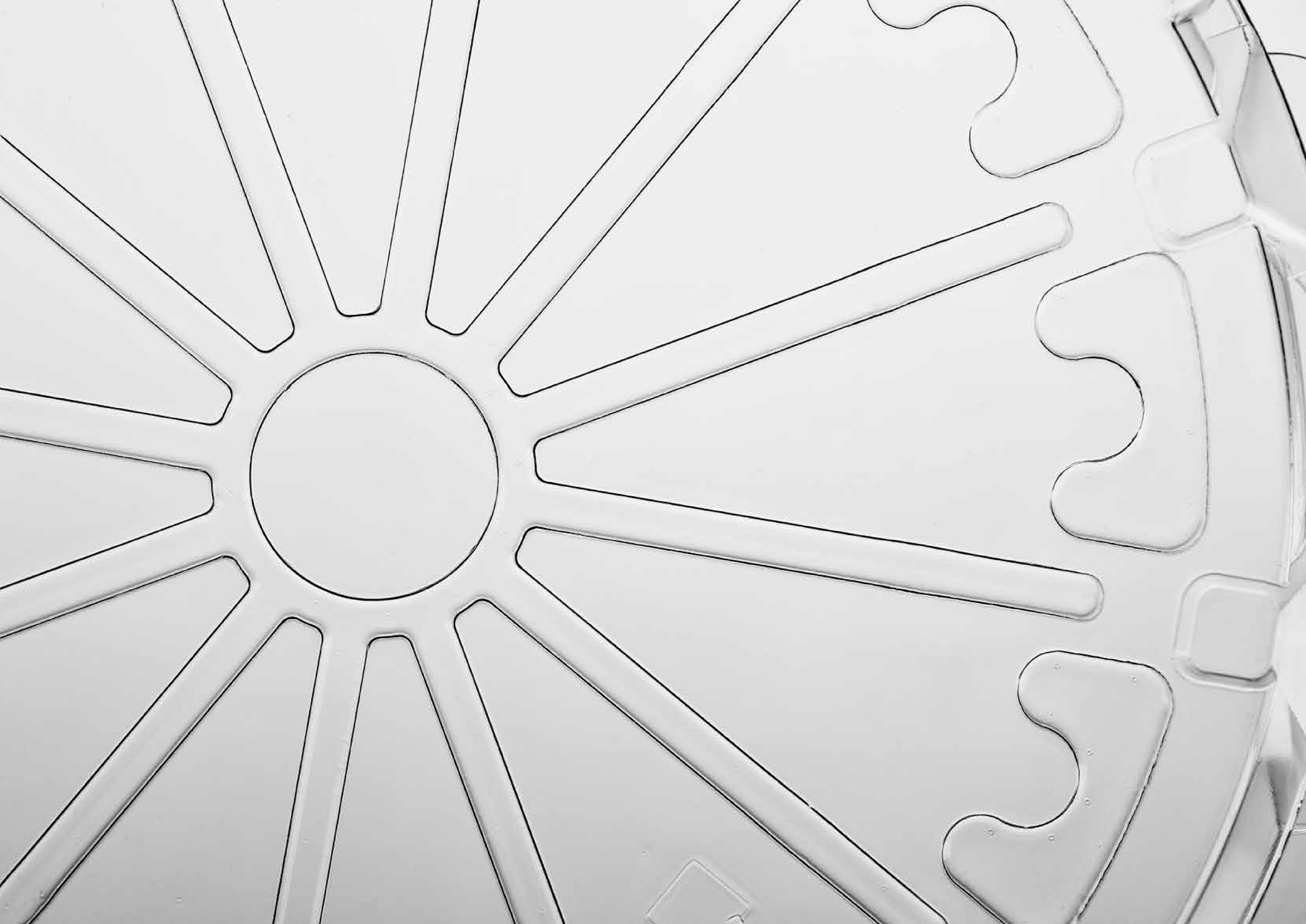
Demarcation
Temporary workers are not included in the report, but any work-related accidents are reported to the Danish Working Environment Authority.

Career Development
The results in relation to internal recruitment and career development are calculated on the basis of internal reports from the HR department in the form of a HR report. The total number of internal recruitments and career development as a percentage of the total number of recruitments and career development in total.

Governance
The developed compliance program increases the employees' knowledge about fair competition and anti-corruption and consists of employee training, e-learning, reviewing group policies and manuals.

Information about the actual staff training is recorded in internal registration system.

The 'Supplier Code of Conduct' reflects Faerch's expectations to our suppliers and is based on the ten principles of the UN Global Compact. Most of our major suppliers have already signed our Supplier Code of Conduct. Major suppliers are defined as suppliers of items, materials etc. to Faerch.



Packaging that cares

AR/052019/GROUP