Frontmatec Kolding A/S

Albuen 37, DK-6000 Kolding

CVR no. 76 54 76 10

Annual report 2017

Approved at the Company's annual general meeting on 19 June 2018

Chairman:

T. Stenager

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Thomas Nybo Stenager

Building a better working world

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Frontmatec Kolding A/S for the financial year 1 January - 31 December 2017.

The financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and supplementary Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the 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.

Kolding, 15 June 2018
Executive Board:

Kristian Morberg Madsen
CEO

Board of Directors:

Henrik Andersen Chairman	Thomas Nybo Stenager	Kurt Godsk Andersen
Finn Ejsing Andreasen	Kurt Karlsen	

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CEO

Board of Directors:

Henrik Andersen Chairman	Thomas Nybo Stenager	Kurt Godsk Andersen
Finn Ejsing Andreasen	Kurt Karlsen	

Independent auditors' report

To the shareholders of Frontmatec Kolding A/S

Opinion

We have audited the financial statements of Frontmatec Kolding A/S for the financial year 1 January - 31 December 2017, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 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.

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 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 our procedures, 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 Statements Act. We did not identify any material misstatements of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of 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 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's report

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 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 the financial statements.

As part of an audit conducted in accordance with ISAs and 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 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 conclusion is 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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, den 19 June 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstengaard	Henrik Andersen
State Authorised	State Authorised
Public Accountant	Public Accountant
MNE no.: mne19709	MNE no.: mne32084

Management's review

Company details

Name	Frontmatec Kolding A/S
Address, zip code, city	Albuen 37, DK-6000 Kolding
CVR no.	76547610
Established	16 October 1999
Registered office	Kolding
Financial year	1 January - 31 December
Website	www.Frontmatec.com
E-mail	info@Frontmatec.com
Telephone	+45 76 34 27 00
Board of Directors	Henrik Andersen, Chairman Thomas Nybo Stenager Kurt Godsk Andersen Finn Ejsing Andreasen Kurt Karlsen
Executive Board	Kristian Morberg Madsen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Vaerkmestergade 25, DK-8000 Aarhus C

Management's review

Financial highlights for Frontmatec Kolding A/S

DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	342,095	293,455	253,345	215,436	223,489
Gross profit	88,549	78,489	77,530	48,982	44,201
Operating profit/loss	-4,480	13,122	24,196	3,341	-5,129
Financial income and expenses, net	-179,785	-4,789	-151	-1,487	-933
Profit/loss for the year	**-188,316**	6,500	**17,763**	**1,046**	**-6,634**
Total assets	218,477	479,405	411,547	372,032	376,128
Portion relating to investment in property, plant and equipment	13,297	14,291	11,913	13,184	13,844
Equity	**-44,927**	149,502	**229,534**	**213,009**	**212,588**
Cash flows from operating activities	14,054	97,684	68,002	14,040	20,130
Net cash flows from investing activities	-20,104	-93,206	-5,375	-4,650	-90,553
Cash flows from financing activities	-738	-19,897	-27,395	-26,092	68,197
Total cash flows	**-6,788**	**-15,419**	**35,232**	**-16,702**	**-2,226**
Financial ratios					
Gross margin	25,9%	26,8 %	30,6 %	22,7 %	19,8 %
Operating margin	-1,3%	4,5 %	9,6 %	1,6 %	-2,3 %
Return on assets	-118,6%	1,7 %	4,5 %	0,28 %	-1,9 %
Equity ratio	-486%	31,2 %	55,8 %	57,3 %	56,5 %
Average number of full-time employees	150	142	124	124	129

Financial ratios

The financial ratios have been prepared in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Definition of financial ratios:

Gross margin $$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$$

Operating margin $$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$$

Return on assets $$\frac{\text{Operating profit} \times 100}{\text{Average assets}}$$

Equity ratio $$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

Business review

The main activities of the Company are global sales, engineering, production, installation and service of plant and machinery for industrial slaughtering.

Furthermore, the Company manufacturers and delivers Food Production Logistics systems, selected weighing/data systems as well as yield control and tracking systems.

Financial review

The net loss for the year ended 31 December 2017 is DKK 188,315 thousand. The balance sheet at 31 December 2017 of the Company shows total assets of DKK 218,476 thousand and a negative shareholders' equity of DKK 44,927 thousand.

In 2017, the net loss was impacted by an impairment of the investment and receivables from Frontmatec B.V. at an amount of DKK 200,230 thousand. Excluding the impairment regarding Frontmatec B.V., the net income for 2017 was DKK 11,915 thousand, which was in line with the expectations.

At 6 June 2018, equity was re-established by a conversion of debt to Frontmatec Group ApS at an amount of DKK 92,856 thousand.

At 31 December 2017, the Company owns own shares corresponding to 10.14% of the share capital.

Knowledge resources

The leading position of the Company within the slaughtering industry must be maintained through continued development of new technology and products.

This requires that employees acquire new knowledge and are willing to participate in necessary changes. This effort will be supported through staff development, education and a positive working environment.

Special risks

Unusual risks

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

Financial risks

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

Impact on the external environment

The Company has ratified environmental protection legislation for manufacturers of iron, steel and metal.

Research and development activities

The Company's development activities are expected to increase compared to previous years, and there will be continued focus on exploiting knowledge and experience. In addition to development activities carried out by the Company, staff development is pursued in close co-operation with customers, know-how and industry organizations. The Company protects its intellectual rights by taking out relevant patents.

Management's review

Post balance sheet events

No events have occurred after the financial year-end, which could significantly affect the Company's financial position.

Outlook

Both revenue and earnings are expected to be at the same level in 2018 compared to 2017 excluding the impairment of Frontmatec B.V.

Corporate Social Responsibility (CSR)

Frontmatec has no written policies regarding Corporate Social Responsibility, human rights and climatic impact. However, the Frontmatec Group joined UN Global Compact at the beginning of 2018.

Frontmatec strives to run its business in a responsible way and wants to comply with the legislation in the countries and local communities in which the Company operates. Therefore, Frontmatec has adopted a set of ethical guidelines that describe Frontmatec's responsibility towards the environment and the people who take part in the development and delivery of Frontmatec's solutions.

This means that the Company has a high focus on safety in the workplace, both at the own premises of the Company and when working at customers' sites. Our contracts with suppliers include direct references to the UN Global Compact and focus on the expectations, which the Company has to its suppliers and their sub-suppliers in terms of legal and ethical behaviour.

The Company has handed out its "Business Conduct for Suppliers" to its main suppliers. If suppliers cannot subscribe to the positions stated, they cannot be suppliers to the Company.

The work environment is frequently evaluated by a health and safety committee, which on a regular basis together with the management, considers how to improve the work environment in order to avoid accidents and nearby accidents. The work environment also includes the active sorting of waste to cause as little environmental impact as possible.

Frontmatec considers corruption and bribery to be barriers to sustainable development and free trade, and does not accept such practice in any shape or form. This has been described in a policy and communicated to all employees. Frontmatec expects the same behaviour from its suppliers.

Account of the gender composition of Management

In 2017, the gender distribution of the members of the Board of Directors elected at the Company's ordinary shareholders' meeting was zero women and five men.

The distribution of women and men in the Company in general was 15% women and 85% men as of 31 December 2017.

Frontmatec Kolding A/S' objective for the coming four years is to increase the share of women to approximately 20% on all management levels.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2017	2016
3	**Revenue**	342,095	293,455
4,5	Production costs	-253,546	-214,966
	Gross profit	88,549	78,489
5	Distribution costs	-57,150	-33,535
5	Administrative expenses	-25,547	-17,265
7	Other operating costs	0	148
	Operating profit before depreciations and special non-recurring items	5,852	27,837
8	Special non-recurring items	-2,085	-6,671
6	Depreciation, amortisation and impairment of no-current assets	-8,247	-8,044
	Operating profit	-4,480	13,122
9	Financial income	4,612	3,633
10	Financial expenses	-184,397	-8,422
	Profit/loss before tax	-184,265	8,333
11	Tax for the year	-4,051	-1,833
	Profit/loss for the year	-188,316	6,500
	Proposed profit appropriation/distribution of loss		
	Retained earnings	-188,316	-5,000
	Proposed dividend	0	11,500
		-188,316	6,500

Statement of comprehensive income

Note	DKK'000	2017	2016
	Profit/loss for the year	-188,316	6,500
	Items that are or may be reclassified subsequent to profit or loss:		
	Unrealised gain on forward exchange contracts for the year	6,824	-6,719
	Unrealised gain on forward exchange contracts transferred to financial expenses	0	2,259
	Tax	-1,501	947
	Other comprehensive income for the year after tax	5,323	-3,513
	Comprehensive income for the year	-182,993	2,987

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-current assets		
12	**Intangible assets**		
	Development completed	4,948	6,480
	Acquired intangible assets	1,854	4,751
	Development in progress	7,462	3,261
		14,264	14,492
13	**Property, plant and equipment**		
	Land and buildings	10,279	11,025
	Plant and machinery	1,458	989
	Fixtures and fittings, tools and equipment	1,560	2,277
		13,297	14,291
	Investments		
14	Investments in subsidiaries	56,056	132,805
	Receivables from group entities	0	105,880
18	Deferred tax asset	1,489	14,209
		57,545	252,894
	Total non-current assets	85,106	281,677
	Current assets		
15	**Inventories**	37,516	31,976
	Receivables		
16	Trade receivables	48,463	87,107
17	Construction contracts	13,845	42,219
	Receivables from group entities	17,676	22,713
	Income taxes receivables	7,311	0
	Other receivables	5,658	3,451
	Prepayments	1,265	1,840
		94,218	157,330
	Securities and investments	575	575
	Cash	1,062	7,847
	Total current assets	133,371	197,728
	TOTAL ASSETS	218,477	479,405

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
19	Share capital	9,922	9,922
	Reserve for value adjustments of hedging transactions	82	-5,241
	Reserve for treasury shares	-8,726	-8,726
	Reserve for capitalised development costs	9,680	0
	Reserve for retained earnings	-55,885	142,047
	Proposed dividend	0	11,500
	Total equity	-44,927	149,502
	Liabilities		
	Non-current liabilities		
20	Other credit institutions	12,126	12,760
		12,005	12,760
	Current liabilities		
20	Current portion of non-current liabilities	513	617
	Other credit institutions	3	0
21	Other provisions	4,351	3,249
17	Construction contracts	7,010	84,451
	Trade payables	28,221	36,010
	Payables to group entities	183,396	154,178
	Income taxes	0	-105
	Other payables	27,784	38,743
		251,278	317,143
	Total liabilities	263,404	329,903
	TOTAL EQUITY AND LIABILITIES	218,477	479,405

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Value adjustments of hedging transactions	Treasury shares	Capitalized development cost	Retained earnings	Proposed dividend	Total
Equity at 1 January 2016	9,922	-1,728	-8,726	0	230,066	0	229,534
Comprehensive income for the year							
Profit for the year	0	0	0	0	-5,000	11,500	6,500
Merger				0	-83,019		-83,019
Other comprehensive income							
Unrealized gain on forward exchange contract	0	-4,460	0	0	0	0	-4,460
Tax on other comprehensive income	0	947	0	0	0	0	947
Comprehensive income for the year in total	0	-3,513	0	0	-88,019	11,500	-80,032
Equity at 31 December 2016	9,922	-5,241	-8,726	0	142,047	11,500	149,502

DKK'000	Share capital	Value adjustments of hedging trans-actions	Treasury shares	Capitalized development cost	Retained earnings	Proposed dividend	Total
Equity at 1 January 2017	9,922	-5,241	-8,726	0	142,047	11,500	149,502
Comprehensive income for the year							
Profit for the year	0	0	0	0	-188,316	0	-188,316
Capitalised development cost	0	0	0	12,410	-12,410	0	0
Other comprehensive income							
Unrealized gain on forward exchange contract	0	6,824	0	-2,730	2,730	0	6,824
Tax on other comprehensive income	0	-1,501	0	0	0	0	-1,501
Comprehensive income for the year in total	0	5,323	0	9,680	-197,996	0	-182,993
Share-based payment	0	0	0	0	64	0	64
Paid dividend	0	0	0	0	0	-11,500	-11,500
Equity at 31 December 2017	9,922	82	-8,726	9,680	-55,885	0	-44,927

Financial statements for the period 1 January – 31 December

Cash flow statement

Note	DKK'000	2017	2016
	Operating profit/loss	-4,480	13,122
	Depreciation, amortisation and impairment losses	8,247	8,069
	Provisions	1,102	1,258
	Changes in receivables	76,014	-82,759
	Changes in inventories	-5,540	788
	Changes in trade payables	21,429	108,074
	Changes in other working capital	-81,614	54,121
	Cash generated from operations (operating activities)	15,158	102,673
	Interest received	4,612	3,633
	Interest paid	-5,716	-8,422
	Cash generated from operations (ordinary activities)	14,054	97,884
	Corporation tax paid	0	-200
	Cash flows from operating activities	14,054	97,684
	Acquisition of property, plant and equipment	-7,025	-10,188
	Addition of investments	-1,643	-83,018
	Paid dividend	-11,500	0
	Capital increases	64	0
	Cash flows from investing activities	-20,104	-93,206
	External financing:		
	Contracting of long-term liabilities	-738	-19,897
	Cash flows from financing activities	-738	-19,897
	Net cash flows from operating, investing and financing activities	-6,788	-15,419
	Cash and cash equivalents at 1 January	7,847	23,266
	Cash and cash equivalents at 31 December	1,059	7,847

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

Frontmatec Kolding A/S is a private limited company resident in Denmark. The annual report for the period 1 January to 31 December 2017 consists of standalone financial statements of Frontmatec Kolding A/S.

The financial statements of Frontmatec Kolding A/S are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and supplementary Danish disclosure requirements under the Danish Financial Statements Act.

With reference to the Danish Financial Statements Act, section 86(4), consolidated financial statements have not been prepared. Frontmatec Kolding A/S and subsidiaries are included in the consolidated financial statements of Frontmatec Group ApS.

Implementation of new and changed standards and interpretations

The annual report for 2017 is presented in compliance with all new and revised standards and new interpretations approved by the EU that are relevant for Frontmatec Kolding A/S and effective at 31 December 2017.

The implementation of new and amended standards and interpretations has not had any material impact on the financial reporting for 2017.

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

Recognition and measurement in general

Assets are recognised in the balance sheet when it is probable that future financial benefits will accrue to Frontmatec Kolding A/S and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when Frontmatec Kolding A/S has a legal or actual commitment as a result of a previous event, and it is probable that future financial benefits will flow out of Frontmatec Kolding A/S, and the value of the liability can be measured reliably.

Measurement at initial and subsequent recognition of assets and liabilities take place as described for each individual item below.

At recognition and measurement, various risks and losses which appear before the annual report is presented and which confirm or invalidate matters which existed on the balance sheet day are taken into consideration.

Reporting currency

The annual report is presented in Danish kroner (DKK) and rounded to thousand DKK. DKK is the presentation currency of the activities of Frontmatec Kolding A/S and the functional currency of the parent company.

Currency translation

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognised in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the date of the statement of financial position.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in profit or loss as financial income or financial expenses.

Derivative financial instruments

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

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

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

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

Comprehensive income

Revenue

Revenue from the supply of services and spare parts is recognised as revenue in line with the services being supplied, so that the revenue corresponds to the sales value of the work completed in the financial year.

Construction contracts are recognised as revenue as the production is carried through, which implies that revenue corresponds to the fair value of contracts completed in the financial year (percentage of completion method).

Revenue is measured net of all types of discounts/rebates granted. In addition, revenue is measured net of VAT and other indirect taxes charged on behalf of third parties.

Other operating income and operating expenses

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

Production costs

Production costs comprise direct and indirect expenses relating to raw materials, consumables, labour, rent, and leasing.

Production costs regarding construction contracts for third parties are recognised as incurred.

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

Distribution expenses

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Administrative expenses

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

Government grants

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

Staff costs

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

Special items

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

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

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

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

Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of each individual asset. The depreciation basis is the cost.

The expected useful lives of the assets are as follows:

	Useful life (years)
Buildings	10-40
Plant and machinery	5-10
Other fixtures and fittings, tools and equipment	3-5
Development costs	3-4
Other intangible assets	3-5
Customer relations	10
Brand Value	10

Financial income and expenses

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Tax

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

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

Deferred tax is recognised and measured by the balance orientated liability method of all temporary differences between book value and value for tax of assets and liabilities. The tax value of the assets is computed on the basis of the planned use of the individual asset.

Deferred tax is measured on the basis of the tax rules and the tax rates in the respective countries, which according to the legislation on the balance sheet day will apply when the deferred tax is expected triggered as current tax. Change in deferred tax as a result of changes in tax rates is recognised in the statement of comprehensive income.

Deferred tax assets, including value for tax of tax losses allowed for carry forward are recognised in the balance sheet at the value at which the asset is expected to be realised, either through set off in deferred tax liabilities or as net tax assets.

Balance sheet

Other intangible assets

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

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

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

Development costs not satisfying the above criteria are expensed in the statement of comprehensive income as incurred.

The cost of development projects is measured at direct costs incurred as well as a portion of costs indirectly attributable to the individual development projects.

Tangible assets

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

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment test

The carrying amounts of other non-current assets are reviewed each year to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the assets less expected disposal costs or value in use.

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

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

Inventories

Inventories are measured at the lower of cost, measured by reference to the FIFO method, and net realisable value.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

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

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

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Provisions are made for bad debts on the basis of objective evidence that a receivable or a group of receivables with similar risks are impaired. Provisions are made to the lower of the net realisable value and the carrying amount.

Construction contracts

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

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

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

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Prepayments

Prepayments recognised under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

Prepayments are measured at amortised cost.

Securities and investments

Securities and investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at a value made up using generally recognised valuation principles if the securities are unlisted.

Cash and cash equivalents

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

Pension obligations and similar non-current liabilities

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

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

Share option programme

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

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

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

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

Treasury shares

Purchases and sales of treasury shares are taken directly to equity under 'Reserve for treasury shares'.

Provisions

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

Income tax

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

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

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

Liabilities

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

Other liabilities are measured at net realisable value.

Deferred income

Deferred income is measured at cost.

Cash flow statement

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

Cash flows from operating activities are presented using the indirect method and are made up as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest-bearing debt.

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

2 **Disclosure of material uncertainties**

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

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

Revenue/Construction contracts

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

Tangible and intangible assets

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

Impairment test

An estimate is made of the future free net cash flow based on budgets and the strategy and projections for subsequent years. Significant parameters in this estimate are discount rate, revenue development, EBIT margins and growth expectations for the years after the budget year.

Deferred tax liabilities and assets

Deferred tax assets are recognised if it is likely that there will be taxable income in the future against which timing differences or tax loss carry forwards may be used. For this purpose, Management estimates the coming years' earnings based on budgets and expected growth.

Inventories

The net realisable value of inventories is calculated as selling price less costs of completion and costs necessary to make the sale. The net realisable value is determined, taking into account marketability, obsolescence and development in expected selling prices. Following the economic trend in the market, Management have given special attention to inventory turnover when determining net realisable value.

Trade receivables

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

Warranties

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK'000	2017	2016
3	**Revenue**		
	Segmentation of revenue:		
	Domestic	31,052	48,836
	Foreign	311,043	244,619
		342,095	293,455
4	**Production costs**		
	Production costs for the year	253,362	213,378
	Inventory write-down for the year	184	1,588
		253,546	214,966
	Development costs included in production costs	0	0
5	**Staff costs**		
	Wages and salaries	78,612	86,598
	Pensions	6,104	6,260
	Other social security costs	863	817
		85,579	93,675
	Staff costs are recognised as follows in the parent company financial statements:		
	Production	61,791	53,146
	Distribution	16,873	15,385
	Administration	5,465	20,333
	Other operating expenses	1,450	4,811
		85,579	93,675
	Average number of full-time employees	150	142

Total remuneration to Board of Directors and Executive Board of DKK 100 thousand (2016: DKK 3,759 thousand) is included in staff costs.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

6 **Depreciation, amortisation and impairment losses**

DKK'000	2017	2016
Development completed	2,747	2,256
Acquired intangible assets	3,096	3,682
Buildings	1,531	1,580
Plant and equipment	334	232
Other fixtures and fittings, tools and equipment	539	319
	8,247	8,069
Losses on the sale of property, plant and equipment	0	-25
	8,247	8,044

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

Depreciation, amortisation and impairment are divided into:

DKK'000	2017	2016
Production costs	5,517	4,959
Sales and distribution costs	7	6
Administration costs	2,723	3,104
	8,247	8,069

7 **Other operating costs**

Other operating costs	0	-148
	0	-148

8 **Special items**

Cost related to restructuring of processes and fundamental structural adjustment as a result of new owners and new plans	0	3,345
Organisational changes	2,085	3,326
	2,085	6,671

9 **Financial income**

Interest income from subsidiaries	4,261	3,544
Other interest receivable, exchange rate gains and similar income	351	89
	4,612	3,633

Financial statements for the period 1 January - 31 December

Notes to the financial statements

10 Financial expenses

DKK'000	2017	2016
Interest expense to subsidiaries	4,825	1,552
Impairment of intercompany loan	100,289	0
Impairment of investment	78,392	0
Interest expense, exchange rate losses and similar expenses	891	6,870
	184,397	8,422

11 Tax on the profit/loss for the year

Current tax for the year	-7,206	73
Current tax for last year	88	0
Changes in provision for deferred tax	12,720	813
Adjustment of tax rate on deferred tax	0	0
	5,602	886

Specified as follows:

Tax on the profit/loss for the year	3,825	1,833
Tax on the profit/loss for last year	226	0
Tax on the profit/loss	4,051	1,833
Tax on changes in OCI	1,551	-947
	5,602	886

Reconciliation of tax rate:

Tax according to Danish tax rate	-40,538	1,832
Non-taxable income and non-deductible costs	44,363	1
Changes to previous years	226	0
	4,051	1,833
Effective tax rate	-219.8%	22.0%

Financial statements for the period 1 January – 31 December

Notes to the financial statements

12 Intangible assets

DKK'000	Development completed	Acquired intangible assets	Development in progress	Total
Cost at 1 January 2016	41,379	18,379	3,348	63,106
Additions in the year	0	178	5,501	5,679
Transferred	5,588	0	-5,588	0
Cost at 31 December 2016	46,967	18,557	3,261	68,785
Impairment losses and amortisation at 1 January 2016	38,231	10,124	0	48,355
Amortisation in the year	2,256	3,682	0	5,938
Impairment losses and amortisation at 31 December 2016	40,487	13,806		54,293
Carrying amount at 31 December 2016	6,480	4,751	3,261	14,492

DKK'000	Development completed	Acquired intangible assets	Development in progress	Total
Cost at 1 January 2017	46,967	18,557	3,261	68,785
Additions in the year	0	199	5,416	5,615
Transferred	1,215	0	-1,215	0
Cost at 31 December 2017	48,182	18,756	7,462	74,400
Impairment losses and amortisation at 1 January 2017	40,487	13,806	0	54,293
Amortisation in the year	2,747	3,096	0	5,843
Impairment losses and amortisation at 31 December 2017	43,234	16,902	0	60,136
Carrying amount at 31 December 2017	4,948	1,854	7,462	14,264

Management performs an impairment test of the carrying amount of development projects and other non-current assets at least annually and more frequently if there are indications of impairment. The annual impairment test is performed on 31 December 2017. The recoverable amount of goodwill related to the individual cash generating units are calculated based on the Capital Asset Pricing Model (CAPM model).

The impairment test as at 31 December 2017 showed no indications of impairment on intangible assets.

Management believes that currently no changes in the key assumptions are reasonable likely to reduce the headroom to zero in any of the CGU's.

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

The impairment test is based on divisional structures which are the cash generating units that are expected to benefit from the intangible assets going forward.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

12 Intangible assets (continued)

Key assumptions

The key assumptions in assessing the revocable amount are the annual growth rate in the budget period, the discount rate and long-term growth in the terminal period.

Frontmatec Kolding A/S expects an EBIT margin of 9% in 2018 and a long-term EBIT margin of 15-16%.

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

Growth is supported by a rising world population, increasing urbanisation, growing wealth and increasing demand for food well-being and food safety.

The Company has a potential to grow in both its core markets as well as in other markets where other group entities are located.

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

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

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

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

Financial statements for the period 1 January - 31 December

Notes to the financial statements

13 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	40,226	8,982	6,407	55,615
Additions in the year	2,380	235	1,927	4,542
Disposals in the year	0	-18	-22	-40
Cost at 31 December 2016	42,606	9,199	8,312	60,117
Impairment losses and depreciation at 1 January 2016	30,001	7,978	5,723	43,702
Depreciation in the year	1,580	232	319	2,131
Accumulated depreciation and impairment losses of disposals	0	0	-7	-7
Impairment losses and depreciation at 31 December 2016	31,581	8,210	6,035	45,826
Carrying amount at 31 December 2016	11,025	989	2,277	14,291

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2017	42,606	9,199	8,312	60,117
Additions in the year	785	803	52	1,640
Disposals in the year	0	0	-253	-253
Cost at 31 December 2017	43,391	10,002	8,111	61,504
Impairment losses and depreciation at 1 January 2017	31,581	8,210	6,035	45,826
Depreciation in the year	1,531	334	539	2,404
Accumulated depreciation and impairment losses of disposals	0	0	-23	-23
Impairment losses and depreciation at 31 December 2017	33,112	8,544	6,551	48,207
Carrying amount at 31 December 2017	10,279	1,458	1,560	13,297

Financial statements for the period 1 January - 31 December

Notes to the financial statements

14 Investments in subsidiaries

DKK'000	2017	2016
Cost at 1 January	165,968	165,968
Addition of enterprises	1,643	0
Cost at 31 December	167,611	165,968
Impairment at 1 January	-33,163	-33,163
Impairment in the year	-78,392	0
Impairments at 31 December	111,555	-33,163
Carrying amount at 31 December	56,056	132,805

Subsidiaries	Legal form	Domicile	Voting rights and ownership
Frontmatec Équipements Inc.	Inc.	St. Anselme, Canada	100%
Frontmatec Kansas Inc.	Inc.	Kansas City, USA	100%
Frontmatec Shanghai Co. Ltd.	Co. Ltd.	Shanghai, China	100%
Carometec Inc.	Inc.	Peosta, USA	100%
Frontmatec Holding B.V.	B.V.	Borculo, Netherlands	100%
Frontmatec Russia LLC	LLC	Moscow, Russia	100%

DKK'000	2017	2016
15 Inventories		
Raw materials and consumables	32,249	27,448
Work in progress	3,260	868
Manufactured goods and goods for resale	2,007	3,660
Inventories	37,516	31,976

16 Trade Receivables		
Write down at 1 January	1,200	638
Addition	150	577
Reversals/realised	-648	-15
Write down at 31 December	702	1,200

Financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	2017	2016
17 Construction contracts		
Selling price of work performed	299,942	261,236
Progress billings	-293,106	-303,468
	6,836	-42,232
Recognised as follows:		
Construction contracts (assets)	13,845	42,219
Construction contracts (liabilities)	-7,010	-84,451
	6,836	-42,232

18 Deferred tax

Deferred tax relates to:

	2017	2016
Intangible assets	-2,730	-1,654
Property, plant and equipment	9,842	11,384
Current assets	-19,121	1,695
Liabilities	907	-847
Tax loss carry forward	12,591	3,631
	1,489	14,209
Recognised as follows:		
Deferred tax assets	1,489	14,209
Deferred tax liability	0	0
	1,489	14,209

19 Share capital

The Company's share capital, DKK 100 thousand, is composed of shares of DKK 0.01 or multiples hereof.

	Share capital	
DKK'000	2017	2016
1 January	9,922	9,922
31 December	9,922	9,922

Treasury shares

	Number of shares		Nominal value		% of share capital	
DKK'000	2017	2016	2017	2016	2017	2016
1 January	1,002	1,002	100,200	100,200	10.1%	10.1%
31 December	1,002	1,002	100,200	100,200	10.1%	10.1%

At 31 December 2017, the Company owns treasury shares corresponding to 10.14% of the share capital.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

20 Long-term liabilities

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

DKK'000	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31/12 2016	Due within 1 year	Total
Mortgage debt	2,643	10,117	12,760	617	13,377
Other credit institutions	0	0	0	0	0
	2,643	10,117	12,760	617	13,377

DKK'000	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31/12 2017	Due within 1 year	Total
Mortgage debt	2,715	9,411	12,126	513	12,639
	2,715	9,411	12,126	513	12,639

At 31 December 2017, other credit institutions total DKK 13,377 thousand.

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

21 Provisions

DKK'000	2017	2016
Warranties at 1 January	3,249	2,696
Utilised during the year	4,351	-1,581
Unutilised warranties reversed	-1,696	-1,115
Provision for the year	-1,553	3,249
Warranties at 31 December	4,351	3,249

22 Operating lease obligations

The Company leases properties, cars and operating equipment under operating leases. The lease period is primarily one to five years.

DKK'000	2017	2016
Minimum rent and operating lease commitments, time to maturity		
Within 1 year	1,982	2,069
Between 1 - 5 years	2,693	2,421
After 5 years	0	0
	4,675	4,490

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Notes to the financial statements

23 Security for loans and contingent liabilities

The shares in Frontmatec Equipments Inc, Frontmatec Inc, Frontmatec B.V. and Frontmatec Holdings BV are held as security for all bank debt.

As security for all bank loans, mortgage is granted on land and buildings at a book value of DKK 10,279 thousand with an owner's mortgage with security in the property Albuen 37, Kolding of DKK 26,000 thousand.

As security for all bank loan floating mortgage dead over chattels is granted by Frontmatec Kolding A/S DKK 15,000 thousand as a security for all bank debts.

Frontmatec Kolding A/S has issued a guarantee of payment for all bank debt.

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

Prepayment guarantees and performance bonds provided to customers amount to DKK 7.684 thousand.

24 Financial risks

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

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

Currency risk

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

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

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

An increase of 5 percent in a given exchange rate against Danish Kroner would in 2017 have had the following impact on the profit for the year and equity.

DKK'000	EUR	USD	CAD	CNY	GBP	RUB
Profit/Loss	64	1,470	1,490	-11	15	-65
Equity	-3,375	2,773	9,112	-37	15	-90

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

Financial statements for the period 1 January – 31 December

Notes to the financial statements

24 Financial risks (continued)

Interest risk

Interest rate risks concern the interest-bearing financial assets and liabilities of the Company. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of bank and mortgage debt. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 38 thousand effect on the Company's interest expenses.

Price risk

The Company has a low price risk on procurement and sales. The possibilities to apply price adjustments to the sales prices depend partly on the market situation. Price changes can therefore affect the profit/loss both upwards and downwards. It is company policy not to enter into long-term price agreements with neither customers nor vendors.

Liquidity risk

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

Credit risk

Financial counterpart risk

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

Commercial credit risk

The credit risk incurred from trade receivables is generally managed by continuous credit evaluation of customers and trading partners. Credit risks on counterparties other than banks are minimized through the use of export letters of credit, prepayments and credit insurance.

The maximum credit risk relates to financial assets and corresponds to the carrying amount plus write-downs.

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25 Derivatives

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

Fair value adjustments recognised in financial items in the income statement amounted to DKK 0 million in 2017 and DKK 0 million in 2016. At 31 December 2017, the fair value of the Company's hedge agreements that are not recognised as hedge accounting amounted to DKK 0 million (2016: DKK 0 million).

Fair value hedge

To minimise the foreign currency exposure arising from trade receivables and firm commitments, Frontmatec Kolding A/S uses forward exchange contracts. The change in fair value is specified below

DKK'000	2017	2016
Fair value	-1,389	4,212
Included in the income statement	-1,389	4,212

Cash-flow hedge

To minimise the foreign currency exposure arising from future cash transactions, Frontmatec Kolding A/S uses forward exchange contracts. The change in fair value is specified below

DKK'000	2017	2016
Fair value	154	-7,363
Included in the income statement	69	-645

At 31 December 2017 the fair value of the Company's value hedge instruments amounted to a negative DKK 1.2 million.

26 Related party disclosures

Frontmatec Group ApS has controlling interest in Frontmatec Kolding A/S.

Related parties with significant influence consist of the Company's Board of Directors and Executive Board and close relatives of these persons. Related parties also include companies on which these persons exert considerable influence.

Ownership

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

- Frontmatec Group ApS, Albuen 37, 6000 Kolding

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Notes to the financial statements

27 **Board of Directors and Executive Board**

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

Henrik Andersen

- Chairman of the Board of Directors Frontmatec Tandslet A/S
- Chairman of the Board of Directors Frontmatec Skive A/S
- CEO Frontmatec Smørum A/S
- CEO Frontmatec Group A/S
- CEO Avnholt Invest ApS

Thomas Nybo Stenager

- Chairman of the Board of Directors Frontmatec Smørum A/S
- Member of the Board of Directors Frontmatec Skive A/S
- Member of the Board of Directors Frontmatec Tandslet A/S
- CFO Frontmatec Group A/S

Kurt Godsk Andersen

- Member of the Board of Directors Brüel Systems A/S
- Member of the Board of Directors BS Holding 2015 A/S
- Member of the Board of Directors Frontmatec Smørum A/S
- Member of the Board of Directors Frontmatec Skive A/S
- CEO Frontmatec Skive A/S
- CEO Andersen Advice ApS

Kristian Morberg Madsen

- COO Frontmatec Group ApS
- Member of the Board of Directors Lamipro A/S

Finn Ejsing Andreasen, Quality Coordinator

Kurt Karlsen, Project Technician

Financial statements for the period 1 January - 31 December

Notes to the financial statements

28 Fees paid to auditors appointed at the annual general meeting

DKK'000	2017	2016
Total fees to EY:		
Fee for statutory audit	223	334
Other assurance engagements	28	22
Fee for tax advice	79	21
Fee for non-audit services	0	53
	330	430
Total fees to other auditors:		
Fee for statutory audit	0	0
Other assurance engagements	0	0
Fee for tax advice	0	0
Fee for non-audit services	0	0
	0	0

29 New standards and interpretations

Impact from new accounting standards

The Frontmatec Group has implemented all amended accounting standards and interpretations as adopted by the EU and applicable for the 2017 financial statements, including:

- Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7, Reconciliation of interest-bearing debt

The implementation has not had a significant impact on recognition, measurement or disclosures in the annual report 2017 and is not expected to have significant impact on the financial reporting for future periods.

Standards and interpretations which have been approved for use in the EU, but which have not yet come into force

IASB has issued a number of new or amended accounting standards. The Group expects to implement all new or amended accounting standards and interpretations when they come into force and have been endorsed by the EU. The following standards are the most relevant for the Frontmatec Group. The amended standards and improvements were not incorporated in the annual report 2017 as they were not yet into force:

- IFRS 15, Revenue from contracts with customers (effective date 1 January 2018)
- IFRS 9, Financial instruments: Classification and Measurement and Hedge Accounting (effective date 1 January 2018)
- IFRS 16, Leases (effective date 1 January 2019)

The Group performed a detailed analysis of the expected impact of IFRS 9 and IFRS 15, while only performing an overall analysis of the expected impact of IFRS 16. The results are described below.

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29 New standards and interpretations (continued)

IFRS 15, Revenue from contracts with customers

IFRS 15 will replace IAS 11, Construction Contracts and IAS 18, Revenue and associated interpretations. IFRS provides principles that an entity applies to report useful information with regard to the amount, timing and uncertainty of revenue and cash flow arising from its contracts to provide goods or services to customers.

The core principles require an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services.

Projects for new equipment will continue to recognise revenue over time, as the contract obligations towards the customers are fulfilled over the course of the contract. In case of significant uncertainties with the collectability of contract consideration, the revenue will continue to be recognised upon cash receipt.

Sales of components, spare parts and on service orders will continue to recognise revenue at a point in time. The point in time will be dependent on the transfer of control to the customer.

Based on the implementation analysis it is the assessment that there will be no changes to the recognition method applied. However, due to the consolidation of the Group it is expected that projects in the future will include elements from several entities subject to one centrally negotiated contract and hence substantiate one performance obligation.

The Group will implement IFRS 15 using the modified retrospective application with the cumulative effect of initially applying the standard to be adjusted to opening balance of retained earnings 2018. Consequently, 2017 comparative figures will be reported according to IAS11/IAS 18 and will not be restated to reflect the numbers accordingly to IFRS 15.

In aggregate, it is the assessment that the impact on recognition and measurement of revenue and related items is not significant. IFRS 15 will however have an impact on the note disclosures for the financial period 2018 and onwards.

IFRS 9, Financial Instruments

IFRS 9 will replace IAS 39, Financial Instruments; Recognition and Measurement. IFRS 9 changes the model for classification and measurement of financial assets and liabilities and introduces a new impairment model based on expected losses whereas the current model focuses on impairment indicators. Further, IFRS 9 will introduce a hedge accounting model that will be more closely aligned with how the business undertakes risk management activities when hedging financial and non-financial risk exposures.

In aggregate, it is the assessment that IFRS 9 does not have a significant impact on recognition and measurement. IFRS 9 will however have an impact on the note disclosures for the financial period 2018 and onwards.

IFRS 16, Leases

IFRS 16 will replace IAS 17, Leases. IFRS 16 will require the majority of leasing contracts to be recognised as lease assets with a related lease liability. Consequently, this will have an impact on the income statement where the lease cost will be treated as depreciation and interest expenses, rather than as operating expenses. Cash flow statements will also be impacted due to operating lease expenses being included in financing activities whereas they have until now been recognised in operating activities.

Currently it is not possible to provide a reasonable estimate of the effect before the detailed review and investigations are completed.

The other new standards and amendments are not expected to have a material impact on the financial reporting for the coming financial years.