AB Neo A/S

Skjernvej 42, Trøstrup, DK-6920 Videbæk

Annual Report for 1 September 2019 - 31 August 2020

CVR No 37 40 42 41

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21/12 2020

Jakob Østervang
Chairman of the General Meeting

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Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of AB Neo A/S for the financial year 1 September 2019 - 31 August 2020.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 August 2020 of the Company and of the results of the Company operations and cash flows for 2019/20.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Videbæk, 21 December 2020

Executive Board

José Jorge Nobre

Board of Directors

Scott Michael Gurvis Chairman	José Jorge Nobre	Jakob Østervang

Independent Auditor's Report

To the Shareholder of AB Neo A/S

Opinion
We have audited the Financial Statements of AB Neo A/S for the financial year 1 September 2019 - 31 August 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 August 2020 and of the results of the Company's operations and cash flows for the financial year 1 September 2019 - 31 August 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Independent Auditor's Report

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

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

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

Herning, 21 December 2020
EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Karsten Mehlsen
State Authorised Public Accountant
mne18473

Company Information

The Company	AB Neo A/S Skjernvej 42 Trøstrup DK-6920 Videbæk Telephone: + 45 97 17 33 00 Website: www.ab-neo.com CVR No: 37 40 42 41 Financial period: 1 September - 31 August Incorporated: 22 January 2016 Municipality of reg. office: Ringkøbing-Skjern Secondary business name: Agilia A/S & Agro Korn A/S
Board of Directors	Scott Michael Gurvis, Chairman José Jorge Nobre Jakob Østervang
Executive Board	José Jorge Nobre
Auditors	EY Godkendt Revisionspartnerselskab Industrivej Nord 9 DK-7400 Herning

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2019/20	2018/19	2017/18	2016/17	2016
	TDKK	TDKK	TDKK	TDKK	TDKK (7 months)
Key figures					
Profit/loss					
Operating profit/loss	27,196	14,147	16,177	4,604	1,270
Profit/loss before financial income and expenses	27,201	14,154	16,241	4,632	1,270
Net financials	-16	24	-106	-9	0
Net profit/loss for the year	21,207	11,047	12,567	3,595	987
Balance sheet					
Balance sheet total	151,513	125,893	97,749	85,707	76,415
Equity	104,864	83,696	72,649	60,082	56,487
Cash flows					
Cash flows from:					
- operating activities	35,153	4,201	9,018	8,762	-9,886
- investing activities	-18,243	-21,139	-2,188	-1,655	-40,757
including investment in property, plant and equipment	-18,355	-21,321	-2,319	-1,785	-10,391
- financing activities	-4,973	12,264	-10,170	-2,029	4,660
Change in cash and cash equivalents for the year	11,937	-4,674	-3,340	5,078	-45,983
Number of employees	51	46	38	31	23
Ratios					
Return on assets	18.0%	11.2%	16.6%	5.4%	1.7%
Solvency ratio	69.2%	66.5%	74.3%	70.1%	73.9%
Return on equity	22.5%	14.1%	18.9%	6.2%	1.8%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The company's business activities consist of production and sale of high-end quality feed products for young and sensitive animals.

Development in the year

The income statement of the Company for 2019/20 shows a profit of DKK 21,206,963, and at 31 August 2020 the balance sheet of the Company shows equity of DKK 104,863,771.

Management considers the company's performance in the financial year for satisfactory. Our financial performance this year more than ever demonstrates the resilience of the company. This comes from the strength of our brands, the diversity of our products and markets, our geographic spread and an agile organization.

The company core brands AlphaSoy and DanMilk have again this year performed really well on all parameters.The volumes have increased on existing markets and products. New geographical markets and further development of the product portfolio has also contributed to this year performance.

Our products are continuing showing very good results in young animal production. We have a great momentum selling added value, along with creating strong and lasting partnerships with our customers.

The company has entered a new division in Ab Agri named AB Neo. As of December 2020 the Company have changed primary name to AB Neo A/S, and started trade as AB Neo A/S and appear using branded feedconcepts of Primary Diets and Agilia.

The Company has in the financial year implemented IFRS16 about leases. We transitioned using the 'modified retrospective' approach, under which the comparative period is not restated. The effects of adopting IFRS 16 at our transition date of 1st September 2019 are set out in note 17 of this annual report. We recognized lease liabilities at transition of DKK 4.2 Mio and right-of-use assets of DKK 4.2 mio.

Special risks

The company has no special risks apart from normal business risk in feed industry. The company continuously works on elimination risks and heightened quality standards and meet the criteria of the feed safety standard GMP+.

External environment

The company has no special impact on external environment. The company is committed to work on optimizing and reducing impact on the external environment.

Management's Review

Outlook and expectations

For the coming financial year 2020/21 the company expects sales growth, and earnings in same level, compared to financial year 2019/20.

The Company will continue to invest in production facilities, product development and technologies for future growth.

Subsequent events

After the closing of the financial year, the economy has again been impacted by second round of Covid-19 virus pandemic. The animal feed sector continues and has proven to be very resilient. The company supplies an important feed ingredient to young animals across species and geographies. Our main challenge relates to potential supply chain interruptions, but so far no mayor disruptions have occurred. No other significant events have occurred subsequent to the financial year-end.

Income Statement 1 September - 31 August

	Note	2019/20	2018/19
		DKK	DKK
Gross profit/loss		**64,481,535**	**44,619,542**
Staff expenses	1	-29,054,560	-25,339,879
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-8,225,734	-5,126,097
Profit/loss before financial income and expenses		**27,201,241**	**14,153,566**
Financial income		4,926	69,468
Financial expenses	3	-20,456	-45,596
Profit/loss before tax		**27,185,711**	**14,177,438**
Tax on profit/loss for the year	4	-5,978,748	-3,130,926
Net profit/loss for the year		**21,206,963**	**11,046,512**

Balance Sheet 31 August

Assets

	Note	2020	2019
		DKK	DKK
Other intangible assets		6,229,166	7,379,166
Goodwill		8,593,875	10,180,436
Intangible assets	5	**14,823,041**	**17,559,602**
Land and buildings		37,449,055	4,666,293
Plant and machinery		702,039	1,765,877
Other fixtures and fittings, tools and equipment		6,462,093	1,216,304
Property, plant and equipment in progress		0	20,022,355
Property, plant and equipment	6	**44,613,187**	**27,670,829**
Fixed assets		**59,436,228**	**45,230,431**
Inventories	7	**43,921,102**	**42,925,879**
Trade receivables		23,890,253	29,018,195
Receivables from group enterprises		4,596,300	434,000
Other receivables		421,296	928,324
Prepayments	8	729,613	775,784
Receivables		**29,637,462**	**31,156,303**
Cash at bank and in hand		**18,517,939**	**6,580,526**
Currents assets		**92,076,503**	**80,662,708**
Assets		**151,512,731**	**125,893,139**

Balance Sheet 31 August

Liabilities and equity

	Note	2020	2019
		DKK	DKK
Share capital		500,000	500,000
Retained earnings		104,363,771	83,195,808
Equity	9	**104,863,771**	**83,695,808**
Provision for deferred tax	11	1,393,350	1,133,486
Provisions		**1,393,350**	**1,133,486**
Lease obligations		8,612,126	0
Long-term debt	12	**8,612,126**	**0**
Lease obligations	12	2,970,000	0
Trade payables		20,626,911	22,419,597
Payables to group enterprises		197,500	12,545,930
Corporation tax		5,451,424	3,067,540
Other payables		7,397,649	3,030,778
Short-term debt		**36,643,484**	**41,063,845**
Debt		**45,255,610**	**41,063,845**
Liabilities and equity		**151,512,731**	**125,893,139**
Distribution of profit	10		
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 September	500,000	83,195,808	83,695,808
Net effect from change of accounting policy	0	-39,000	-39,000
Adjusted equity at 1 September	500,000	83,156,808	83,656,808
Net profit/loss for the year	0	21,206,963	21,206,963
Equity at 31 August	**500,000**	**104,363,771**	**104,863,771**

Cash Flow Statement 1 September - 31 August

	Note	2019/20	2018/19
		DKK	DKK
Net profit/loss for the year		21,206,963	11,046,512
Adjustments	13	14,215,012	8,226,151
Change in working capital	14	3,065,810	-11,582,161
Cash flows from operating activities before financial income and expenses		**38,487,785**	**7,690,502**
Financial income		4,926	69,468
Financial expenses		-20,464	-45,595
Cash flows from ordinary activities		**38,472,247**	**7,714,375**
Corporation tax paid		-3,319,000	-3,513,350
Cash flows from operating activities		**35,153,247**	**4,201,025**
Purchase of property, plant and equipment		-18,354,529	-21,320,844
Sale of property, plant and equipment		112,000	182,000
Cash flows from investing activities		**-18,242,529**	**-21,138,844**
Reduction of lease obligations		-2,767,000	0
Repayment of payables to group enterprises		-12,348,431	12,263,929
New lease obligations		10,142,126	0
Cash flows from financing activities		**-4,973,305**	**12,263,929**
Change in cash and cash equivalents		**11,937,413**	**-4,673,890**
Cash and cash equivalents at 1 September		6,580,526	11,254,416
Cash and cash equivalents at 31 August		**18,517,939**	**6,580,526**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		18,517,939	6,580,526
Cash and cash equivalents at 31 August		**18,517,939**	**6,580,526**

Notes to the Financial Statements

		2019/20	2018/19
		DKK	DKK
1	**Staff expenses**		
	Wages and salaries	27,126,679	23,802,344
	Pensions	1,527,081	1,125,182
	Other social security expenses	400,800	412,353
		29,054,560	**25,339,879**
	Average number of employees	**51**	**46**

The company has no financial remuneration paid to management

2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2019/20	2018/19
Amortisation of intangible assets	2,736,561	2,736,561
Depreciation of property, plant and equipment	5,489,173	2,389,536
	8,225,734	**5,126,097**

3 Financial expenses

	2019/20	2018/19
Interest paid to group enterprises	-21,806	4,723
Other financial expenses	42,262	40,873
	20,456	**45,596**

4 Tax on profit/loss for the year

	2019/20	2018/19
Current tax for the year	5,734,884	3,103,581
Deferred tax for the year	243,864	27,345
	5,978,748	**3,130,926**

Notes to the Financial Statements

5 Intangible assets

	Other intangible assets	Goodwill	Total
	DKK	DKK	DKK
Cost at 1 September	14,500,000	15,865,613	30,365,613
Cost at 31 August	14,500,000	15,865,613	30,365,613
Impairment losses and amortisation at 1 September	7,120,834	5,685,177	12,806,011
Amortisation for the year	1,150,000	1,586,561	2,736,561
Impairment losses and amortisation at 31 August	8,270,834	7,271,738	15,542,572
Carrying amount at 31 August	**6,229,166**	**8,593,875**	**14,823,041**
Amortised over	2-10 years	10 years	

Notes to the Financial Statements

6 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	DKK	DKK	DKK	DKK	DKK
Cost at 1 September	5,595,897	6,127,911	3,285,789	20,022,355	35,031,952
Net effect from change of accounting policy	2,015,000	0	2,169,000	0	4,184,000
Additions for the year	13,078,283	7,530	5,273,716	0	18,359,529
Disposals for the year	-369,656	-34,935	-586,825	0	-991,416
Transfers for the year	20,022,355	0	0	-20,022,355	0
Cost at 31 August	40,341,879	6,100,506	10,141,680	0	56,584,065
Impairment losses and depreciation at 1 September	929,604	4,362,034	2,069,483	0	7,361,121
Depreciation for the year	2,312,876	1,071,368	2,104,929	0	5,489,173
Impairment and depreciation of sold assets for the year	-349,656	-34,935	-494,825	0	-879,416
Impairment losses and depreciation at 31 August	2,892,824	5,398,467	3,679,587	0	11,970,878
Carrying amount at 31 August	**37,449,055**	**702,039**	**6,462,093**	**0**	**44,613,187**
Depreciated over	5-50 years	5-12 years	3-12 years		
Including assets under finance leases amounting to	8,664,000	0	2,924,000	0	11,588,000

Notes to the Financial Statements

7 Inventories

	2020	2019
	DKK	DKK
Raw materials and consumables	28,014,676	22,554,368
Finished goods and goods for resale	15,906,426	20,371,511
	43,921,102	**42,925,879**

8 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions etc.

9 Equity

The share capital consists of 500,000 shares of a nominal value of DKK 1. No shares carry any special rights.

10 Distribution of profit

	2019/20	2018/19
	DKK	DKK
Retained earnings	21,206,963	11,046,512
	21,206,963	**11,046,512**

11 Provision for deferred tax

	2020	2019
	DKK	DKK
Provision for deferred tax at 1 September	1,133,486	1,106,141
Amounts recognised in the income statement for the year	243,864	27,345
Amounts recognised in equity for the year	16,000	0
Provision for deferred tax at 31 August	**1,393,350**	**1,133,486**

Notes to the Financial Statements

12 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2020	2019
	DKK	DKK
Lease obligations		
Between 1 and 5 years	8,612,126	0
Long-term part	8,612,126	0
Within 1 year	2,970,000	0
	11,582,126	**0**

13 Cash flow statement - adjustments

Financial income	-4,926	-69,468
Financial expenses	20,456	45,596
Depreciation, amortisation and impairment losses, including losses and gains on sales	8,220,734	5,119,097
Tax on profit/loss for the year	5,978,748	3,130,926
	14,215,012	**8,226,151**

14 Cash flow statement - change in working capital

Change in inventories	-995,219	-13,473,594
Change in receivables	1,479,841	-3,324,334
Change in trade payables, etc	2,581,188	5,215,767
	3,065,810	**-11,582,161**

15 Contingent assets, liabilities and other financial obligations

Contingent liabilities

The company has concluded regular forward puchase contracts for raw materials.

Notes to the Financial Statements

16 Related parties

	Basis
Controlling interest	
Associated British Foods Plc, London.	Participating interest

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

ABF Overseas Limited, London.

Consolidated Financial Statements

The company is included in the group annual report of the parent company.

Name	Place of registered office
Associated British Foods Plc, London.	No. 293262 at Weston Centre, 10 Grosvenor Street, London W1K 4QY

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of AB Neo A/S for 2019/20 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2019/20 are presented in DKK.

Changes in significant accounting policies

The Company initially applied IFRS 16 Leases from 1 September 2019. The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 September 2019. Accordingly, the comparative information presented for 2018/19 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 September 2019.

As a lessee, the Company leases many assets including property, equipment and cars. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Previously, the Company classified all leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 September 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Company's incremental borrowing rate at the date of initial application.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

Notes to the Financial Statements

17 Accounting Policies (continued)

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

- did not recognize right-of-use assets and liabilities for leases of low value assets;

- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and- used hindsight when determining the lease term.

On transition to IFRS 16, the Company recognized right-of-use assets and lease liabilities, recognizing the difference in retained earnings. The impact on transition 1 September 2020 is measuring right-of-use assets DKK 4.184K, Lease Liabilities DKK 4.207K, Additional deferred tax DKK 16K and Retained earnings DKK -39K. The change in accounting policies has only limited effect on the net profit for 2019/20, i.e. increasing depreciation cost with amount DKK 2.737K and increased Gross Profit DKK 2.737K. No interest measured as the borrowing rate set to zero, and no change to overall cash flows.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the

Notes to the Financial Statements

17 Accounting Policies (continued)

debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Leases policy applicable from 1 September 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Acontract is, or contains, a lease if the contract conveys the right to control the use of an identifiedasset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any leaseincentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.
The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Notes to the Financial Statements

17 Accounting Policies (continued)

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount ofthe right-of-use asset has been reduced to zero.
The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases policy applicable before 1 September 2019

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

17 Accounting Policies (continued)

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Notes to the Financial Statements

17 Accounting Policies (continued)

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 10 years.

Other intangible assets acquired is measured at cost less accumulated amortisation. Know-how and brand is amortised on a straight-line basis over its useful life, which is assessed at 2-10 years.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Useful life of intangible assets are based on history and strategic expectations for the future.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	5-50 years
Plant and machinery	5-12 years
Other fixtures and fittings, tools and equipment	3-12 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Notes to the Financial Statements

17 Accounting Policies (continued)

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning insurance premiums, subscriptions etc.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

17 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Cash Flow Statement

The cash flow statement shows the Company´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand”.

The cash flow statement cannot be immediately derived from the published financial records.

Notes to the Financial Statements

17 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$