Marel Salmon A/S

Company registration number (CVR): 66 30 97 11

Juelstrupparken 14, 9530 Støvring

Annual report for 2018

Approved at the Company's annual general meeting on 31 / 5 2019
Chairman of the meeting

Contents

Statement by the Board of Directors and the Management Board

The Board of Directors and the Management Board have today discussed and approved the annual report of Marel Salmon A/S for the financial year 1 January to 31 December 2018.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of its operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Aarhus, 17. May 2019

Management Board:

Henrik Skov Ladefoged	Lars Jøker

Board of Directors:

Linda Jonsdottir Chairman	Arni Oddur Thordarson	Sigurdur Olason

Independent auditor's report

To the shareholders of Marel Salmon A/S

Opinion

We have audited the financial statements of Marel Salmon A/S for the financial year 1 January – 31 December 2018 comprising accounting policies, income statement, balance sheet, statement of changes in equity and, notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of 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 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 Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor' report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made 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 judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the company 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 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 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 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.

Independent auditor's report

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Aarhus, 17. May 2019

KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Michael Stenskrog
State Authorised
Public Accountant
MNE no. 26819

Michael E.K. Rasmussen
State Authorised
Public Accountant
MNE no. 41364

Management's review

Company details

Marel Salmon A/S
Juelstrupparken 14
DK-9530 Støvring

CVR No.: 66 30 97 11

Registered office:	Støvring
Financial year:	01.01 - 31.12
Established:	27.07.1981

Board of Directors

Linda Jonsdottir, Chairman
Arni Oddur Thordarson
Sigurdur Olason

Management Board

Henrik Skov Ladefoged
Lars Jøker

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
8210 Aarhus V
DK - Denmark

Consolidated financial statements

The financial statements of Marel Salmon A/S are included in the consolidated financial statements of Marel hf., Austurhraun 9, 210 Gardabaer, Iceland. The consolidated financial statements can be downloaded at www.marel.com.

Management's review

Financial highlights

(DKK'000)	2018	2017	2016	2015	2014
Income statement:					
Revenue	434,591	419,395	345,838	351,467	304,956
Gross profit	129,955	143,201	114,806	99,442	80,617
Ordinary operating profit/loss	42,507	61,639	50,709	38,883	42,098
Financial income and expenses, net	-3,536	-6,794	-4,388	-3,304	-49,275
Profit/loss for the year	30,094	47,698	44,540	27,073	-15,766
Balance sheet:					
Total assets	330,739	338,209	298,509	245,898	223,494
Equity	92,404	123,310	115,612	71,072	43,828
Gross investments in property, plant and equipment	19,100	6,017	1,712	2,849	8,293
Financial ratios %:					
Gross margin	29.9	34.1	33.2	28.3	26.4
Operating margin	9.8	16.3	14.7	11.1	13.8
Return on investment (yearly basis)	12.7	21.5	18.6	16.2	18.8
Solvency ratio	27.9	36.5	38.8	28.9	19.6

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

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

Operating margin $$\frac{\text{Ordinary operating profit/loss x 100}}{\text{Revenue}}$$

Return on investment $$\frac{\text{Ordinary operating profit/loss}}{\text{Average number of operating assets}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at 31 December}}$$

Management's review

Operating review

Business model

Marel provide advanced equipment and systems to the fish, meat and poultry industries around the world. Our customers are predominantly companies using advanced and high-end equipment and we serve producers looking to increase the automatization of their production process.

We are defined by our dedication to innovation, reflected in our extensive R&D investments, and we invest around 6% of revenues in research and development annually. Our approach to innovation is not limited to mechanical engineering to optimize performance of each application, but also encompasses integrated technologies and connectivity. Data analytics and software control are becoming increasingly important.

At Marel we focus our efforts on our three main industries of operation, fish, meat and poultry, and are constantly working on new ways to improve existing processes, increase automation and streamlining product processing.

Our strong and long lasting relationship with our customers forms the bedrock of our business model. We are here to partner with our customers, and together we innovate and create products that set new benchmarks in the industry and archive continuous improvements in line with our customer needs.

Marel's extensive sales and service network, spread out across more than 30 countries, is a key competitive edge. The network is Marel's first line of contact for customers at the local level, and it brings first-rate service, consistency and continuity to our partnership with our clients.

Development during the financial year

The positive development from 2017 continued in 2018, even though the growth rate slowed down and ended on a 3.6% increase in revenue, securing an all-time high revenue of DKK 434.6 million. The growth in revenue was mainly driven by larger projects in the meat segment with an increase of 33%.

The change in product mix has, on the other hand led to a decrease in our gross profit margin, as the projects within the meat segment are typically larger but with a smaller margin compared to stand alone equipment in the fish industry.

Marel as a global company is operating with an ambitious growth strategy, and are right now in a build-up phase with large investments in production equipment, common IT platforms and hiring new employees to drive the growth. This means that we have seen an increase in the operating cost for most functions affecting the net result negatively.

The profit for the year after tax totalled DKK 30.1 million, which is 17.6 million less than 2017. Equity totalled DKK 92.4 million at the end of the year, corresponding to a solvency ratio of

Management's review

Operating review

Development during the financial year, continued

28%. The equity has been reduced by paying out dividend for a total of DKK 61 million during 2018.

The profit is not fully living up to the expectations disclosed in the latest published annual report, as the increase in the cost base during 2018 was not fully foreseen, but are still considered as being satisfactory.

Capital resources

The Company's capital resources total DKK 50.7 million, corresponding to the Company's cash and cash equivalents.

Particular risks

In addition to the general socio-economic trends, the Company is also affected by particular risks in relation to the competitive environment and diseases in the production chain.

In general, the food product industry saw increasing competition in most countries. Combined with strongly increasing competition between countries and regions within agriculture, the production chain is continuously concentrated. At the same time, a number of work processes related to agriculture and food production are transferred from high-income countries to countries with lower production costs.

Likewise the industry for production of advanced food processing solutions is undergoing a rapid process of consolidation in these years and we see an intense competition.

Diseases such as bird flu, BSE or foot-and-mouth disease are risks which, in case of breakout, may affect the Company’s sales in the countries and regions that are affected.

Due to its substantial export transactions, the Company is exposed to changes in foreign currencies and interest level. It is group policy to manage financial risks, and no speculation is made in this respect.

Management's review

Operating review

Intellectual capital

The primary business foundation is to provide competitive products, solutions and technology for the food industry improving its competitiveness. Accordingly, the Company must be able to develop and retain intellectual capital and know-how on products and business processes. The Company therefore regularly develops policies and procedures for recruiting, training and retaining employees and for developing and documenting products and business processes.

Research and development activities

2The Company's research and development activities comprise regular development of new and existing products and processes for the food industry. Approx. DKK 30.5 million was capitalized and expensed on development projects and activities during the financial year equivalent to 7% of revenue. Development activities for the coming years are expected to be in the same or even a higher level.

Disclosure on social responsibility requirements (§99 a)

Marel Salmon A/S is part of the global Marel Group that has signed the United Nations Global Compact. The official CSR reporting for the group can be found in the annual report for Marel on the website www.marel.com.

The statutory report on corporate social responsibility for Marel Salmon A/S covers the financial period 1 January – 31 December 2018 and relates to the annual report for 2018.

Corporate social responsibility

Social and staff matters

Marel's human resources mission is to engage competent employees and provide them with a supportive and ambitious work environment that motivates and encourages them to make Marel's vision their own. To do this, we provide excellent training and opportunities for further education and job development. We work hard to promote a spirit of teamwork and co-operation throughout the whole organization.

One of the biggest risks is the employee's retention, which we manage through our development trainings and employee satisfaction surveys that guide us to improve ourselves as employer and continue delivering value to our employees.

The Management has an ongoing focus on ensuring that Marel Salmon A/S is an attractive workplace for its employees. We do this by supporting a number of employee activities, e.g. sports, social events and a good and healthy canteen. We have a policy of open communication as well as promoting a culture that seeks a healthy balance between work and personal life.

Management's review

Operating review

Corporate social responsibility

Employee satisfaction is measured in annual surveys and employee interviews upon which operational changes are implemented. The employee survey for 2017 showed a total score of 3.81 (with 5 being the maximum score) which is an improvement of 0.08 over 2016. Based on the survey the management team defined improvement projects to be worked on during 2018, among other things increasing the quality of our performance reviews and feedback and improve on praise and recognition. The survey for 2018 is expected to be published in Q2 2019.

Our engagement with the local community is mainly focused on educational outreach in collaboration with local educational institutions, using internships and trainee programs to assist talented young professionals entering the workforce.

Anti-corruption and bribery

Marel's reputation is critical to the company's success; therefore, compliance with global anti-bribery and anti-corruption laws is taken very seriously. An anti-bribery and anti-corruption policy was adopted in January 2017 to reinforce that commitment. It applies to Marel's employees, officers and directors, and any contractors, consultants, agents and other business partners that are engaged in business on behalf of Marel.

The main risk related to our activities include employees and suppliers' violation of our Code of Conduct and our Anti-corruption policies and potential legal and financial consequences hereof. In order to limit such risks, we provide training for both current and new employees.

Furthermore all new customers and vendors are tested in FinScan for sanctions as well as a no cash policy being in place for all transactions made between the company and its customers. No breaches to the anti-corruption and bribery policy were recorded in 2018.

Climate and environment

One of our sustainability goals is to help our customers use less water and energy while minimizing their CO2 footprint during production. In general, it is the group's policy to reduce this impact to the extent it is considered financially fair and reasonable. A number of projects have been implemented to support precautionary approaches to environmental challenges, and in 2017 we added a sustainability Scorecard to the product development process, which encourages inclusion of sustainable features from the beginning of the product development process.

Because we are in the food processing business animal welfare is high on our agenda, particularly for our research and development process, where a number of sustainability indicators on animal welfare is included in the sustainability scorecard. By instituting good animal welfare practices in general, we can increase the quality of products and production while simultaneously reducing the carbon footprint of food processing using Marel solutions.

Management's review

Operating review

Corporate social responsibility

The main risk to the climate and the environmental impact is the increased carbon emission.

The two largest indirect contributors to our carbon footprint are energy consumption in our facilities and employee air travel. On global scale we see that our carbon emission has risen simply due to the fact that the company continues to expand.

Through our travel policy, we will strive to continue to continuously lower our carbon footprint by actively encouraging employees to use alternative means of meeting and communicating with each other and our customers.

On local level we have been changing our light source to LED during the last couple of years and by now app. 60% of all lights are changed. We have also been upgrading our production equipment to more energy efficient machinery, and by scrapping our old Water-cutter we have reduced the amount of waste water considerably.

Human rights

In Marel we have a zero-tolerance policy concerning human rights violations including child labor, forced labor or illegal labor conditions. All Marel employees are required to have reached legal working age in the country they work in and no Marel facilities are allowed to be associated with illegal labor conditions or forced labor.

We are committed to respecting all employees' freedom of association and right to collective bargaining without discrimination.

No human rights violations were recorded in 2018.

The main risk related to our activities includes work accidents especially for our operational staff.

Marel is dedicated in providing a safe and healthy working environment, and in order to limit the risk, we do our utmost to make sure our employees have the necessary competences, tools and instructions to perform their work professionally and safely. A Mare Safety, Health and Environment (SHE) Support team monitors compliance with the Marel SHE Policy and facilitates the process for improvement.

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Operating review

Corporate social responsibility

The reported number of accidents and the correspondent number of sick days has developed like this:

	2016	2017	2018
Accidents	2	15	7
Number of sick days	12	6	33

Even though the number of accidents has been increasing since 2016, the background is that we are more and more aware to report even small incidents, and from 2019 we will start reporting on near misses. In 2018 no serious accidents were reported.

A global diversity policy was adopted in 2017, and has been implemented from 2018 and onwards. Its objective is to insure that equality and diversity within Marel as well as increasing job satisfaction and well-being in the workplace.

The diversity policy rests on four, equally important, pillars:

1. Ensuring equal opportunity
2. Promoting a company culture of tolerance and integration
3. Acting strong and decisively against any bullying, violence or harassment
4. Increasing the visibility of Marel

We aim to make sure that employees are not discriminated against on the grounds of their gender, beliefs, nationality, race, sexual orientation, religion, color, personal finances, family, age or on any other grounds.

Disclosure on Gender diversity requirements (§99 b)

Policy for the gender quota on the Management Board

Under section 99b of the Danish Companies Act, the Board of Directors of Marel Salmon A/S has laid down the Company's policy to increase the share of the underrepresented gender in the Company's Management in general.

The Board of Directors has an even distribution of the gender quota. The board members of Marel Salmon A/S are now two men and one woman. Therefore, no additional targets have been set for the underrepresented gender.

Management's review

Operating review

Disclosure on Gender diversity requirements (§99 b)

Policy for other management levels

Marel Salmon A/S wishes that the gender quota of society between men and women is reflected in the Company's management level. Through this policy, the Company will create an equal distribution of sexes at management level.

Managers of the Company should be elected / employed based on their overall qualifications, and it is essential that the managers have the right qualifications, irrespective of their sex. The Board of Directors, however, acknowledges the advantages of a broad-based management at all levels taking into consideration experience, specialized knowledge, culture and sex, etc.

Marel Salmon A/S is in a branch, which has a predominance of male employees. The present management team in Marel Salmon A/S comprises six persons of which one is female. The Company aims at increasing the number of female managers, and initiatives will be taken to attract more females that are qualified when changes are made in the present management team. Marel Salmon A/S will aim at having one female candidate among the final applicants for the job when a vacant position is to be filled.

The measures initiated have not yet implied any changes in the gender quota of the management team during 2018, even though we have changed on position. However we managed to have a female candidate as the runner up.

Outlook

For 2019 the Company expects to be able to realise an increase in revenue, as we continue to bring new products to the market and at the same time expand our market share on product releases from previous years.

The Company's order book is quite satisfactory, there are, however, still large geographic differences in the development on the markets, and the sales of capital goods will still depend on the general economic climate in the different markets. Expectations therefore involve some uncertainty.

In 2019 we will start the implementation of our new global IT platform. This requires that substantial resources are used for cleansing of our master data and preparation in general. This is expected to have a negative effect on our earnings.

Based on these assumptions the result for 2019 is expected to be at the same level as for 2018, with a small risk of a lover result.

Financial statements for the period 1 January – 31 December

Accounting policies

The annual report of Marel Salmon A/S for 2018 has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year except for the early adoption of IFRS 15 and 16 from 1. January 2018.

Applying IFRS 15 has had no impact on the profit and loss statement or the balance sheet for 2018.

As a lessee Marel Salmon A/S has applied IFRS 16 on 1. January 2018, using the cumulative catch up approach and measuring the amount equal to liability at adoption, with no restatement of comparative information. As at 1. January 2018 the additional assets and liabilities on the balance sheet amounted to K DKK 6,551. In addition, the nature of expenses related to those leases will now change, as the straight line operation lease expense is replaced with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.

Foreign currency translation

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

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

Non-current assets acquired in foreign currencies are measured at the exchange rate at the transaction date.

Income statement

Revenue

Revenue from the sale of goods and services is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year-end and that the income can be reliably measured and is expected to be received. Contract work in progress is recognised at the selling price of the work performed. Revenue is measured excl. VAT and taxes and less discounts granted in connection with the sale.

Financial statements for the period 1 January – 31 December

Accounting policies

Income statement

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials, goods for resale and consumables, wages and salaries, rent and leases, and depreciation of production plant and other assets used for production purposes. Write-down for inventories and write-down in connection with anticipated bad debt losses on contract work in progress are also included. Production costs also comprise development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising and depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for Company management and administration, including expenses for administrative staff, management, office premises, insurance and office expenses, etc. and depreciation.

Financial income and expenses

Financial income and expenses comprise interest income and expense, finance charges in respect of finance leases, realised and unrealised gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Dividends from equity investments in group entities and associates measured at cost are recognised as income in the Parent Company's income statement in the financial year when the dividends are declared.

In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary.

Financial statements for the period 1 January – 31 December

Accounting policies

Tax on profit/loss for the year

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

Balance sheet

Intangible assets

Development projects comprise costs directly and indirectly attributable to the Company's development activities and which comply with the criteria for recognition under the Danish Financial Statements Act. Capitalised development projects are measured at cost less accumulated amortisation or at recoverable amount if the latter is lower. Capitalised development projects are amortised on a straight-line basis of the estimated useful lives after completion of the development project. The amortisation period is usually five years.

Goodwill, rights and knowhow is measured at cost less accumulated amortisation and impairment losses. Goodwill, rights and knowhow is amortized on a straight-line basis over the remaining life. The expected useful life is set between 5 - 20 years.

Property, plant and equipment

Land and buildings, plant and machinery, fixtures and fittings, as well as other plant and equipment are measured at cost less accumulated depreciation. Land is not depreciated.

The basis of depreciation is cost less expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Financial statements for the period 1 January – 31 December

Accounting policies

Property, plant and equipment, continued

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	20 - 40 years
Machines, plant, tools and equipment, etc.	3 -10 years

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

Leased assets

Leased assets is depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term. The estimated useful lives of the assets are determined on the same basis as those of property and equipment.

The capitalised residual lease obligation is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

Short term leases and leases of low-value assets

Short term leases that have a lease term of 12 month or less and leases of low-value assets are not recognized as right of use assets and lease liability and the lease payments associated with these leases are expensed as a straight line base over the lease term.

The Company's obligation relating to these leases is disclosed in contingent liabilities.

Impairment of non-current assets

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

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

Financial statements for the period 1 January – 31 December

Accounting policies

Impairment of non-current assets, continued

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets.

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

Inventories

Inventories are measured at cost in accordance with the average cost formula. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as direct and indirect production overheads.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected sales price

Receivables

Receivables are measured at amortised cost.

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

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

Financial statements for the period 1 January – 31 December

Accounting policies

Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the work. The degree of completion is computed as the proportion between resources spent and total estimated resources for the completion of the contract. When it is probable that contract work in progress will result in losses, the estimated loss is recognised in the income statement.

When the selling price of contract work in progress cannot be measured reliably, the contract work in progress is measured at the lower of costs incurred and net realisable value.

The individual work in progress is recognised in the balance sheet as receivables or payables depending on the net value of the sales amount less on-account invoicing and prepayments. Selling costs and costs incurred in securing contracts are recognised in the income statement as incurred.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years, such as licence fees and exhibition cost.

Equity

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

Reserve for development costs
The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividend, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Corporation tax and deferred tax

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

Financial statements for the period 1 January – 31 December

Accounting policies

Corporation tax and deferred tax, continued

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, e.g. regarding shares, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are measured at the expected value of their realisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable values.

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

The Company is jointly taxed with the parent company. Current Danish corporation tax is settled by the parent company, which is the administrative company, and allocated between the jointly taxed companies in proportion to their taxable income.

Provisions for warranties

Provisions comprise expected costs of warranties, based on historical experience.

Liabilities other than provisions

Financial liabilities comprising amounts owed to credit institutions, trade payables and payables to group enterprises are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Segment information

Segment information is provided on business segments and geographical markets. The segment information is in line with the Company's accounting policies, risks and internal financial management.

Financial statements for the period 1 January – 31 December

Accounting policies

Applied exemption clauses in the Danish Financial Statements Act

In accordance with section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement, as this is included in the consolidated cash flow statement of the parent company, Marel hf., Iceland.

Pursuant to section 96(3) of the Danish Financial Statements Act, the Company has not disclosed the fee to the auditors appointed at the annual general meeting.

Pursuant to section 98b(3) of the Danish Financial Statements Act, the Company has not disclosed remuneration of Management as only one member of the Management Board is remunerated.

Applied exemption clauses in the Danish Financial Statements Act, continued

The financial statements of Marel Salmon A/S are included in the consolidated financial statements of Marel hf., Austurhraun 9, 210 Gardabaer, Iceland. The consolidated financial statements can be downloaded at www.marel.com.

Financial statements 1 January - 31 December

Income statement

	Note	2018	2017
		(DKK'000)	(DKK'000)
Revenue	1	**434.591**	**419.395**
Production costs	2	-304.636	-275.989
Gross profit		**129.955**	**143.406**
Distribution costs	2	-69.654	-60.315
Administrative expenses	2	-17.794	-14.658
Operating profit		**42.507**	**68.433**
Financial income	3	262	332
Financial expenses	4	-3.798	-7.126
Profit/loss before tax		**38.971**	**61.639**
Tax on profit for the year	5	-8.877	-13.941
Profit for the year	**6**	**30.094**	**47.698**

Financial statements 1 January - 31 December

Balance sheet

	Note	2018	2017
ASSETS		(DKK'000)	(DKK'000)
Non-current assets			
Intangible assets	7		
Goodwill		10.118	12.403
Knowhow		0	250
Rights		0	0
Development projects		31.650	27.237
		41.768	**39.890**
Tangible assets			
Property, plant and equipment	8	59.340	46.852
		59.340	**46.852**
Equity investments			
Other securities and equity investments	9	1.122	828
		1.122	828
Total non-current assets		**102.230**	**87.570**
Current assets			
Inventories	10	**81.380**	**67.716**
Receivables			
Trade receivables		33.497	13.722
Contract work in progress	11	19.639	10.187
Receivables from group enterprises		41.668	52.013
Other receivables		1.209	2.787
Prepayments		403	300
		96.416	**79.009**
Cash at bank and in hand		**50.713**	**103.914**
Total current assets		**228.509**	**250.639**
TOTAL ASSETS		**330.739**	**338.209**

Financial statements 1 January - 31 December

Balance sheet

	Note	2018	2017
		(DKK'000)	(DKK'000)
EQUITY AND LIABILITIES			
Equity	12		
Share capital		47.000	47.000
Reserve for development cost		18.643	12.986
Retained earnings		16.761	25.324
Proposed dividends		10.000	38.000
Total equity		**92.404**	**123.310**
Provisions			
Deferred tax	13	19.000	17.398
Warranties	14	3.240	4.150
		22.240	**21.548**
Non-current liabilities other than provisions			
Payables to group enterprises	15	94.819	94.552
Lease liabillities		1.245	0
		96.064	**94.552**
Current liabilities other than provisions			
Lease liabillities		2.482	0
Prepayments from customers	11	21.228	13.155
Trade payables		30.938	25.247
Payables to group enterprises	15	17.195	9.141
Corporation tax		7.275	10.492
Other payables	16	40.913	40.764
Total current liabilities other than provisions		**120.031**	**98.799**
Total liabilities other than provisions		**216.095**	**193.351**
TOTAL EQUITY AND LIABILITIES		**330.739**	**338.209**
Related parties	17		
Collateral, contingent liabilities and lease liabilities	18		

Financial statements 1 January - 31 December

Statement of changes in equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividends	Total
Balance at 1 January 2017	47.000	5.792	22.820	40.000	115.612
Net profit for the year		7.194	40.504		47.698
Dividend paid				-40.000	-40.000
Proposed dividends			-38.000	38.000	0
Equity at 1 January 2018	**47.000**	**12.986**	**25.324**	**38.000**	**123.310**
Net profit for the year		5.657	24.437		30.094
Dividend paid				-38.000	-38.000
Interim dividend paid			-23.000		-23.000
Proposed dividends			-10.000	10.000	0
Equity at 31 December 2018	**47.000**	**18.643**	**16.761**	**10.000**	**92.404**

Financial statements 1 January - 31 December

Notes

1 Segment information

Operating segments
The identified operating segments comprise the three industries, which are the reporting segments.
These operating segments form the basis for managerial decision taking.

The segment information for the period ended 31 December 2018 is as follows:

	Poultry	Fish	Meat	Others	Total
Revenue	3.228	340.983	86.907	3.473	434.591

Geographical information
The Companys operating segments operate in four main geographical areas

	2018	2017
Revenue	(DKK'000)	(DKK'000)
Denmark	45.710	36.322
Europe other	270.547	300.815
North America	49.693	43.889
Other countries	68.640	38.369
Total	434.591	419.395

2 Staff costs

Wages and salaries, etc.	115.287	101.953
Pensions	13.790	12.021
Other social security costs	1.682	1.612
	130.759	115.586

Staff costs are recognised as follows:

Production	96.111	86.430
Distribution	28.923	24.199
Administration	5.725	4.956
	130.759	115.585
Average number of employees	247	219

Financial statements 1 January - 31 December

Notes

	2018	2017
	(DKK'000)	(DKK'000)
3 Financial income		
Other financial income	262	332
	262	332
4 Financial expenses		
Interest expense, group companies	3.113	3.976
Other financial expenses	685	3.150
	3.798	7.126
5 Tax		
Tax on profit for the year is specified as follows:		
Current tax	-7.275	-10.492
Deferred tax	-1.602	-3.449
Correction prior years	0	0
	-8.877	-13.941
6 Proposed profit appropriation		
Profit for the year	30.094	47.698
Reserve for development cost	-5.657	-7.194
Proposed dividends	-10.000	-38.000
Transferred to next year	14.437	2.504

Financial statements 1 January - 31 December

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7 Intangible assets

	Completed development projects	Ongoing development projects	Total development projects
Cost at 1 January	43.225	23.917	67.142
Additions	0	8.891	8.891
Transferred	21.255	-21.255	0
Cost at 31 December	64.480	11.553	76.033
Impairment loss and amortisation at 1 January	39.905	0	39.905
Amortisation for the year	4.478	0	4.478
Impairment loss and amortisation at 31 December	44.383	0	44.383
Carrying amount at 31 December	**20.097**	**11.553**	**31.650**

Completed development projects relate to the development and test of machines for the food processing industry and are usually amortised over five years.

Ongoing development projects relate to the development and test of machines for the food processing industry and the majority of the projects are expected to be completed in 2019 where considerable economic benefits are expected.

	Knowhow	Rights	Goodwill
Cost at 1 January	2.500	2.499	43.281
Additions during the year	0	0	0
Cost at 31 December	2.500	2.499	43.281
Impairment loss and amortisation at 1 January	2.250	2.499	30.878
Amortisation for the year	250	0	2.285
Impairment loss and amortisation at 31 December	2.500	2.499	33.163
Carrying amount at 31 December	**0**	**0**	**10.118**

Goodwill is amortized over 20 years, as the service business is linked to equipment with a long lifespan.

Financial statements 1 January - 31 December

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8 Property, plant and equipment, own

	Land and buildings	Plant and machinery	Fixtures and fittings, etc.	Assets under construction	Total
Cost at 1 January	62.597	29.223	9.370	1.489	102.679
Additions	1.782	7.239	1.121	2.407	12.549
Transferred		1.489		-1.489	0
Disposals	0	-2.729	-234	0	-2.963
Cost at 31 December	64.379	35.222	10.257	2.407	112.265
Impairment loss and depreciation at 1 January	23.400	24.462	7.965	0	55.827
Disposals	0	-2.419	-234	0	-2.653
Depreciation for the year	1.662	1.132	644	0	3.438
Impairment loss and depreciation at 31 December	25.062	23.175	8.375	0	56.612
Carrying amount at 31 December	**39.317**	**12.047**	**1.882**	**2.407**	**55.653**

Property, plant and equipment, leased

	Land and buildings	Plant and machinery	Fixtures and fittings, etc.	Assets under construction	Total
Cost at 1 January	0		0		0
Additions	3.235		3.316		6.551
Transferred	0		0		0
Disposals	0		0		0
Cost at 31 December	3.235	0	3.316	0	6.551
Impairment loss and depreciation at 1 January	0		0		0
Disposals	0		0		0
Depreciation for the year	1.617		1.247		2.864
Impairment loss and depreciation at 31 December	1.617	0	1.247	0	2.864
Carrying amount at 31 December	**1.618**	**0**	**2.069**	**0**	**3.687**
Total	**40.935**	**12.047**	**3.951**	**2.407**	**59.340**

Financial statements 1 January - 31 December

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	2018	2017
9 Other securities and equity investments	(DKK'000)	(DKK'000)
Deposits for lease of building	828	828
Deposits for foreign VAT	294	0
	1.122	**828**

10 Inventories		
Finished goods	18.115	12.774
Work in progress	26.037	17.258
Raw materials and consumables	37.228	37.684
	81.380	67.716

11 Contract work in progress		
Contract work in progress	59.521	52.876
Progress billings	-61.110	-55.844
Net value at 31 December	-1.589	-2.968
- recognised as follows:		
Contract work in progress	19.639	10.187
Prepayments from customers	-21.228	-13.155
Net value at 31 December	-1.589	-2.968

In the above numbers are intercompany projects included with a sales value of DKK 13.292 thousand and progress billings of DKK 10.158 thousand or a net value of DKK 3.134 thousand with DKK 7.067 thousand reported under assets and DKK 3.930 thousand reported under liabilities.

12 Equity

The Company's share capital amounts to DKK 47,000 thousand, broken down on a share with a face value of DKK 500. No shares carry special rights.

	2018	2017	2016	2015	2014
Share capital for the last 5 years	47.000	47.000	47.000	47.000	2.300

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	2018	2017
	(DKK'000)	(DKK'000)

13 Deferred tax

	2018	2017
Deferred tax at 1 January	17.398	13.949
Deferred tax for the year recognised in profit for the year	1.602	3.449
Deferred tax at 31 December	19.000	17.398

Deferred tax relates to:

	2018	2017
Intangible assets	8.400	7.723
Property, plant and equipment	5.746	3.943
Current assets	5.673	5.732
Liabillities other than provision	-819	0
	19.000	17.398

14 Warranties

	2018	2017
Balance at 1 January	4.150	3.000
Adjustments for the year	-910	1.150
Balance at 31 December	3.240	4.150

Date of maturity is expected to be 0-1 year

15 Non-current liabilities

	Current portion	Non-current portion	Total	Hereof falling due after more than five years
Payables to group enterprises	17.195	94.819	112.014	0
Lease liabillities	2.482	1.245	3.727	
	19.677	**96.064**	**115.741**	**0**

16 Other payables

The most significant items are VAT, income taxes, wages and salaries, provisions for holiday allowances and other costs payable.

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17 Related parties

Marel Salmon A/S' related parties comprise the following:

Control:
Marel A/S, P.O. Pedersensvej 18, 8200 Aarhus N, Denmark
Marel A/S holds the majority of the share capital in the company.

Marel Salmon A/S is part of the consolidated financial statements of Marel hf., Austurhraun 9, 210 Gardabaer, Iceland.

The consolidated financial statements of Marel hf. can be obtained by contacting the Company or at the following website: www.marel.com

	2018	2017
	(DKK'000)	(DKK'000)
Related party transactions		
Group		
Sale of goods	199.358	259.408
Production costs	-43.075	-27.998
Distribution costs	-33.393	-27.710
Administrative expenses	-5.077	-3.904
Financial expenses	-3.113	-3.976
Total	**114.700**	**195.821**

The Company's related parties exercising control comprise the parent company, Marel hf.

Parent Company	(DKK'000)	(DKK'000)
Sale of goods	19.841	21.078
Production costs	-5.502	-7.367
Total	**14.339**	**13.711**
Dividend	**61.000**	**40.000**

Payables and receivables to group enterprises are disclosed in the balance sheet and in note 11 and 15, and expensed interest is disclosed in note 4.

Financial statements 1 January - 31 December

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18 Collateral, contingent liabillities and lease liabillities

The Company is jointly taxed with other Danish group companies. Marel A/S is registred as the administrative company and together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. Corporation taxes payable and withholding taxes within the joint taxation unit totalled DKK 3,619 thousand at 31 December 2018. Any subsequent corrections to the taxable joint taxation income or withholding taxes may imply that the Company's liability will increase.

Cash at bank and in hand amounting to DKK 50,713 thousand has been pledged as security for a group cash pool.