

Frontmatec Group ApS

Albuen 37, DK-6000 Kolding

CVR no. 37 77 37 43

Annual report 2017

Approved at the Company's annual general meeting on 30 April 2018

Chairman:



.....
Gitte Dehn Lansner





Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	6
Company details	6
Financial highlights for the Group	7
About Frontmatec Group	8
Achievements in 2017	8
Events after the balance sheet date	9
Outlook	9
Risk	11
Consolidated financial statements for the period 1 January – 31 December	12
Income statement	12
Statement of comprehensive income	12
Balance sheet	13
Statement of changes in equity	15
Cash flow statement	16
Parent company financial statements for the period 1 January – 31 December	17
Income statement	17
Statement of comprehensive income	17
Balance sheet	18
Statement of changes in equity	20
Cash flow statement	21
Consolidated financial statements and parent company financial statements for the period 1 January – 31 December	22
Notes to the financial statements	22

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 Group ApS 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.

It is our opinion that the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's financial position at 31 December 2017 and of the results of the Group's and 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 Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

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

Kolding, 25 April 2018

Executive Board:



Henrik Andersen
CEO



Thomas Nybo Stenager
CFO

Board of Directors:



Arne Vraalsen
Chairman



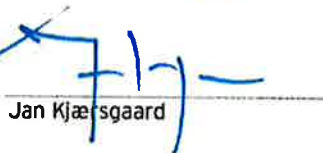
Christoffer Arthur Müller
Vice Chairman



Marianne Vinding Ovesen



Christian Gymer
Schmidt-Jacobsen



Jan Kjærsgaard

Independent auditor's report

To the shareholders of Frontmategroup ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Frontmategroup ApS for the financial year 1 January - 31 December 2017, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2017 and of the results of the Group's and the Parent 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 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 misstatement of the Management's review.

Independent auditor's report

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance 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 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 Group's and the Parent Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note 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

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

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

Aarhus, 25 April 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Steen Skorstengaard
State Authorised
Public Accountant
MNE no.: mne19709



Henrik Andersen
State Authorised
Public Accountant
MNE no.: mne32084



Management's review

Company details

Name	Frontmatec Group ApS
Address, zip code, city	Albuen 37, DK-6000 Kolding
CVR no.	37 77 37 43
Established	6 June 2016
Registered office	Kolding
Financial year	1 January - 31 December
Website	http://www.frontmatec.com/
E-mail	info@frontmatec.com
Telephone	+45 76 34 27 00
Board of Directors	Arne Vraalsen, Chairman Christoffer Arthur Müller, Vice Chairman Marianne Vinding Ovesen Christian Gyms Schmidt-Jacobsen Jan Kjærsgaard
Executive Board	Henrik Andersen, CEO Thomas Nybo Stenager, CFO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, DK-8000 Aarhus C

Management's review

Financial highlights for the Group

DKK'000	1 January - 31 December 2017	6 June - 31 December 2016
Key figures		
Revenue	1,341,573	443,194
Gross profit	449,807	121,025
Operating profit/loss before depreciation	146,910	-5,251
Operating profit/loss	23,422	-48,278
Net financials	-43,114	-13,644
Loss for the year	-52,559	-54,790
Total assets		
Total assets	2,374,242	2,201,913
Portion relating to investment in property, plant and equipment	154,539	143,925
Equity	979,156	920,714
Cash flows		
Cash flows from operating activities	90,147	9,348
Cash flows from investing activities	-212,849	-641,997
Cash flows from financing activities	726,797	26,154
Total cash flows	604,095	-606,495
Financial ratios		
Gross margin	33.8%	27.3%
Operating margin	1.7%	-10.8%
Return on assets	1.0%	-2.2%
Equity ratio	41.2%	41.8%
Average number of full-time employees		
Average number of full-time employees	1,000	799

Financial ratios are calculated in accordance with the recommendations of the Danish Finance Society.

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

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

Frontmatec's business review

About Frontmatec Group

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

Frontmatec Group acquired two companies in 2017. Frontmatec Skive A/S and Accles & Shelvoke Ltd. The combined group has a pro-forma full year revenue in 2017 of DKK 1,363 million and a pro-forma normalized EBITDA of DKK 205 million.

Frontmatec Group has headquarter in Kolding, Denmark and has production facilities in Canada, China, Netherlands, the UK and Germany and on several locations in Denmark (Kolding, Tandslet and Smørum). Moreover, the Group has a global sales footprint with own sales offices in Denmark, Germany, Poland, France, Spain, Netherlands, China, Canada, USA and Russia.

The strategy of the group is to leverage its strong market position and full-line product offering to outperform the underlying market growth while at the same time realising synergies in order to enhance profitability significantly.

Achievements in 2017

The focus of the financial year 2017 was mainly to integrate the six companies, which were acquired in 2016 and 2017, into one group. Key achievements in 2017 include:

- Organizational changes completed to ensure the right competences in the Group to match the future strategy, including new executive management team.
- Completion of post-merger integration process including new name and logo, new website, alignment of systems and processes, etc.
- Definition of overall group strategy and specific strategic initiatives towards 2022.
- Production in Netherland has been down-scaled to benefit from capacity in other companies.
- Investment in additional capacity in Canada.
- Improved processes relating to project management. This will impact efficiency and profitability positively.
- Common innovation process intensified to accelerate new product innovations launched.

Two acquisitions were completed in 2017:

- Frontmatec Skive A/S is a leading provider of automation software solutions mainly for the red meat processing industry but also utilities and manufacturing industries. The company is specialized in systems for control, monitoring and improving yield, throughput, uptime, effectiveness and food safety. The company was acquired in February 2017, and is based in Denmark.
- Accles & Shelvoke Ltd. is a leading provider of cartridge powered stunning tools for the red meat processing industry. The company was acquired in April 2017 and is based in UK.

Despite the considerable integration tasks, the Group managed to grow both turnover and earnings:



**Pro-forma financials include full year turnover, normalized gross profit and EBITDA from companies acquired at 31. December 2017.*

Frontmategroup has a pro-forma revenue of DKK 1,363 million in 2017, which is representing an organic growth of 2% from 2016 (DKK 1,336 million). The after sales & service business unit was the main driver of the overall growth with a turnover increase from DKK 298 million to DKK 336 million representing an increase of 13%.

Gross profit (pro-forma and normalized) increased by 12% from DKK 421 million in 2016 to DKK 483 million in 2017. Gross margin has increased to 35.4% in 2017 from 31.5% in 2016. The margin increase is a result of an improved product mix with an increased share of high margin products (e.g. after sales and instruments) and lower procurement spend as result of the strategic initiatives.

EBITDA (pro-forma and normalised) increased by 21% from DKK 165 million in 2016 to DKK 205 million in 2017. At the same time, the EBITDA margin increased from 12.4% in 2016 to 15.0% in 2017. The increase in EBITDA and EBITDA margin is a result from the higher turnover and improved margins.

Financial statements

The numbers reported in the financial statements are impacted by acquisitions in 2017 and full year effect of acquisitions in 2016.

Frontmategroup has revenue of DKK 1,342 million in 2017, which is DKK 898 million higher than 2016. Operating profit before depreciations and special non-recurring items is DKK 183 million and DKK 148 million higher than 2016. Special non-recurring items of DKK 36 million is related to restructuring costs (2016: DKK 40 million). The consolidated loss for 2017 is DKK 53 million (2016: DKK 55 million). Tax for the year includes write-down of carry forward losses in Netherland of DKK 25 million.

The balance sheet at 31 December 2017 for the Group shows total assets of DKK 2,374 million (2016: DKK 2,201 million) and equity of DKK 979 million (2016: DKK 921 million).

Events after the balance sheet date

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

Other than the acquisition of Xinglong, there have been no events since 31 December 2017, which could significantly affect the evaluation of the Group's financial position and revenue.

Outlook

Management expect that revenue and EBITDA will show a moderate growth in 2018 due to a number of strategic initiatives in 2017.

Corporate Governance

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

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

Board of directors

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

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

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

The following board members are represented on the individual committees:

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

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

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

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

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

Shareholders

Frontmatec Holding III ApS owns 94.15% of:

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

Account of the gender composition of management

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

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

The share of women in the Frontmatec Group is 20% (2016: 20%) of the board of directors, 8% (2016: 10%) of the management group and 14% (2016: 18%) of the total number of employees. The objective is to have approximately 20 % women in the management group within the next five years.

CSR

The Group currently has no written policies regarding its Corporate Social Responsibility such as human rights, climatic impact and environmental conditions, however the Group became a member of UN Global Compact in 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 Frontmatecs responsibility towards the environment and the people who take part in the development and delivery of Frontmatecs solutions.

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

The Group 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 Group.

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 do not accept this practice in any shape or form. This has been described in a policy and communicated to all employees. Frontmatec expects the same behaviour from suppliers.

Risk

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

Unusual risks

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

Financial risks

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

Knowledge resources

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

IT risks

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

Consolidated financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2017	2016 (7 months)
3	Revenue	1,341,573	443,194
4,5	Production costs	-891,766	-322,169
	Gross profit	449,807	121,025
5	Distribution costs	-152,473	-54,025
5	Administrative expenses	-114,284	-31,900
7	Other operating expenses	-54	-274
	Operating profit before depreciation and special non-recurring items	182,996	34,826
8	Special non-recurring items	-36,086	-40,077
6	Depreciation, amortisation and impairment of non-current assets	-123,488	-43,027
	Operating profit/loss	23,422	-48,278
9	Financial income	3,873	3,569
10	Financial expenses	-46,987	-17,213
	Loss before tax	-19,692	-61,922
11	Tax for the year	-32,867	7,132
	Loss for the year	-52,559	-54,790

Statement of comprehensive income

Loss for the year	-52,559	-54,790
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Unrealised gain/loss on forward exchange contracts for the year	17,592	-7,982
Hereof tax	-4,392	1,756
Exchange rate gain/loss on foreign operations	-2,144	7,466
Other comprehensive income for the year after tax	11,056	1,240
Comprehensive income for the year	-41,503	-53,550

Consolidated financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-current assets		
12	Intangible assets		
	Goodwill	990,353	843,863
	Development completed	372,344	380,639
	Acquired intangible assets	207,124	189,923
	Development in progress	25,439	12,677
		<u>1,595,260</u>	<u>1,427,102</u>
13	Property, plant and equipment		
	Land and buildings	123,718	119,741
	Plant and machinery	16,067	12,558
	Fixtures and fittings, tools and equipment	14,754	11,626
		<u>154,539</u>	<u>143,925</u>
	Investments		
18	Deferred tax asset	11,867	41,287
	Total non-current assets	<u>1,761,666</u>	<u>1,612,314</u>
	Current assets		
15	Inventories	178,679	151,239
	Receivables		
16	Trade receivables	251,510	276,119
17	Construction contracts	58,037	87,700
	Income taxes receivable	7,225	10,096
	Other receivables	39,273	29,990
	Prepayments	10,767	5,811
		<u>366,812</u>	<u>409,716</u>
	Securities and investments	575	575
	Cash	66,510	28,069
	Total current assets	<u>612,576</u>	<u>589,599</u>
	TOTAL ASSETS	<u><u>2,374,242</u></u>	<u><u>2,201,913</u></u>

Consolidated financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
19	Share capital	100	100
	Reserve for value adjustments of hedging transactions	1,993	-11,207
	Reserve for foreign exchange adjustments	5,322	7,466
	Retained earnings	971,741	924,355
	Total equity	979,156	920,714
	Liabilities		
	Non-current liabilities		
18	Deferred tax	151,043	146,908
20	Other credit institutions	732,490	24,681
		883,533	171,589
	Current liabilities		
20	Current portion of long-term liabilities	20,461	1,473
	Other credit institutions	68,910	634,564
21	Other provisions	16,596	15,144
17	Payments received from customers	148,130	221,815
	Trade payables	105,211	107,736
	Income taxes	16,797	14,596
	Other payables	135,448	114,282
		511,553	1,109,610
	Total liabilities	1,395,086	1,281,199
	TOTAL EQUITY AND LIABILITIES	2,374,242	2,201,913

- 1 Accounting policies
- 2 Material uncertainties
- 22 Operating lease liabilities
- 23 Securities and loans and contingent liabilities
- 24 Financial risks
- 25 Derivatives
- 26 Related parties
- 27 Supervisory Board and Executive Board
- 28 Fees paid to auditors appointed at the annual general meeting
- 29 Standards and interpretations that have not yet come into force
- 30 Incentive programmes
- 31 Business combinations
- 32 Group structure

Consolidated financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Value adjustments of hedging transactions	Foreign exchange adjustments	Retained earnings	Total
Comprehensive income for the year					
Loss for the year	0	0	0	-54,790	-54,790
Other comprehensive income					
Unrealised gain/loss on currency and interest swap in group entities	0	-12,963	0	4,981	-7,982
Hereof tax	0	1,756	0	0	1,756
Exchange rate on foreign investments	0	0	7,466	0	7,466
Comprehensive income for the year in total	0	-11,207	7,466	-49,809	-53,550
Capital increase	100	0	0	971,341	971,441
Share-based payment	0	0	0	2,823	2,823
Equity at 31 December 2016	100	-11,207	7,466	924,355	920,714

DKK'000	Share capital	Value adjustments of hedging transactions	Foreign exchange adjustments	Retained earnings	Total
Equity at 1 January 2017	100	-11,207	7,466	924,355	920,714
Comprehensive income for the year					
Loss for the year	0	0	0	-52,559	-52,559
Other comprehensive income					
Unrealised profit on currency and interest swap in group entities	0	14,519	0	0	14,519
Hereof tax	0	-1,319	0	0	-1,319
Exchange rate on foreign investments	0	0	-2,144	0	-2,144
Comprehensive income for the year in total	0	13,200	-2,144	-52,559	-41,503
Capital increase	0	0	0	91,345	91,345
Share-based payment	0	0	0	8,600	8,600
Equity at 31 December 2017	100	1,993	5,322	971,741	979,156

Consolidated financial statements for the period 1 January – 31 December

Cash flow statement

DKK'000	2017	2016 (7 months)
Operating profit/loss	23,222	-48,278
Depreciation, amortisation and impairment losses	123,517	43,027
Provisions	12,368	24,817
Changes in receivables	40,033	-400,195
Changes in inventories	-27,440	-151,239
Changes in trade payables	-2,525	107,736
Changes in other working capital	-41,874	329,871
Cash generated from operations (operating activities)	127,301	-94,261
Interest received	3,873	3,569
Interest paid	-46,787	-17,213
Cash generated from operations (ordinary activities)	84,387	-107,905
Income taxes	5,760	117,253
Cash flows from operating activities	90,147	9,348
Acquisition of property, plant and equipment	-304,194	-1,613,438
Capital increase	91,345	971,441
Cash flows from investing activities	-212,849	-641,997
External financing:		
Contracting of long-term liabilities	726,797	26,154
Cash flows from financing activities	726,797	26,154
Net cash flows for the year	604,095	-606,495
Cash and cash equivalents at 1 January	-606,495	0
Cash and cash equivalents at 31 December	-2,400	-606,495

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

Parent company financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2017	2016 (7 months)
3	Revenue	0	0
4,5	Production costs	0	0
	Gross profit	0	0
5	Distribution costs	-373	0
5	Administrative gains/expenses	22,458	-1,855
7	Other operating expenses	0	0
	Operating profit/loss before depreciation and special non-recurring items	22,085	-1,855
8	Special non-recurring items	-18,642	-32,631
6	Depreciation, amortisation and impairment of non-current assets	0	-134
	Operating profit/loss	3,443	-34,620
9	Financial income	17,671	1,817
10	Financial expenses	-38,677	-10,095
	Loss before tax	-17,563	-42,898
11	Tax for the year	529	4,125
	Loss for the year	-17,034	-38,773

Statement of comprehensive income

Note	DKK'000	2017	2016 (7 months)
	Loss for the year	-17,034	-38,773
	<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
	Unrealised loss on forward exchange contracts for the year	-918	-139
	Hereof tax	202	30
	Other comprehensive income for the year after tax	-716	-109
	Comprehensive income for the year	-17,750	-38,882

Parent company financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Non-current assets		
	Intangible assets		
12	Acquired intangible assets	1,205	0
		<u>1,205</u>	<u>0</u>
	Property, plant and equipment		
13	Other fixtures and fittings, tools and equipment	689	0
		<u>689</u>	<u>0</u>
	Investments		
14	Investments in subsidiaries	1,655,879	1,415,547
18	Deferred tax assets	4,621	4,139
	Amounts owed by subsidiaries	0	146,385
		<u>1,660,500</u>	<u>1,566,071</u>
	Total non-current assets	<u>1,662,394</u>	<u>1,566,071</u>
	Current assets		
	Receivables		
	Amounts owed by subsidiaries	183,431	1,500
	Income tax receivables	265	0
	Other receivables	783	5,293
	Prepayments	1,198	134
		<u>185,677</u>	<u>6,927</u>
	Cash	3,462	0
	Total current assets	<u>189,139</u>	<u>6,927</u>
	TOTAL ASSETS	<u>1,851,533</u>	<u>1,572,998</u>

Parent company financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
19	Share capital	100	100
	Reserve for value adjustments of hedging transactions	-825	-109
	Reserve for retained earnings	1,009,895	932,629
	Total equity	1,009,170	932,620
	Liabilities		
	Non-current liabilities		
20	Other credit institutions	709,660	0
		709,660	0
	Current liabilities		
20	Current portion of non-current liabilities	18,753	0
	Other credit institutions	68,907	632,072
	Trade payables	5,027	1,645
	Amounts owed to subsidiaries	33,018	4,677
	Other payables	6,998	1,984
		132,703	640,378
	Total liabilities	842,363	640,378
	TOTAL EQUITY AND LIABILITIES	1,851,533	1,572,998
1	Accounting policies		
2	Material uncertainties		
23	Securities and loans and contingent liabilities		
24	Financial risks		
26	Related parties		
27	Supervisory Board and Executive Board		
28	Fees to the auditors appointed by the Company in general meeting		
29	Standards and interpretations that have not yet come into force		
30	Incentive programmes		
31	Business combinations		

Parent company financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Value adjustments of hedging transactions	Retained earnings	Total
Comprehensive income for the year				
Loss for the year	0	0	-38,773	-38,773
Unrealised loss on forward exchange contract	0	-139	0	-139
Hereof tax	0	30	0	30
Comprehensive income for the year in total	0	-109	-38,773	-38,882
Capital increase	100	0	971,341	971,341
Share-based payment	0	0	61	61
Equity at 31 December 2016	100	-109	932,629	932,620

DKK'000	Share capital	Value adjustments of hedging transactions	Retained earnings	Total
Equity at 1 January 2017	100	-109	932,629	932,620
Comprehensive income for the year				
Loss for the year	0	0	-17,034	-17,034
Unrealised loss on forward exchange contract	0	-918	0	-918
Hereof tax	0	202	0	202
Comprehensive income for the year in total	0	-716	-17,034	-17,750
Capital increase	100	0	91,345	91,345
Share-based payment	0	0	2,955	2,955
Equity at 31 December 2017	100	-825	1,009,895	1,009,170

Parent company financial statements for the period 1 January – 31 December

Cash flow statement

DKK'000	2017	2016 (7 months)
Operating profit/loss	3,443	-34,620
Depreciation, amortisation and impairment losses	0	134
Provisions	2,955	61
Changes in receivables	-3,760	-153,312
Changes in inventories	0	0
Changes in trade payables	3,382	6,322
Changes in other working capital	4,299	1,861
Cash generated from operations (operating activities)	10,319	-179,554
Interest received	17,671	1,817
Interest paid	-38,677	-10,095
Cash generated from operations (ordinary activities)	-10,687	-187,832
Income taxes paid	-218	0
Cash flows from operating activities	-10,905	-187,832
Acquisition of property, plant and equipment	-1,894	-134
Addition of investments	-240,332	-1,415,547
Capital increases	91,345	971,441
Cash flows from investing activities	-150,881	-444,240
External financing:		
Contracting of long-term liabilities	797,320	0
Cash flows from financing activities	797,320	0
Net cash flows for the year	635,534	-632,072
Cash and cash equivalents at 1 January	-632,072	0
Cash and cash equivalents at 31 December	3,462	-632,072

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

Frontmatec Group ApS is a private limited company resident in Denmark. The annual report for the period 1 January - 31 December 2017 consists of both the consolidated financial statements of Frontmatec Group ApS and its subsidiaries (the Group) and the financial statements of the Parent Company.

The financial statements of Frontmatec Group ApS 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.

Implementation of new and changed standards and interpretations

The annual report for 2017 is presented in conformity with all new and revised standards and new interpretations approved by the EU that are relevant to Frontmatec Group ApS 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.

Basis of recognition and measurement

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

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

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

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

Reporting currency

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

Consolidation

The consolidated financial statements comprise the Parent Company Frontmatec Group ApS and entities controlled by it. Control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power of an entity. Control may also exist by virtue of an agreement or articles of association or when the parent otherwise has a controlling interest in the subsidiary or actually exercises controlling influence over it.

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

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Business combinations

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

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

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

Currency translation

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

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

Foreign group entities

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

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

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

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Derivative financial instruments

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

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

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

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

Comprehensive income

Revenue

Revenue from the supply of service and spare parts is recognised as revenue in line with the services agreed 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, meaning that the 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. Also, 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 further include research and development costs not satisfying the capitalisation criteria.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Distribution expenses

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

Administrative expenses

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

Government grants

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

Staff costs

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

Special items

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

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

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

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

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

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

The expected useful lives of the assets are as follows:

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

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

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

Tax

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

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

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

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

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

Balance sheet

Goodwill

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

Other intangible assets

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

Development costs not satisfying the above criteria are expensed in the comprehensive income statement as incurred. The cost of development projects is measured at direct costs incurred as well as a portion of costs indirectly attributable to the individual development projects. Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Tangible assets

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

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

Investments in group entities

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

Impairment test

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

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

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

Inventories

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

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

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.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 comprehensive income statement.

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.

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

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

Notes to the financial statements

1 Accounting policies (continued)

Employee obligations

Pension obligations and similar non-current liabilities

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

Contributions to defined contribution plans where the Group makes fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any outstanding contributions are recognised in the statement of financial position as other payables. Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

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.

Provisions

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

Income tax

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

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

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.

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

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

Other liabilities are measured at net realisable value.

Deferred income

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

Cash flow statement

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

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

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

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

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

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

2 Disclosure of material uncertainties

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

Management considers the following estimates and assessments essential for preparing the consolidated 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 service plus commissioning and handing over.

Property, plant and equipment 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' earning based on budgets and expected growth.

Inventories

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

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.

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements
DKK'000

	Group		Group	
	2017	2016 (7 months)		
3 Revenue				
Segmentation of revenue:				
Domestic	130,860	31,753		
Foreign	1,210,713	411,441		
	<u>1,341,573</u>	<u>443,194</u>		
4 Production costs				
Production costs for the year	887,737	318,937		
Inventory write-down for the year	4,029	3,232		
	<u>891,766</u>	<u>322,169</u>		
5 Staff costs				
DKK'000				
	Group	Group	Parent Company	Parent Company
	2017	2016 (7 months)	2017	2016 (7 months)
Wages and salaries	437,198	126,296	16,984	6,339
Pensions	18,234	8,064	1,427	0
Other social security costs	23,696	6,846	45	0
	<u>479,128</u>	<u>141,206</u>	<u>18,456</u>	<u>6,339</u>
Staff costs are recognised as follows in the consolidated financial statements and the parent company financial statements:				
Production	260,739	80,211	0	0
Distribution	146,454	32,260	0	0
Administration	59,094	16,354	18,156	243
Special non-recurring costs	12,840	12,381	300	6,096
	<u>479,128</u>	<u>141,206</u>	<u>18,456</u>	<u>6,339</u>
Average number of full-time employees	<u>1,000</u>	<u>799</u>	<u>0</u>	<u>0</u>

Total remuneration to the Board of Directors and the Executive Board of DKK 5,184 thousand is included in staff costs.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	Group	Group	Parent Company	Parent Company
	2017	2016 (7 months)	2017	2016 (7 months)
6				
Depreciation, amortisation and impairment losses				
Development completed	69,122	21,706	0	0
Acquired intangible assets	38,595	16,943	0	1
Buildings	6,925	2,291	0	0
Plant and equipment	3,611	1,055	0	0
Other fixtures and fittings, tools and equipment	5,264	1,213	0	0
	123,517	43,208	0	1
Profit/Loss on the sale of property, plant and equipment	-29	-181	0	133
	123,488	43,027	0	134

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

Depreciation, amortisation and impairment are divided into:

DKK'000	Group	Group	Parent Company	Parent Company
	2017	2016 (7 months)	2017	2016 (7 months)
Production costs	114,117	40,165	0	0
Sales and distribution costs	1,176	371	0	0
Administrative expenses	8,195	2,491	0	134
	123,488	43,027	0	134
7				
Other operating expenses				
Other operating expenses	54	274	0	0
	54	274	0	0
8				
Special items				
External cost related to acquisitions	11,071	26,374	0	26,374
External cost for consultants and other support to design and implementation of new strategy	10,882	2,860	18,342	2,860
Company legal restructure	1,471	0	0	0
Cost of internal restructuring	12,662	10,843	300	3,397
	36,086	40,077	18,642	32,631

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

9 Financial income

DKK'000	Group		Parent Company	Parent Company
	2017	2016 (7 months)	2017	2016 (7 months)
Interest income from subsidiaries	0	0	6,162	1,407
Other interest receivable, exchange rate gains and similar income	3,873	3,569	11,509	410
	<u>3,873</u>	<u>3,569</u>	<u>17,671</u>	<u>1,817</u>

10 Financial expenses

Interest expense to subsidiaries	0	0	562	0
Interest expense, exchange rate losses and similar expenses	46,987	17,213	38,115	10,095
	<u>46,987</u>	<u>17,213</u>	<u>38,677</u>	<u>10,095</u>

11 Tax for the year

Current tax for the year	23,305	7,055	-265	0
Current tax for last year	435	-272	0	0
Changes in provision for deferred tax	9,127	-13,915	-264	-4,125
	<u>32,867</u>	<u>-7,132</u>	<u>-529</u>	<u>-4,125</u>

Specified as follows:

Tax for the year	31,727	-6,860	-1,064	-4,125
Tax for last year	1,140	-272	535	0
Tax on profit/loss	32,867	-7,132	-529	-4,125
Tax on changes in OCI	1,177	-1,178	-218	14
	<u>34,044</u>	<u>-8,310</u>	<u>-746</u>	<u>-4,139</u>

Reconciliation of tax rate:

Tax according to Danish tax rate	-1,136	-13,129	-4,066	-9,438
Differences in the tax rates in foreign subsidiaries relative to 22%	4,324	-3	0	0
Non-taxable income and non-deductible costs	5,169	5,094	2,784	5,299
Estimated adjustment for utilization of tax loss carryforwards	24,548	0	0	0
Adjustments of current tax regarding previous years	1,139	-272	536	0
	<u>34,044</u>	<u>-8,310</u>	<u>-746</u>	<u>-4,139</u>

Effective tax rate	<u>-1,621.0%</u>	<u>11.5 %</u>	<u>4.0%</u>	<u>9.6 %</u>
--------------------	------------------	---------------	-------------	--------------

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

12 Intangible assets

DKK'000	Goodwill	Develop- ment com- pleted	Acquired intangible assets	Develop- ment in progress	Total
Exchange rate adjustments	0	139	92	0	231
Acquisitions during the year	843,863	371,330	195,258	5,366	1,415,817
Additions in the year	0	0	11,716	38,232	49,948
Disposals in the year	0	0	-134	0	-134
Transferred	0	30,921	0	-30,921	0
Cost at 31 December 2016	843,863	402,390	206,932	12,677	1,465,862
Exchange rate adjustments	0	45	67	0	112
Amortisation in the year	0	21,706	16,943	0	38,649
Accumulated amortisation and write-downs of disposals	0	0	-1	0	-1
Impairment losses and amortisation at 31 December 2016	0	21,751	17,009	0	38,760
Carrying amount at 31 December 2016	843,863	380,639	189,923	12,677	1,427,102
DKK'000	Goodwill	Develop- ment com- pleted	Acquired intangible assets	Develop- ment in progress	Total
Cost at 1 January 2017	843,863	402,390	206,932	12,677	1,465,862
Exchange rate adjustments	0	-301	-132	-148	-581
Acquisitions during the year	148,622	49,202	51,719	1,383	250,926
Additions in the year	0	0	4,008	23,411	27,419
Disposals in the year	-2,132	0	-54	0	-2,186
Transferred	0	11,884	329	-11,884	329
Cost at 31 December 2017	990,353	463,175	262,802	25,439	1,741,769
Accumulated write-downs and disposals 1 January 2017	0	21,751	17,009	0	38,760
Exchange rate adjustments	0	-42	-25	0	-67
Amortisation in the year	0	69,122	38,595	0	107,717
Accumulated amortisation and write-downs of disposals	0	0	-51	0	-51
Transferred	0	0	150	0	150
Impairment losses and amortisation at 31 December 2017	0	90,831	55,678	0	146,509
Carrying amount at 31 December 2017	990,353	372,344	207,124	25,439	1,595,260

Management performs an impairment test of the carrying amount of goodwill, development projects and other non-current assets at least annually and more frequently if there is evidence of impairment. The annual impairment test is performed on 31 December 2017.

Notes to the financial statements

12 Intangible assets (continued)

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

The impairment test as at 31 December 2017 showed no evidence of impairment for 2017. Management believes that currently no changes in the key assumptions are reasonably likely to reduce the headroom to zero in any of the CGUs.

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

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

Key assumptions

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

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

The Group expects an EBIT margin of 14.4% in 2018 and a long-term EBIT margin of 19-20%.

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

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

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

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

Cash generating unit	Annually average growth rate in EBIT in budget period	Growth rate in terminal period	Discount rate after tax	Discount rate before tax
Processing equipment for red meat slaughterhouses	4-15	2	11.8%	15.3%

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

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

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

Notes to the financial statements

12 Intangible assets (continued)

	Parent Company
	<u>Acquired intangible assets</u>
DKK'000	
Carrying amount at 6 June 2016	
Additions in the year	134
Disposals in the year	-134
Cost at 31 December 2016	<u>0</u>
Amortisation in the year	1
Accumulated amortisation and write-downs of disposals	<u>-1</u>
Impairment losses and amortisation at 31 December 2016	<u>0</u>
Carrying amount at 31 December 2016	<u>0</u>
	<u>Acquired intangible assets</u>
DKK'000	
Carrying amount at 1 January 2017	0
Additions in the year	1,205
Disposals in the year	
Cost at 31 December 2017	<u>1,205</u>
Amortisation in the year	0
Accumulated amortisation and write-downs of disposals	<u>0</u>
Impairment losses and amortisation at 31 December 2017	<u>0</u>
Carrying amount at 31 December	<u>1,205</u>

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

13 Property, plant and equipment

	Group			Total
	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	
DKK'000				
Acquisitions during the year	79,698	9,552	11,761	101,011
Exchange rate adjustments	364	425	234	1,023
Additions in the year	42,101	4,290	1,007	47,398
Disposals in the year	0	-434	-15	-449
Cost at 31 December 2016	122,163	13,833	12,987	148,983
Exchange rate adjustments	131	248	148	527
Depreciation in the year	2,291	1,055	1,213	4,559
Accumulated depreciation and impairment losses of disposals	0	-28	0	-28
Impairment losses and depreciation at 31 December 2016	2,422	1,275	1,361	5,058
Carrying amount at 31 December 2016	119,741	12,558	11,626	143,925

	Group			Total
	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	
DKK'000				
Cost at 1 January 2017	122,163	13,833	12,987	148,983
Acquisitions during the year	1,893	1,622	3,365	6,880
Exchange rate adjustments	-750	-623	-341	-1,714
Additions in the year	9,730	6,740	5,959	22,429
Transferred	0	638	-967	-329
Disposals in the year	0	-989	-569	-1,558
Cost at 31 December 2017	133,036	21,221	20,434	174,691
Impairment losses and depreciation at 1 January 2017	2,422	1,275	1,361	5,058
Exchange rate adjustments	-29	-58	-65	-152
Depreciation in the year	6,925	3,611	5,264	15,800
Transferred	0	618	-768	-150
Accumulated depreciation and impairment losses of disposals	0	-292	-112	-404
Impairment losses and depreciation at 31 December 2017	9,318	5,154	5,680	20,152
Carrying amount at 31 December 2017	123,718	16,067	14,754	154,539

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

13 Property, plant and equipment (continued)

	Parent Company
	Other fixtures and fittings, tools and equipment
DKK'000	
Carrying amount at 6 June 2016	0
Additions in the year	0
Disposals in the year	0
Cost at 31 December 2016	0
Depreciation in the year	0
Accumulated depreciation and write-downs of disposals	0
Impairment losses and depreciation at 31 December 2016	0
Carrying amount at 31 December 2016	0
	Other fixtures and fittings, tools and equipment
DKK'000	
Carrying amount at 1 January 2017	0
Additions in the year	689
Disposals in the year	0
Cost at 31 December 2017	689
Depreciation in the year	0
Accumulated depreciation and write-downs of disposals	0
Impairment losses and depreciation at 31 December 2017	0
Carrying amount at 31 December 2017	689

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

14 Investments in subsidiaries

DKK'000	Parent Company
Carrying amount at 6 June 2016	0
Addition of entities	1,415,547
Adjustment to prior year acquisitions	0
Cost at 31 December 2016	1,415,547
Impairment losses at 31 December 2016	0
Carrying amount at 31 December 2016	1,415,547
Carrying amount at 1 January 2017	1,415,547
Addition of entities	242,463
Adjustment to prior year acquisitions	-2,131
Cost at 31 December 2017	1,655,879
Impairment losses at 31 December 2017	0
Carrying amount at 31 December 2017	1,655,879

Subsidiaries	Legal form	Domicile	Voting rights and ownership
Frontmatec Kolding A/S	A/S	Kolding, Denmark	100%
Frontmatec Equipements Inc.	Inc.	St. Anselme, Canada	100%
Frontmatec Inc.	Inc.	Kansas City, USA	100%
Frontmatec Shanghai Co. Ltd.	Co. Ltd.	Shanghai, China	100%
Frontmatec B.V.	B.V.	Borculo, the Netherlands	100%
Frontmatec Holding B.V.	B.V.	Borculo, the Netherlands	100%
Frontmatec Smørum A/S	A/S	Smørum, Denmark	100%
Frontmatec Tandslet A/S	A/S	Tandslet, Denmark	100%
Frontmatec Hygiene GmbH	GmbH	Beckum, Germany	100%
Frontmatec GmbH	GmbH	Lünen, Germany	100%
Frontmatec Sp. Z. o. o.	Sp. Z. o. o.	Grodzisk, Poland	100%
Frontmatec S.L.	S.L.	Sallent, Spain	100%
Frontmatec LLC	LLC	Moscow, Russia	100%
Frontmatec Skive A/S	A/S	Skive, Denmark	100%
Accles & Shelvoke, Ltd.	Ltd.	Birmingham, United Kingdom	100%
Accles & Shelvoke Inc.	Inc.	West Greenwich, USA	100%
Carometec Inc	Inc.	Peosta, USA	100%

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements		Group	Group
DKK'000		2017	2016
15	Inventories		
	Raw materials and consumables	82,315	69,753
	Work in progress	28,856	8,055
	Manufactured goods and goods for resale	67,508	73,431
		<u>178,679</u>	<u>151,239</u>
16	Trade receivables		
	Write down at 1 January	9,530	0
	Acquired write downs	242	4,334
	Addition	1,321	5,410
	Reversals/realised	-7,867	-214
	Write-down at 31 December	<u>3,226</u>	<u>9,530</u>
17	Construction contracts		
	Selling price of work performed	1,557,579	817,195
	Progress billings	-1,647,673	-951,310
		<u>-90,093</u>	<u>-134,115</u>
	recognised as follows:		
	Construction contracts (assets)	58,037	87,700
	Prepayments received from customers (liabilities)	-148,130	-221,815
		<u>-90,093</u>	<u>-134,115</u>

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

18 Deferred tax

Deferred tax relates to:

DKK'000	Group		Parent Company	Parent Company
	2017	2016	2017	2016
Intangible assets	-137,799	-134,459	0	0
Property, plant and equipment	1,069	2,366	0	0
Current assets	-30,950	-11,157	0	0
Liabilities	7,837	6,242	1,362	1,520
Tax loss carryforwards	20,667	31,387	3,259	2,619
	<u>-139,176</u>	<u>-105,621</u>	<u>4,621</u>	<u>4,139</u>
recognised as follows:				
Deferred tax assets	11,867	41,287	4,621	4,139
Deferred tax liability	-151,043	-146,908	0	0
	<u>-139,176</u>	<u>-105,621</u>	<u>4,621</u>	<u>4,139</u>

19 Share capital

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

DKK'000	Share capital	Share capital
	2017	2016
1 January	100	0
Establishment 6 June 2016	0	50
Capital increase on 31 August 2016	0	50
31 December	<u>100</u>	<u>100</u>

Consolidated financial statements and parent company 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:

	Consolidated 2016				
	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31 December 2016	Due within 1 year	Total
DKK'000					
Mortgage debt	7,237	17,444	24,681	1,473	26,154

	Consolidated 2017				
	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31 December 2017	Due within 1 year	Total
DKK'000					
Mortgage debt	7,320	15,510	22,830	1,708	24,538
Other credit institutions	189,660	520,000	709,660	18,753	728,413
Total	196,980	535,510	732,490	20,461	752,951

At 31 December 2017, mortgage debt is DKK 24,538 thousand, other credit institutions is DKK 728,413 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	Consolidated 2017	Consolidated 2016
Warranties at 1 January	15,144	0
Acquisition of warranty	0	10,779
Exchange rate adjustments	-457	151
Utilised during the year	-9,455	-4,425
Provision for the year	11,364	8,639
Warranties at 31 December	16,596	15,144

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

22 Operating lease liabilities

The Group holds properties, cars and operating equipment under operating leases. The lease term is primarily one to five years.

DKK'000	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Within one year	12,369	4,736	443	0
Between one and five years	22,024	17,108	924	0
After five years	0	0	0	0
	<u>34,393</u>	<u>21,844</u>	<u>1,366</u>	<u>0</u>

23 Security for loans and contingent liabilities

Group

The shares in Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec Smørum A/S, Frontmatec Skive A/S, Accles & Shelvoke, Ltd., Frontmatec Hygiene GmbH, Fronmatec Equipements Inc, Frontmatec Inc, Frontmatec B.V. and Frontmatec Holding B.V. are held as security for all bank debt.

As security for all bank loans, a mortgage is granted on land and buildings at a book value of DKK 51,414 thousand with an owner's mortgage with security in the property Albuen 37, Kolding, of DKK 26,000 thousand and an owner's mortgage with security in the property Mommarkvej 293-301, Tandslet, of DKK 5,500 thousand and owner's mortgage with security in the property Hassellunden 9, Smørum, of DKK 1,200 thousand.

As security for all bank loans, floating company charge is granted by Frontmatec Tandslet A/S, DKK 37,700 thousand, Frontmatec Smørum A/S, DKK 3,000 thousand, and Frontmatec Kolding A/S, DKK 15,000 thousand.

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

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

Prepayment guarantees and performance bonds provided to customers amount to DKK 48,544 thousand.

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

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

Parent Company

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

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

The joint taxation liability mentioned above is also valid for the Parent Company.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

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% in a given exchange rate against DKK would in 2017 have had the following impact on the consolidated profit for the year and equity.

DKK'000	EUR	USD	CAD	CNY	GBP	RUB
Profit/Loss	3,091	1,535	1,490	-11	309	-45
Equity	2,591	2,835	9,111	-37	988	-70

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

Interest risk

Interest rate risks concern the interest-bearing financial assets and liabilities of the Company. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of bank and mortgage debt. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 2,361 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.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

24 Financial risks (continued)

Financial counterpart risk

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

Commercial credit risk

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

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

25 Derivatives

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

Fair value adjustments recognized in financial items in the income statement amount to DKK 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 recognized as hedge accounting amounted to DKK 0 million (2016: DKK 0 million).

Fair value hedge

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

DKK'000	Group		Parent Company	
	2017	2016	2017	2016
Fair value	-3,455	4,212	-2,045	0
Included in the income statement	-3,455	4,212	-2,045	0

Cash-flow hedge

To minimise the foreign currency exposure arising from future cash transactions, the Group applies forward exchange contracts. The change in fair value is specified below:

DKK'000	Group		Parent Company	
	2017	2016	2017	2016
Fair value	2,487	-13,156	-1,058	-139
Included in the income statement	87	-415	0	0

At 31 December 2017, the fair value of the Group's fair value hedge instruments amounted to DKK -1.0 million (2016 DKK -8.9 million).

At 31 December 2017, the fair value of the Company's fair value hedge instruments amounted to DKK -3.1 million (2016 DKK -0.1 million).

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

26 Related parties

Frontmatec Group ApS has controlling interest in Frontmatec Group ApS.

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

Transactions between the consolidated group enterprises are eliminated in these consolidated financial statements. In 2017 there were no transactions between related parties not part of the Group apart from the transactions mentioned below and in notes 5 and 30.

Christoffer Arthur Müller is member of the supervisory board of Müller Gas Equipment with which the Group has a MES contract. These transactions take place at arm's length and amounted to a total of DKK 0.4 million in 2017 (2016: DKK 0.0 million). The outstanding amount of purchases as at 31 December 2017 amounted to DKK 0.7 million (2016 DKK 0.0 million).

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 Holding I ApS, Albuen 37, DK-6000 Kolding

27 Board of Directors and Executive Board

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

Arne Vraalsen, Chairman

Chairman of the supervisory board Ytab Group AB

Chairman of the supervisory board MMAB Group AB

Christoffer Arthur Müller, Director

CEO Frontmatec Holding I ApS

CEO Frontmatec Holding II ApS

CEO Frontmatec Holding III ApS

CEO Müller-Scheibye Invest ApS

CEO Mopani ApS

Chairman of the supervisory board AX V INV2 Holding III ApS

Chairman of the supervisory board AX V INV2 Holding II ApS

Chairman of the supervisory board AX V INV2 Holding I ApS

Member of the supervisory board Zentabox A/S

Member of the supervisory board Mountain Top Industries ApS

Member of the supervisory board Brødrene Müller Holding A/S

Member of the supervisory board Müller Gas Equipment A/S

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

27 Board of Directors and Executive Board (continued)

Marianne Vinding Ovesen, VP Operations

- Member of the supervisory board ApS FMD I
- Member of the supervisory board ApS FMD II
- Member of the supervisory board ApS FMD III
- Member of the supervisory board Ferrosan Medical Devices A/S

Christian Gyms Schmidt-Jacobsen, CEO

- Chairman of the supervisory board Frontmatec Holding I ApS
- Chairman of the supervisory board Frontmatec Holding II ApS
- Chairman of the supervisory board Frontmatec Holding III ApS
- Member of the supervisory board AX V INV1 Holding AB
- Member of the supervisory board AX V INV1 Holding I AB
- Member of the supervisory board AX V INV1 Holding II AB
- Member of the supervisory board AX V INV1 Holding III AB
- Member of the supervisory board AX IV EG Holding III ApS
- Member of the supervisory board EG A/S
- Member of the supervisory board Axcel GP Fonden
- Member of the supervisory board Axcel V GP ApS
- CEO Spero Invest ApS
- CEO and member of the supervisory board Axcel Management A/S
- CEO and member of the supervisory board Axcel Management Holding ApS

Jan Kjærsgaard, Group Executive Vice President

- CEO Eslund Holding ApS
- Chairman of the Board of Directors of VC VIII Jupiter Holding ApS
- Chairman of the Board of Directors of Jupiter Bach A/S

Henrik Andersen, CEO

- CEO Avnholdt Invest ApS

Thomas Nybo Stenager, CFO

Consolidated financial statements and parent company 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	Group		Parent Company	
	2017	2016	2017	2016
Total fees to EY:				
Fee for statutory audit	1,149	853	127	96
Other assurance engagements	1,450	0	1,329	0
Fee for tax advice	170	-42	10	25
Fee for non-audit services	79	1,011	40	1,053
	<u>2,848</u>	<u>1,822</u>	<u>1,506</u>	<u>2,263</u>
Total fees to other auditors:				
Fee for statutory audit	271	589	0	0
Other assurance engagements	0	22	0	0
Fee for tax advice	122	64	0	0
Fee for non-audit services	348	27	0	0
	<u>741</u>	<u>702</u>	<u>0</u>	<u>0</u>

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

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 for 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.

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.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

29 New standards and interpretations (continued)

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 IAS 11/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 depreciations 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.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

30 Incentive programmes

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

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

The value of the allotted warrants in 2017 is DKK 10.0 million. The value of the lapsed warrants in 2017 is DKK 0.2 million. The value of exercised warrants in 2017 is DKK 0.0 million. The total value of the allotted warrants as of 31 December 2017 are DKK 13.6 million. The cost is booked as staff costs.

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

Estimated volatility (based on a view of peer-Companies)	25.00%
Risk-free interest	0.00%
Market value at the time of establishment	DKK 12.3 million
Expiry (number of years)	4.67

Every A1 warrant grants the right to buy 1 share in Frontmategroup Holding II ApS with a nominal value of 0.01 at a rate of DKK 0.01 at the Exit date

Every A2 warrant grants the right to buy 1 share in Frontmategroup Holding II ApS with a nominal value of 0.01 at a rate of DKK 10 + 8 % p.a.

Every B warrant grants the right to buy 1 share in Frontmategroup Holding II ApS with a nominal value of 0.01 at a rate of DKK 10 + 16 % p.a.

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

Number of warrants

	A1 warrants	A2 warrants	B warrants
1 January 2017	37,250	285,593	142,197
Allotted in 2017	146,750	1,065,843	532,921
Lapsed in 2017	0	-21,729	-10,865
31 December 2017	184,000	1,329,707	664,853

Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

31 Business combinations

Acquisition of companies in 2017

During 2017, the Group acquired Frontmategroup Skive A/S and Accles and Shelvoke limited.

Name	Primary activity	Date of control	Acquired ownership	Acquired voting rights	Total consideration DKK'000
Frontmategroup Skive A/S	Developer of full automation solutions, MES and SCADA systems	01-02-2017	100%	100%	150,276
Accles and Shelvoke Ltd.	Manufacturing and sale of stunning guns for humane slaughtering, power loads	01-05-2017	100%	100%	92,186

The acquisition of Frontmategroup Skive A/S will further strengthen Frontmategroup's global position as the number one provider for complete slaughter lines for international pig and cattle slaughterhouses, while the acquisition of Accles and Shelvoke Ltd. also gives a presence in the market for bolt pistols for smaller scale slaughter houses.

DKK'000	
Development projects	51,246
Customer relations	50,574
Order backlog	1,145
Total intangible assets	102,965
Land and buildings	1,893
Other property, plant and equipment	4,988
Inventory	17,569
Other short-term receivables	93,488
Long-term debt	-14,100
Deferred tax	-23,463
Tax payable	-1,372
Other short-term debt	-88,127
Net assets acquired	93,841
Goodwill	148,622
Total consideration	242,463

After recognition of identifiable assets and liabilities at fair value, goodwill in relation to the acquisitions was assessed at DKK 148.6 million. The goodwill represents the value of assets where the fair value cannot be measured reliably, the value of the acquired staff and knowhow, expected synergies from the merger of acquired company and the existing activities in Frontmategroup as well as the value of access to new markets.



Consolidated financial statements and parent company financial statements for
the period 1 January – 31 December

Notes to the financial statements

32 Group structure

Subsidiaries	Company registration number	Stakeholder	Voting rights and ownership	Frontmatec Group ApS Consolidated rights and ownership
Frontmatec Kolding A/S	76547610	Frontmatec Group ApS	100%	100%
Frontmatec Equipements Inc.	11468716231	Frontmatec Kolding A/S	100%	100%
Frontmatec Inc.	01135848	Frontmatec Kolding A/S	100%	100%
Frontmatec Shanghai Co. Ltd.	9131011566607636X1	Frontmatec Kolding A/S	100%	100%
Frontmatec B.V.	08049717	Frontmatec Kolding A/S	100%	100%
Frontmatec Holding B.V.	30889875	Frontmatec Kolding A/S	100%	100%
Frontmatec LLC	7706428312	Frontmatec Kolding A/S	100%	100%
Frontmatec Smørum A/S	13552649	Frontmatec Group ApS	52%	100%
Frontmatec Smørum A/S	13552649	Frontmatec Tandslet A/S	48%	
Frontmatec Tandslet A/S	14307184	Frontmatec Group ApS	70%	100%
Frontmatec Tandslet A/S	14307184	Frontmatec GmbH	30%	
Frontmatec Hygiene GmbH	HRB 7458	Frontmatec Group ApS	100%	100%
Frontmatec GmbH	HRB 17657	Frontmatec Smørum A/S	100%	100%
Frontmatec Sp. Z. o. o.	254341	Frontmatec Smørum A/S	100%	100%
Frontmatec S.L.	B-62423884	Frontmatec Hygiene GmbH	33.3%	100%
Frontmatec S.L.	B-62423884	Frontmatec Smørum A/S	33.3%	
Frontmatec S.L.	B-62423884	Frontmatec Tandslet A/S	33.3%	
Frontmatec Skive A/S	13552649	Frontmatec Group ApS	100%	100%
Accles & Shelvoke, Ltd.	UK 0220533	Frontmatec Group ApS	100%	100%
Accles & Shelvoke Inc.	6046560	Accles & Shelvoke Ltd.	100%	100%
Carometec Inc,	42-1417610	Frontmatec Smørum A/S	100%	100%
Nawi Europe Service and Development B.V.	27176917	Frontmatec Holding B.V.	100%	100%
Nawi Montage en Installatie B.V.	08053378	Frontmatec Holding B.V.	100%	100%
Nawi Produktie B.V.	08053378	Frontmatec Holding B.V.	100%	100%
Nawi Roestvrij Staal B.V.	08053386	Frontmatec Holding B.V.	100%	100%
Nawi Automatisering Ontwikkeling en Research B.V.	08053381	Frontmatec Holding B.V.	100%	100%
Nawi Opleiding en Training B.V.	080103871	Frontmatec Holding B.V.	100%	100%