

Alfa Laval Copenhagen A/S

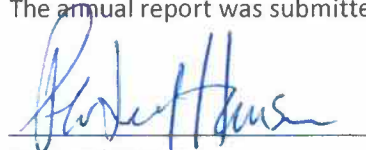
Maskinvej 5, 2860 Søborg

Company reg. no. 10 13 42 85

Annual report

1 January - 31 December 2020

The annual report was submitted and approved by the general meeting on the 27 May 2021.



Per Lund Hansen
Chairman of the meeting

Contents

| | <u>Page</u> |
|--|-------------|
| Reports | |
| Management's report | 1 |
| Independent auditor's report | 2 |
| Management commentary | |
| Company information | 5 |
| Financial highlights | 6 |
| Management review | 7 |
| Financial statements 1 January - 31 December 2020 | |
| Income statement | 16 |
| Statement of financial position | 17 |
| Statement of changes in equity | 19 |
| Notes | 20 |
| Accounting policies | 28 |

Notes:

- To ensure the greatest possible applicability of this document, IAS/IFRS English terminology has been used.
- Please note that decimal points have not been used in the usual English way. This means that for instance DKK 146.940 means the amount of DKK 146,940, and that 23,5 % means 23.5 %.

Management's report

Today, the board of directors and the managing director have presented the annual report of Alfa Laval Copenhagen A/S for the financial year 1 January - 31 December 2020.

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

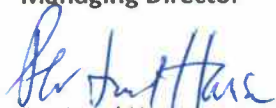
We consider the accounting policies appropriate and, in our opinion, the financial statements provide a fair presentation of the company's assets, equity and liabilities, and financial position at 31 December 2020 and of the company's results of activities in the financial year 1 January – 31 December 2020.

We are of the opinion that the management commentary presents a fair account of the issues dealt with.

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

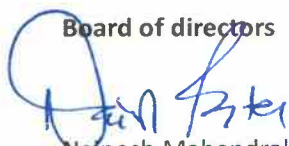
Søborg, 27 May 2021

Managing Director



Per Lund Hansen

Board of directors



Nainesh Mahendrakumar Patel
Chairman



Per Lund Hansen



Anne Kirstine Raun Senderovitz



John Pedersen



Susanne Rosentoft

Independent auditor's report

To the shareholder of Alfa Laval Copenhagen A/S

Opinion

We have audited the financial statements of Alfa Laval Copenhagen A/S for the financial year 1 January – 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including 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 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 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.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 the 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 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

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 the internal control that we identify during our audit.

Statement on the management's review

Management is responsible for the management's review.

Our opinion on the financial statements does not cover the management review, and we express no assurance conclusion thereon.

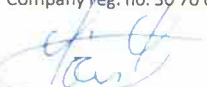
In connection with our audit of the financial statements, our responsibility is to read the management's review and, in doing so, consider whether the management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially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

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

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

Copenhagen, 27 May 2021

EY Godkendt Revisionspartnerselskab
Company reg. no. 30 70 02 28



Søren Skov Larsen

State Authorised Public Accountant
mne26797



Allan Nørgaard

State Authorised Public Accountant
mne35501

Company information

| | |
|---------------------------|--|
| The company | Alfa Laval Copenhagen A/S Maskinvej 5 2860 Søborg Company reg. no. 10 13 42 85 Financial year: 1 January - 31 December |
| Board of directors | Nainesh Mahendrakumar Patel, Chairman Per Lund Hansen Anne Kirstine Raun Senderovitz John Pedersen Susanne Rosentoft |
| Managing Director | Per Lund Hansen |
| Auditors | EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 2000 Frederiksberg |

Financial highlights

DKK in thousands.

Income statement:

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|----------------------------------|----------|-----------|-----------|-----------|-----------|
| Revenue | 911.067 | 1.428.922 | 1.553.629 | 1.402.472 | 1.378.971 |
| Profit from operating activities | -157.621 | -87.422 | -134.608 | -123.739 | -189.189 |
| Net financials | -7.560 | -8.433 | -475 | -3.736 | -6.868 |
| Net profit or loss for the year | -128.197 | -74.811 | -105.169 | -100.036 | -161.814 |

Statement of financial position:

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Balance sheet total | 563.738 | 680.659 | 795.211 | 759.231 | 854.228 |
| Investments in tangible fixed assets represent | 13.975 | 12.800 | 16.956 | 1.150 | 1.992 |
| Equity | 86.208 | 114.422 | 47.913 | 72.889 | 77.164 |

Employees:

| | | | | | |
|---------------------------------------|-----|-----|-----|-----|-----|
| Average number of full-time employees | 480 | 496 | 491 | 523 | 591 |
|---------------------------------------|-----|-----|-----|-----|-----|

Key figures in %:

| | | | | | |
|-----------------------------|--------|-------|--------|--------|--------|
| Profit margin (EBIT-margin) | -17,3 | -6,1 | -8,7 | -8,8 | -13,7 |
| Solvency ratio | 15,3 | 16,8 | 6,0 | 9,6 | 9,0 |
| Return on equity | -127,9 | -92,2 | -174,1 | -133,3 | -169,0 |

Calculations of key figures and ratios do, in all material respects, follow the recommendations of the Danish Association of Finance Analysts, only in a few respects deviating from the recommendations.

No adjustments related to impact due to IFRS 15 and IFRS 16 have been made to comparative figures 2016-2018. Further to this the Pure Ballast activity has been transferred to Alfa Laval Aalborg A/S in June 2019. The book value method has been used and no comparative figures have been adjusted in relation to this structural change.

The key figures and ratios shown in the statement of financial highlights have been calculated as follows:

Profit margin (EBIT margin) $\frac{\text{Operating profit or loss (EBIT)} \times 100}{\text{Revenue}}$

Solvency ratio $\frac{\text{Equity, closing balance} \times 100}{\text{Total assets, closing balance}}$

Return on equity $\frac{\text{Net profit or loss for the year} \times 100}{\text{Average equity}}$

Management review

The below review concerns Alfa Laval as a global business.

The purpose of our business is to accelerate success for our customers, people and planet

Alfa Laval is a leading global provider of first-rate products in the areas of heat transfer, separation and fluid handling. With these as its base, Alfa Laval aims to help enhance the productivity and competitiveness of our customers in various industries throughout the world. We define their challenges and deliver sustainable products and solutions that meet their requirements.. Alfa Laval is active in the areas of Energy, Marine, and Food & Water, as well as in wastewater treatment industries around the world.

The purpose of our business "Advancing Better" provides the motivational force in our daily activities driven by the three business divisions: Energy, Food & Water and Marine. Dedicated to outstanding customer service, an inspiring and inclusive workplace, and with sustainability in our genetic code, we define our purpose as accelerating success for our customers, people and planet. Alfa Laval's innovative technologies are dedicated to purifying, refining, and reusing materials, promoting more responsible use of natural resources. They contribute to improved energy efficiency and heat recovery, better water treatment, and reduced emissions.

A company with global reach

Alfa Laval's Danish companies are owned by Alfa Laval Corporate AB, which is listed on Nasdaq OMX. The Group is headquartered in Lund in the Öresund region and has major branches in both Sweden and Denmark. The Alfa Laval companies have a strong international focus and work together in a global network.

Alfa Laval's products are sold in more than 100 countries, of which more than 50 have their own sales organisations. Alfa Laval has more than 100 service centres worldwide, whose purpose is to service 160 countries worldwide. Today, Alfa Laval has approx. 16,800 employees around the world, of which the majority works in Sweden, Denmark, China, India and North America. In 2020, the Alfa Laval Group had a turnover of SEK 41,6bn equivalent to approx. DKK 30,1bn.

Strong global trends drive demand at Alfa Laval in 2020

2020 was a remarkable year in many ways. Throughout the pandemic, we navigated our company in unprecedented circumstances while seeing many global transformational trends accelerating, with the sustainability agenda continuing to gain momentum and high pace in the digital transformation.

Despite unprecedented circumstances, Alfa Laval performed well in 2020 and we remain fully committed to our long-term strategy while leveraging the changing market conditions. Increased investments in our technology leadership, a stronger focus on expanding the service offerings and the development of a more customer-oriented culture with faster decision making continue to be our key strategic ambitions.

Sustainability

Alfa Laval regards increased focus on sustainability as a necessity and as a business opportunity. Our technologies promote a more responsible use of natural resources in our Energy Division. The division's heat transfer technology is critical in driving energy efficiency in a wide range of applications. Energy efficient solutions for heat pumps and reducing the energy consumption in energy intensive data centers are just two applications that are growing in importance. The increased need for renewable energy sources drives a long-term demand for radically improved energy storage solutions.

Alfa Laval has continued to invest heavily in a new technology for thermal energy storage. Furthermore, the importance of hydrogen as a fuel became evident in 2020 and is an important component in reaching the Paris agreement. Investments into the global infrastructure for hydrogen are expected to greatly increase over the next ten years and Alfa Laval intends to play an important role in this transition. During 2020, we increased our investments into fuel cells to take an early position in this market early in the process.

After many years of investments in new product platforms and a more focused sales organisation, the results were evident in the Food & Water division. While most of the traditional applications for the division are growing in line with the growth of the global middle class, the division is also adjusting to significant changes in consumer behaviour. Investments into plant-based proteins as well as insect-based proteins are increasing. Alfa Laval's extraction technologies, as well as other process equipment, are needed for cost and energy efficient production of these proteins and have continued to see good momentum during 2020.

Sustainability is a key focus also in the Marine division. From a volume perspective, the applications for cleaning ballast water and exhaust gases (PureBallast and PureSOX), dominated the portfolio. New marine fuels to reduce the CO₂ impact of world trade will continue to drive technology and new product offerings for many years to come. LNG as a fuel was one of the fuel initiatives with most traction in 2020. An important step in making LNG a climate positive fuel in the marine industry was the launch of PureCool a new technology to reduce the problem of methane-slip in LNG applications.

Digitalization

During the first quarter in 2020 Alfa Laval had to adjust the global workforce to start working remotely. More than 50 percent of the white-collar employees have worked from home since then. Although the changes posed challenges to the organisation, the people, technology and infrastructure was already in place to manage the situation and secure business continuity.

Our customers also adjusted quickly to digital interaction. The most important area of development was in service, which historically has required physical interaction with the customers and the equipment. Our service organisation had already developed the required tools for connected equipment and remote diagnostics. The number of remote diagnostics and service hours grew from essentially zero in 2019, to more than 10,000 service hours in 2020. The change to digital service is here to stay and will continue to grow in years to come, and Alfa Laval is committing to developing and growing in this area going forward.

Business performance in 2020

In a year of volatility caused by the COVID-19 pandemic, Alfa Laval proved resilient and showed a good ability to act fast. In all, order intake declined by 10 percent compared to 2019 and amounted to 41 BSEK and total invoicing was 42 BSEK, a decline of 11 percent compared to previous year. Despite lower volumes, profitability remained on a high level at 17.4 percent, essentially unchanged compared to 2019. At the end of 2020, a restructuring program was announced with the objective to adjust certain businesses in the Marine and Oil & Gas sectors to more structural changes in demand. The program is estimated to generate annual savings of approximately 300 MSEK with full effect from 2022.

Among some of the Alfa Laval highlights in Denmark in 2020 are the following:

- In the spring of 2017, Alfa Laval Copenhagen announced that the production of decanters, which had been carried out at the factory in Søborg, will be moved to Krakow in Poland. This relocation was completed at the end of 2020.
- As a result of significant growth, Alfa Laval doubled the size of its service centre in Søborg as of January 1st, 2020, thus becoming one of the Group's largest global service centers for rotating units. In 2019, the Danish service centre was expanded by additional 1,000 square meters to the original 1,000 square meters and in 2020, the service centre expanded again and this time by 2,000 square meters. The number of employees also increased from seven to almost 20 while the amount of service hours in 2020 has increased fivefold compared to 2018.
- On October 1st, 2020, Alfa Laval Kolding opened a new global application and innovation centre of 1,600 square meters. The purpose of this centre is to strengthen the company's global position for fluid handling by accelerating innovation and product development as well as strengthening our capability to meet our customers current and future needs. Going forward, our customers will be able to see – either in person or via live stream – how Alfa Laval equipment performs under their actual operating conditions with the customers' specific product, thereby validating and improving the overall performance of a specific product.
- In 2019, Alfa Laval Copenhagen opened the doors to start-up companies. The purpose of inviting newly created companies in Alfa Laval Innovation House, Copenhagen, is to create and ecosystem where synergy and innovation are in the centre and where the direction of development is managed in relation to two lighthouses: Digitalization and sustainability. The concept was carried on and further development in 2020 and further 10 start-ups have moved into the vacant premises in Søborg.
- In January 2020, Alfa Laval Kolding celebrated its 70 anniversary.
- In February 2020, Kolding's largest company, Alfa Laval Kolding, is nominated by Business Kolding and wins the award of being "Company of the Year".

Management review

Alfa Laval in Denmark

In Denmark, Alfa Laval consists of five different legal entities, which together have a turnover of DKK 5.6bn. The approx. 1,750 employees are involved in innovation, business development, production and sales. Our customer segments ranging from biotech and food to energy and shipping, so almost all industries use our products.

Alfa Laval in Denmark is a vital part of the Alfa Laval Group's activities. Several global competence centers are located in Denmark as well as a large part of our global business development and management take place from Denmark.

Alfa Laval has following five entities in Denmark:

- **Alfa Laval Aalborg** is our global centre for boiler technology and global manufacturing for the environmental product PureBallast
- **Alfa Laval Copenhagen** is our global centre for process technology and decanter centrifuges
- **Alfa Laval Kolding** is our global centre for flow equipment and equipment for tank cleaning
- **Alfa Laval Nakskov** is our global centre for membrane filtration
- **Alfa Laval Nordic** is our sales and service company in Denmark.

The five Danish entities work closely together to coordinate activities and to position Alfa Laval in Denmark as an innovative company that develops, produces and sells high quality products.

Alfa Laval Aalborg A/S

Alfa Laval Aalborg is a global centre for boiler technology. The company develops, manufactures, supplies and services boilers, burners, heat exchangers and inert gas burners for ships and industries throughout the world. In addition, the company has an increasing focus on the development of green shipping technologies, such as scrubber solutions for cleaning sulfur gases.

Alfa Laval Aalborg has production facilities as well as the world's largest test and training centre, which gives the customers a unique opportunity to test their marine products in their own environment supplied with seawater from the Limfjord on state-of-the-art equipment.

Alfa Laval Copenhagen A/S

Alfa Laval Søborg is a global centre for process technology and decanter centrifuges. The entity's primary business areas are product development, production, marketing and worldwide sales of a number of products for various industries. E.g. decanters are used to solve separation tasks in various industries, fresh water systems for use on board ships, oil platforms, power plants and the like, process plants for extracting and treating vegetable oils, ballast water treatment equipment, brewery equipment such as modules, yeast product process, sampling and tank top systems as well as process equipment for use in the food industry. The produced systems are mainly used for processing by-products from the fish and meat industry, such as fishmeal, gelatine, extracts and concentrates.

Alfa Laval Copenhagen has a modern innovation and test centre for decanters, which is used to develop and test future technologies and applications for the benefit of customers in various industries.

Alfa Laval Kolding A/S

Alfa Laval Kolding is a global centre for flow equipment and for tank cleaning equipment. The entity's primary business areas are product development, production, distribution and sale of pumps, valves and tank equipment for the food industry, breweries, dairies and pharmaceutical and cosmetic industries.

Alfa Laval Kolding specializes in precision control of fluid transport solutions for pumping liquids of any viscosity, fast cleaning and intelligent, automated control. In addition, the entity is responsible for purchasing complementary products for use in the liquid food industry, breweries, the pharmaceutical industry, the chemical industry, the pulp and paper industry as well as the marine and offshore industries.

Alfa Laval Kolding specializes in precision control of fluid transport solutions for pumping liquids of any viscosity, fast cleaning and intelligent, automated control. In addition, the entity is responsible for purchasing complementary products for use in the liquid food industry, breweries, the pharmaceutical industry, the chemical industry, the pulp and paper industry as well as the marine and offshore industries.

Alfa Laval Nakskov A/S

Alfa Laval Nakskov is a global centre for membrane filtration. The entity is Alfa Laval's global centre for development, production and sale of membranes and advanced liquid separation systems for the biotechnological and pharmaceutical industries, the food industry, the process industry, the wastewater industry and other selected customers and applications.

The company produces the finest pore-size filters in the market ranging from microfiltration to nanofiltration and ultrafiltration to reverse osmosis membranes, where separation takes place based on molecular sizes. Latest business areas are wastewater treatment membranes, membrane BioReactors (MBR), where membrane filtration is used as an alternative to traditional wastewater treatment technology, which makes wastewater plants smaller, cheaper and more efficient.

Alfa Laval Nakskov also has a global test centre where customers can test various applications using some of the world's finest pore-size filters from microfiltration to ultrafiltration and nanofiltration to reverse osmosis membranes, where separation can be made to molecular level.

Alfa Laval Nordic A/S

Alfa Laval Nordic A/S is responsible for sales and marketing of products and systems as well as sales of spare parts and services within separation, heat exchangers and liquid handling in Denmark. Alfa Laval's customers are mainly in the areas of the food and beverage, wastewater, energy and marine industries. The entity is part of the Nordic sales region within Alfa Laval, which entails integrated cooperation across the sales organizations in Denmark, Finland, Norway and Sweden, which also covers activities in Iceland and the Faroe Islands.

Management review

Development in activities and financial matters for Alfa Laval Copenhagen A/S

The 2020 income statement for Alfa Laval Copenhagen A/S shows a loss of DKK 128.2 m. and the company's balance sheet as of 31st of December 2020 shows an equity at DKK 86.2 m. The result before tax is a loss of DKK 165.2 m. in 2020 compared to a loss of DKK 95.9 m. in 2019.

The result for 2020 is not satisfactory and is significantly impacted by the major decline in sales within the oil- and gas industry mainly due to low oil prices. It has been a negative development for some years but is expected to recover to some extent in the coming years. The result is also negatively impacted by the Covid-19 pandemic as the orders within Food & water applications in some cases have been delayed due to the prevailing market conditions. The move of the Decanter production to Alfa Laval's production site in Krakow in Poland was finalized Mid-2020 and the associated project costs had a negative impact on the result. Finally, the move of Pure Ballast systems to Alfa Laval Aalborg A/S in 2019 should be taken into account when comparing 2020-figures with 2019, as the Pure Ballast activity was included half of the year in 2019 and is not present in 2020.

Alfa Laval Copenhagen A/S acquired a new technology within olive oil production for 26 MDKK during the year. The technology is called "Alfa Laval Olive Oil Booster" and can help oil mills reach new levels of productivity and profitability. Manufacturers can maximize the amount of high-quality olive oil they can produce, Alfa Laval has already launched the Olive Oil Booster. This system is an innovative combination of different technologies that are designed to work in harmony with the rest of the production line and help improve overall extraction yield, increase antioxidant content in the oil and reduce process water consumption. The Alfa Laval Olive Oil Booster is a first for the industry and has been designed and engineered by specialist in the field. It can replace traditional malaxer technology or work alongside it, and the core of the system consists of a horizontal mixing tank equipped with plate heat exchanger (PHE) and a decanter centrifuge. The process, which also utilizes lower holding temperatures and vacuum pressure, means that more 'free oil' in the olive paste can be obtained, and that the overall antioxidant content is higher. Increased antioxidant levels are also beneficial to oil quality.

Alfa Laval Copenhagen A/S is the headquarter for the group's global activities within Food and Water technology. The newly established R&D test facilities for Decanters are expected to bring significantly improved possibilities for developing new technologies within Decanters.

The turnover is distributed geographically like this:

| | 2020 | 2019 |
|--------------------|-------------------|-------------------|
| | <u>Share in %</u> | <u>Share in %</u> |
| America | 19 | 42 |
| The East | 4 | 26 |
| Europe | 57 | 28 |
| Oceania and Africa | 20 | 4 |
| | 100 | 100 |

Management review

Development in share capital

The company had a capital injection during the year as a result of a large negative result. Additionally, the owner Alfa Laval Kolding A/S has made a statement of support in which full financial support is guaranteed including additional capital injections if needed, up until the publication of the company's annual report for 2021 in 2022.

Unusual risks

The management's assessment is that the company is not affected by special risk besides the ones that are of common occurrence in the industry and in companies that operates worldwide under influence by many different cultures, practices and legislations.

Research and development activities

The company's products are developed continuously. This ongoing development and adjustment of products are made in accordance with the needs and development of the customers and industries. All expenses are booked as costs when it occurs. During 2020 significant investments have been made in new R&D test facilities at the site in Søborg. Further to this, investments amounting to DKK 27 m. in new patents within olive oil applications have been made in 2020. This will bring valuable new technologies and offerings to our customers who will get more sustainable and efficient processes and at the same time also increase the output of their production.

Environmental circumstances

It is an important policy of the company to always comply fully with the environmental legislation as well as within the commonly acknowledged standards. The company does not have production that can be characterized as having a heavy impact on the environment.

Our most important contribution to a "greener" global environment springs from an increased use of our products. Our customers often use our products to reduce their environmental footprint. Moreover, we take care that our internal processes have less impact on the environment and at the same time are sustainable. We have a strong environmental focus and a systematic way of improving areas to gain maximum impact.

Report on social responsibility after The Danish Financial Statement Act § 99a

Alfa Laval's Sustainability work is based on the group's Business Principles, that are to be found here: <https://www.alfalaval.com/about-us/sustainability/a-matter-of-trust/sustainability-reports/>

At group level a Sustainability Reporting is made annually and in addition a GRI report is made. The report for 2020 is to be found here and is the compulsory report on social responsibility after The Danish Financial Statement Act 99a:

https://www.alfalaval.com/globalassets/documents/about-us/sustainability/sustainability-reports/alfa_laval_sustainability_report__2020.pdf

Management review

Alfa Laval Copenhagen A/S adhere to the guidelines made by the group regarding observance of corporate social responsibility, including respect for human rights, social responsibility, and on the basis of the group policy to limit the negative climate impact as much as possible. Furthermore, there are strict demands on suppliers, so that Alfa Laval Copenhagen A/S secures, that they also show consideration for environment and health and safety.

Report on the gender composition of management after The Danish Financial Statement act § 99b

The account on gender composition of management is part of the consolidated account for Alfa Laval AB, Lund, Sweden. This account can be requested by the company and information can in a detailed extent be found at the group webpage:

<https://www.alfalaval.com/globalassets/documents/investors/english/annual-reports/annual-report-2020x.pdf> (page 46)

Being part of the global Alfa Laval group, Alfa Laval Copenhagen A/S wants a diverse and inclusive organization which creates a strong company and a good and innovative work environment. The composition of the board is determined at group level in accordance with the group's and thereby the company's general policy regarding "Alfa Laval is working to achieve equal career opportunities of for instance gender or ethnic origin". As of 31st of December 2020 there is one annual general meeting elected woman and one staff-elected woman in the board of Alfa Laval Copenhagen A/S.

Therefore, the objective of having gender diversity in the board of directors is met.

The board members are not chosen based on their gender, but on their expertise within the industries Alfa Laval Copenhagen A/S operates within. The board will however include the target figure for the under-represented gender in the selection of new board members, with a view to meeting the target figures within the determined time frame. The general policy also applies for the remaining management levels, and Alfa Laval Copenhagen A/S has already several women in executive positions. In order to increase the number of women in remaining management levels and meet the target figures, Alfa Laval Copenhagen A/S has put more focus on the recruitment phase so that the under-represented gender is taken more into account. There has also been more focus on personal development for women including taking management positions during the last year. The number of female managers has increased during the last years but has remained at 25% in 2020, which in fact corresponds to the gender mix in Alfa Laval Copenhagen A/S.

Alfa Laval Copenhagen A/S aims through it's employee composition to reflect the society and signal diversity. The company has at present around 30 different nationalities employed among its employees in Søborg.

Management review

Report on human rights and climate impact

As a part of the Alfa Laval group the company must comply with the group policies regarding human rights and climate impact. For further account, reference is made to the annual report for Alfa Laval AB in the paragraph "Sustainability report 2020", Lund or the group's website https://www.alfalaval.com/globalassets/documents/about-us/sustainability/sustainability-reports/alfa_laval_sustainability_report__2020.pdf

Events after the closing date

Just like many other companies the Covid-19 pandemic generate a high level of uncertainty. Specific industries and customers can be affected by the changes in the global economy. Postponed investments in production plants can potentially affect the company's sales but the assumption is that the underlying drivers for the sales continues to exist, which will secure the demand for the products.

No other circumstances that may have a significant impact on the assessment of the company's financial position as of 31st of December 2020 have occurred.

Expected development 2021

The sales pipeline for 2021 and the general activity level within Food and Water applications seems good, and there is also positive signals within the Energy segment, so the activity in 2021 is overall expected to be on 2020-level.

Income statement 1 January - 31 December

DKK thousand.

| Note | 2020 | 2019 |
|--|-----------------|----------------|
| 3 Revenue | 911.067 | 1.428.922 |
| Production costs | -821.733 | -1.144.900 |
| Gross profit | 89.334 | 284.022 |
| Distribution costs | -272.248 | -292.148 |
| Administration costs | -73.072 | -91.169 |
| Other operating income | 187.929 | 208.886 |
| Other operating costs | -89.564 | -197.013 |
| Operating profit | -157.621 | -87.422 |
| 5 Other financial income | 2.074 | 4.256 |
| 6 Other financial costs | -9.634 | -12.689 |
| Pre-tax net profit or loss | -165.181 | -95.855 |
| 7 Tax on net profit or loss for the year | 36.984 | 21.044 |
| 8 Net profit or loss for the year | -128.197 | -74.811 |

Statement of financial position at 31 December

DKK thousand.

| Assets | | | |
|---------------------------|--|-----------------------|-----------------------|
| <u>Note</u> | | <u>2020</u> | <u>2019</u> |
| Non-current assets | | | |
| 9 | Licenses, trademarks, patents etc. | 26.862 | 0 |
| | Total intangible assets | <u>26.862</u> | <u>0</u> |
| 10 | Land and property | 82.950 | 89.197 |
| 10 | Production plant and machinery | 2.110 | 8.014 |
| 10 | Other plants, operating assets, and fixtures and furniture | 15.281 | 12.074 |
| 10 | Property, plant and equipment under construction | 3.709 | 0 |
| | Total tangible assets | <u>104.050</u> | <u>109.285</u> |
| | Total non-current assets | <u>130.912</u> | <u>109.285</u> |
| Current assets | | | |
| | Raw materials and consumables | 78.069 | 102.156 |
| | Work in progress | 2.827 | 19.022 |
| | Manufactured goods and goods for resale | 3.388 | 2.911 |
| | Total inventories | <u>84.284</u> | <u>124.089</u> |
| | Trade receivables | 5.220 | 5.601 |
| 11 | Contract work in progress | 127.562 | 171.880 |
| | Receivables from group enterprises | 148.294 | 227.663 |
| 12 | Deferred tax assets | 7.588 | 10.475 |
| | Income tax receivables | 39.850 | 15.759 |
| | Other receivables | 12.842 | 12.315 |
| 13 | Prepayments | 7.121 | 3.592 |
| | Total receivables | <u>348.477</u> | <u>447.285</u> |
| | Cash | <u>65</u> | <u>0</u> |
| | Total current assets | <u>432.826</u> | <u>571.374</u> |
| | Total assets | <u>563.738</u> | <u>680.659</u> |

Statement of financial position at 31 December

DKK thousand.

| Equity and liabilities | | | |
|---|--|----------------|----------------|
| Note | | 2020 | 2019 |
| Equity | | | |
| 14 | Share capital | 74.006 | 74.005 |
| | Reserve for hedging transactions | -17 | 0 |
| | Retained earnings | 12.219 | 40.417 |
| | Total equity | 86.208 | 114.422 |
| Provisions | | | |
| 15 | Other provisions | 60.596 | 43.339 |
| | Total provisions | 60.596 | 43.339 |
| Liabilities other than provisions | | | |
| | Lease liabilities | 32.906 | 40.942 |
| | Other payables | 36.076 | 12.683 |
| 16 | Total long term liabilities other than provisions | 68.982 | 53.625 |
| 16 | Current portion of long term payables | 10.224 | 9.966 |
| 11 | Prepayments received from customers concerning contract work in progress | 13.005 | 47.522 |
| | Trade payables | 51.929 | 51.137 |
| | Payables to group enterprises | 142.973 | 222.326 |
| | Other payables | 129.821 | 138.322 |
| | Total short term liabilities other than provisions | 347.952 | 469.273 |
| | Total liabilities other than provisions | 416.934 | 522.898 |
| | Total equity and liabilities | 563.738 | 680.659 |
| 1 Unusual circumstances in the annual report | | | |
| 2 Disclosures on fair value | | | |
| 4 Employee costs | | | |
| 17 Guaranties and securities | | | |
| 18 Contingencies | | | |
| 19 Related parties | | | |

Statement of changes in equity

DKK thousand.

| | Contributed capital | Reserve for hedging transactions | Retained earnings | Total |
|---|------------------------|--|----------------------|---------------|
| Equity 1 January 2020 | 74.005 | 0 | 40.417 | 114.422 |
| Cash capital increase | 1 | 0 | 99.999 | 100.000 |
| Profit or loss for the year brought forward | 0 | 0 | -128.197 | -128.197 |
| Fair value adjustments of hedging instruments for the year | 0 | -17 | 0 | -17 |
| | 74.006 | -17 | 12.219 | 86.208 |

Notes

DKK thousand.

1. Unusual circumstances in the annual report

Just like many other companies the Covid-19 pandemic generate a high level of uncertainty. Specific industries and customers can be affected by the changes in the global economy. Postponed investments in production plants can potentially affect the company's sales but the assumption is that the underlying drivers for the sales continues to exist, which will secure the demand for the products.

2. Disclosures on fair value

| | Derived financial instruments |
|---|-------------------------------------|
| Fair value at 31 December 2020 | 28 |
| Change in fair value of the year recognised in the equity | -17 |

| | 2020 | 2019 |
|------------------------|----------------|------------------|
| 3. Revenue | | |
| Proces Technology | 871.854 | 946.535 |
| Marine & Diesel | 39.213 | 482.387 |
| | 911.067 | 1.428.922 |
| Geographical areas | | |
| Europe | 516.899 | 599.395 |
| America | 173.084 | 377.163 |
| Asia | 184.676 | 402.130 |
| Oceania & Africa | 36.408 | 50.234 |
| | 911.067 | 1.428.922 |

Notes

DKK thousand.

| | 2020 | 2019 |
|---------------------------------|----------------|----------------|
| 4. Employee costs | | |
| Salaries and wages | 340.128 | 347.579 |
| Pension costs | 31.823 | 31.475 |
| Other costs for social security | 1.255 | -5 |
| | 373.206 | 379.049 |

Staff costs are recognised as follows in the income statement:

| | | |
|-----------------------------|----------------|----------------|
| Production costs | 80.393 | 85.693 |
| Distribution costs | 247.904 | 248.351 |
| Administration costs | 44.909 | 45.005 |
| | 373.206 | 379.049 |
| Average number of employees | 480 | 496 |

Pursuant to section 98b(3)(ii) of the Danish Financial Statements Act, management remuneration is not disclosed.

5. Other financial income

| | | |
|---|--------------|--------------|
| Interest, group enterprises | 18 | 98 |
| Other interest and exchange differences | 2.056 | 4.158 |
| | 2.074 | 4.256 |

6. Other financial costs

| | | |
|------------------------------------|--------------|---------------|
| Financial costs, group enterprises | 2.597 | 4.663 |
| Other financial costs | 7.037 | 8.026 |
| | 9.634 | 12.689 |

7. Tax on net profit or loss for the year

| | | |
|---|----------------|----------------|
| Tax of the results for the year | -39.845 | -15.759 |
| Adjustment for the year of deferred tax | 2.887 | -5.013 |
| Other taxes | -26 | -272 |
| | -36.984 | -21.044 |

Notes

DKK thousand.

| | 2020 | 2019 |
|---|-----------------|----------------|
| 8. Proposed appropriation of net profit | | |
| Allocated from retained earnings | -128.197 | -74.811 |
| Total allocations and transfers | -128.197 | -74.811 |
| 9. Licenses, trademarks, patents etc. | | |
| Cost 1 January 2020 | 8.095 | 16.598 |
| Additions during the year | 26.982 | 0 |
| Disposals during the year | 0 | -8.503 |
| Cost 31 December 2020 | 35.077 | 8.095 |
| Amortisation and writedown 1 January 2020 | -8.095 | -16.598 |
| Amortisation for the year | -120 | 0 |
| Depreciation, amortisation and writedown for the year, assets disposed of | 0 | 8.503 |
| Amortisation and writedown 31 December 2020 | -8.215 | -8.095 |
| Carrying amount, 31 December 2020 | 26.862 | 0 |

Notes

DKK thousand.

10. Property, plant and equipment

| | Land and property | Production plant and machinery | Other plants, operating assets, and fixtures and furniture | Property, plant and equipment under construction |
|---|-------------------|--------------------------------|--|--|
| Cost 1 January 2020 | 168.863 | 110.483 | 35.974 | 0 |
| Additions during the year | 5.370 | 335 | 4.561 | 3.709 |
| Disposals during the year | -339 | -97.157 | -5.114 | 0 |
| Cost 31 December 2020 | 173.894 | 13.661 | 35.421 | 3.709 |
| Revaluation 1 January 2020 | 3.500 | 0 | 0 | 0 |
| Revaluation 31 December 2020 | 3.500 | 0 | 0 | 0 |
| Depreciation and writedown 1 January 2020 | 83.165 | 102.469 | 23.900 | 0 |
| Depreciation for the year | 11.618 | 1.560 | 1.197 | 0 |
| Depreciation, amortisation and writedown for the year, assets disposed of | -339 | -92.478 | -4.957 | 0 |
| Depreciation and writedown 31 December 2020 | 94.444 | 11.551 | 20.140 | 0 |
| Carrying amount, 31 December 2020 | 82.950 | 2.110 | 15.281 | 3.709 |
| Right of use assets are included with a carrying amount of | 39.502 | | 2.824 | |
| Depreciation for the year on right of use assets | 8.577 | | 479 | |

Notes

DKK thousand.

| | 31/12 2020 | 31/12 2019 |
|---|----------------|----------------|
| Depreciation and amortisation is distributed as follows | | |
| Production | 1.328 | 4.735 |
| Distribution | 1.750 | 1.502 |
| Administration | 11.417 | 12.599 |
| | 14.495 | 18.836 |
| 11. Contract work in progress | | |
| Sales value of the production of the period | 475.742 | 597.501 |
| Payments on account received | -361.185 | -473.143 |
| Contract work in progress, net | 114.557 | 124.358 |
| The following is recognised: | | |
| Contract work in progress (Current assets) | 127.562 | 171.880 |
| Contract work in progress (Prepayments received) | -13.005 | -47.522 |
| | 114.557 | 124.358 |
| 12. Deferred tax assets | | |
| Deferred tax assets 1 January 2020 | 10.475 | 5.462 |
| Deferred tax of the results for the year | -2.887 | 5.013 |
| | 7.588 | 10.475 |
| The following items are subject to deferred tax: | | |
| Intangible assets | -822 | 0 |
| Property, plant, and equipment | 580 | 2.513 |
| Current assets | 1.772 | 1.106 |
| Provisions | 5.881 | 6.749 |
| Leases | 177 | 107 |
| | 7.588 | 10.475 |
| 13. Prepayments | | |
| Prepayments consists of prepaid costs, regarding 2021. | | |

Notes

DKK thousand.

| | 31/12 2020 | 31/12 2019 |
|------------------------------|---------------|---------------|
| 14. Share capital | | |
| Share capital 1 January 2020 | 74.005 | 74.004 |
| Cash capital increase | 1 | 1 |
| | 74.006 | 74.005 |

The share capital consists of 74.006 shares, each with a nominal value of DKK 1.

Change in contributed capital last 5 years:

| | |
|-----------------------|---|
| Capital increase 2020 | 1 |
| Capital increase 2019 | 1 |
| Capital increase 2018 | 1 |
| Capital increase 2017 | 1 |
| Capital increase 2016 | 1 |

15. Other provisions

| | | |
|--|---------------|---------------|
| Warranty obligations | 45.195 | 23.876 |
| Provision for losses on work in progress for the account of others | 15.401 | 19.463 |
| | 60.596 | 43.339 |

Maturity is expected to be:

| | | |
|-----------|---------------|---------------|
| 0-1 years | 56.769 | 39.011 |
| 1-5 years | 3.827 | 4.328 |
| | 60.596 | 43.339 |

16. Liabilities other than provision

| | Total payables 31 Dec 2020 | Current portion of long term payables | Long term payables 31 Dec 2020 | Outstanding payables after 5 years |
|-------------------|-------------------------------|---|--------------------------------------|--|
| Lease liabilities | 43.130 | 10.224 | 32.906 | 0 |
| Other payables | 36.076 | 0 | 36.076 | 36.076 |
| | 79.206 | 10.224 | 68.982 | 36.076 |

Leasing liabilities have a interest of 1,75 - 2,00 %.

Notes

DKK thousand.

17. Guaranties and securities

Guarantees have been provided to customers for security of payments and contractual execution of signed sales contracts of DKK 11.069 thousand (2019: DKK 12.402 thousand).

The company has entered into forward exchange contracts in foreign currency to hedge commercial currency allocations, corresponding to a purchase value of DKK -0.8 million (2019: DKK -3.6 million). At the balance sheet date, the contracts have a fair value before tax of DKK 36 thousand (2019: DKK 58 thousand). For the year a net loss after tax of DKK 17 thousand is recognized (2019: DKK 966 thousand).

18. Contingencies

Contingent liabilities

| | 31/12 2020 t.kr. | 31/12 2019 t.kr. |
|-------------------------------------|---------------------|---------------------|
| Lease liabilities | 2.043 | 1.462 |
| Total contingent liabilities | 2.043 | 1.462 |

Lease liabilities comprise of minor and short term lease.

Joint taxation

With Alfa Laval Kolding A/S, company reg. no 30938011 as administration company, the company is subject to the Danish scheme of joint taxation and unlimitedly, jointly, and severally liable, along with the other jointly taxed companies, for the total corporation tax.

The company is unlimitedly, jointly, and severally liable, along with the other jointly taxed companies, for any obligations to withhold tax on interest, royalties, and dividends.

Any subsequent adjustments of corporate taxes or withholding tax, etc., may result in changes in the company's liabilities.

19. Related parties

Controlling interest

Related parties with controlling interest include the parent company Alfa Laval Kolding A/S, Albuen 31, Kolding, Denmark and ultimate parent Alfa Laval Corporate AB, Rudeboksvägen 1, Lund, Sweden. Other related parties are also consolidated entities in the Alfa Laval Group.

Notes

DKK thousand.

Transactions

In addition to the payment of ordinary executive fees, there have been no transactions with the company's management.

The company purchases a significant proportion of goods and services for the company's sales from other group entities. The company also sells a significant portion of its products through group entities.

Primary related group transactions:

| | 2020 t.kr. | 2019 t.kr. |
|-------------------------------------|---------------|---------------|
| Sales to parent company | 60 | 64 |
| Sales to other group entities | 859.772 | 1.370.598 |
| Royalty | 95.377 | 98.579 |
| Sale of Pure Ballast activity | 0 | 154.924 |
| Sale of assets to Krakow | 2.371 | 0 |
| Purchases from parent company | 19.883 | 17.002 |
| Purchases from other group entities | 388.654 | 515.602 |

Consolidated financial statements

Alfa Laval Copenhagen A/S is included in the consolidated financial statements of Alfa Laval AB, Sweden, which is the largest in which the company is a subsidiary. The consolidated annual report can be obtained at the group headquarters, Rudeboksvägen 1, Lund, Sweden or at www.alfalaval.com.

Accounting policies

The annual report for Alfa Laval Copenhagen A/S has been presented in accordance with the Danish Financial Statements Act regulations concerning reporting class C enterprises (large enterprises).

Effective from the financial year 2020, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed new and amended presentation and disclosure requirements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Pursuant to section 86(4) of the Danish Financial Statements Act, no statement of cash flows for the enterprise has been prepared, as the relevant information is included in the consolidated financial statements of Alfa Laval Corporate AB, Lund, Sweden.

Pursuant to section 96(3) of the Danish Financial Statements Act, the financial statements do not disclose information about fees to the auditor appointed at the annual general meeting. The fees are disclosed in the consolidated financial statements of Alfa Laval Corporate AB, Lund, Sweden.

Recognition and measurement in general

Income is recognised in the income statement concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs are recognised in the income statement, including depreciations amortisations, writedowns for impairment, provisions, and reversals due to changes in estimated amounts previously recognised in the income statement.

Assets are recognised in the statement of financial position when it seems probable that future economic benefits will flow to the company and the value of the asset can be reliably measured.

Liabilities are recognised in the statement of financial position when it is seems probable that future economic benefits will flow out of the company and the value of the liability can be reliably measured.

Assets and liabilities are measured at cost at the initial recognition. Hereafter, assets and liabilities are measured as described below for each individual accounting item.

Intercompany transfer of activities

Pure Ballast activity has been transferred in June 2019 to Alfa Laval Aalborg A/S at net booked value. The book-value method was used at the transfer.

Accounting policies

Foreign currency translation

Transactions in foreign currency are translated by using the exchange rate prevailing at the date of the transaction. Differences in the rate of exchange arising between the rate at the date of transaction and the rate at the date of payment are recognised in the profit and loss account as an item under net financials. If currency positions are considered to hedge future cash flows, the value adjustments are recognised directly in equity in a fair value reserve.

Receivables, payables, and other foreign currency monetary items are translated using the closing rate. The difference between the closing rate and the rate at the time of the occurrence or initial recognition in the latest financial statements of the receivable or payable is recognised in the income statement under financial income and expenses.

Derivatives

At their initial recognition, derivatives are recognised at cost in the statement of financial position. Hereafter, they are measured at fair value. Positive and negative fair values of derivatives are recognised under other receivables and payables, respectively.

Changes in the fair value of derived financial instruments classified as and meeting the criteria for hedging the fair value of a recognised asset or a recognised liability are recognised in the income statement together with changes in the fair value of the hedged asset or the hedged liability.

Income statement

Segmental statement

Information on activity and geographical markets is provided. The segment information follows the accounting policies for the group, risks and internal financial controlling.

Revenue

The company will be applying IFRS 15 as its basis of interpretation for the recognition of revenue.

The revenue is recognised when the control of the identifiable individual performance obligations has been performed in respect of the customer whereby the customer gains control of the asset or the service. Sales remunerations are allocated proportionally to the individual performance obligations in the agreement.

Revenue from service contracts is recognised on a linear basis over the period during which the service is performed.

Revenue is measured at fair value of agreed remunerations, less VAT and expenses. All forms of discount are recognised in revenue.

Accounting policies

Revenue from contracts, including variable considerations such as quantity discounts and performance-related payments are recognised at the most probable consideration value. Revenue is not recognised until it is deemed most likely that changes in the estimated variable consideration will not subsequently result in the reversal of a material part of the amount, thus reducing revenue.

Production costs

Production costs include the manufacturing and procurement costs incurred to achieve the revenue for the year. Direct and indirect manufacturing costs are recognized, including costs for raw materials and consumables, wages and salaries, energy consumption, maintenance, leasing and depreciation on production facilities, with adjustments for changes in finished goods inventories and work in progress.

Distribution costs

Distribution costs comprise costs incurred for the distribution of goods sold during the year and for sales campaigns carried out during the year. Also, costs concerning sales staff, advertising and exhibitions costs, and amortisations.

Administration costs

Administration costs comprise costs incurred during the year concerning management and administration, including costs concerning administrative staff, the executive board, office premises, stationery and office supplies, and depreciations.

Cost of sales

Cost of sales comprises costs concerning purchase of raw materials and consumables less discounts and changes in inventories.

Other operating income

Other operating income comprise accounting items of secondary nature in proportion to the principal activities of the enterprise, including royalty income, gains on disposal of intangible and tangible fixed assets

Other operating costs

Other operating costs comprise accounting items of secondary nature in proportion to the principal activities of the enterprise, including royalty costs, losses on disposal of intangible and tangible fixed assets.

Financial income and expenses

Financial income and expenses are recognised in the income statement with the amounts concerning the financial year. Financial income and expenses comprise interest income and expenses, financial expenses from financial leasing, realised and unrealised capital gains and losses relating to securities, debt and transactions in foreign currency, amortisation of financial assets and liabilities as well as surcharges and reimbursements under the advance tax scheme, etc.

Accounting policies

Tax on net profit or loss for the year

Tax for the year comprises the current income tax for the year and changes in deferred tax and is recognised in the income statement with the share attributable to the net profit or loss for the year and directly in equity with the share attributable to entries directly in equity.

The company is subject to Danish rules on compulsory joint taxation of Danish group enterprises.

The current Danish income tax is allocated among the jointly taxed companies proportional to their respective taxable income (full allocation with reimbursement of tax losses).

Statement of financial position

Intangible assets

Licenses, trademarks and similar rights

Licenses, trademarks and similar rights are measured at cost with deduction of accrued amortisation. Trademarks and similar rights are amortised on a straight-line basis over the remaining patent period, and licenses are amortised over the contract period, however, for a maximum of 10 years.

Gain and loss from the sale of development projects, patents, and licenses are measured as the difference between the sales price with deduction of sales costs and the book value at the time of the sale. Gain or loss are recognised in the profit and loss account as other operating income or other operating expenses respectively.

Property, plant, and equipment

Property is measured at cost plus revaluations and less accrued depreciation and writedown for impairment. Land is not subject to depreciation.

Property is revaluated on the basis of regular, independent fair-value assessments. Net revaluation at fair value adjustment is recognised directly in equity less deferred tax and tied up in a particular revaluation reserve. Net impairment loss at fair value adjustment is recognised in the income statement.

The depreciable amount is cost plus revaluations at fair value less expected residual value after the end of the useful life of the asset. The amortisation period is fixed at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued.

Reversal of previous revaluations and recognised deferred taxes concerning revaluations are recognised directly in company equity.

Other property, plant, and equipment are measured at cost less accrued depreciation and writedown for impairment.

Accounting policies

The depreciable amount is cost less any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, the depreciation is discontinued.

If the amortisation period or the residual value is changed, the effect on amortisation will, in future, be recognised as a change in the accounting estimates.

The cost comprises acquisition cost and costs directly associated with the acquisition until the time when the asset is ready for use.

The cost of a total asset is divided into separate components. These components are depreciated separately, the useful lives of each individual components differing, and the individual component representing a material part of the total cost.

Depreciation is done on a straight-line basis according to an assessment of the expected useful life:

| | Useful life |
|--|-------------|
| Buildings | 10-40 years |
| Plant and machinery | 7-15 years |
| Other fixtures and fittings, tools and equipment | 3-15 years |

Minor assets with an expected useful life of less than 1 year are recognised as costs in the income statement in the year of acquisition.

Profit or loss derived from the disposal of property, land, and equipment is measured as the difference between the sales price less selling costs and the carrying amount at the date of disposal. Profit or loss is recognised in the income statement as other operating income or other operating expenses.

Right-of-use assets

The enterprise will be applying IFRS 16 as its basis of interpretation for the recognition of classification and recognition of leases.

Leases pertaining to property, plant, and equipment for which the enterprise has the right-of-use are recognised in the statement of financial position as right-of-use assets. The assets are, at initial recognition, measured at imputed cost, consisting of:

- The imputed lease liability
- Any lease payments paid prior to – or on – the starting date, less any lease incentives received
- Any direct start-up costs
- Any restoring costs

Hereafter, recognised leased assets are treated like the enterprise's remaining property, plant, and equipment.

Accounting policies

Lease liabilities are recognised in the statement of financial position as liabilities other than provision and are measured, at initial recognition, at the present value of lease payments payable over the lease term. This includes a purchase option in the event that the enterprise expects to purchase the right-of-use asset. When determining the present value, the internal rate of return or, alternatively, the enterprise's borrowing rate is applied as discount rate.

Hereafter, the lease liability is treated like the remaining financial liabilities, i.e. at amortised cost.

The interest element of the lease payments is recognised in the income statement over the contractual term.

The following leases are not recognised as assets and liabilities in the statement of financial position:

- Leases with a duration of twelve months or less (short leases)
- Leases where the replacement value of the asset is less than DKK 30,000. (low-value assets)

For such leases, the lease payment is recognised in the income statement as an expense on a linear basis over the lease term.

Impairment loss relating to non-current assets

The carrying amount of both intangible and tangible fixed assets are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets, respectively. Writedown for impairment is done to the recoverable amount if this value is lower than the carrying amount.

The recoverable amount is the higher value of value in use and selling price less expected selling cost. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the asset group and expected net cash flows from the sale of the asset or the asset group after the end of their useful life.

Previously recognised impairment losses are reversed when conditions for impairment no longer exist. Impairment relating to goodwill is not reversed.

Inventories

Inventories are measured at cost according to the FIFO method. In cases when the net realisable value of the inventories is lower than the cost, the latter is written down for impairment to this lower value.

Costs of goods for resale, raw materials, and consumables comprise acquisition costs plus delivery costs.

Accounting policies

The net realisable value for inventories is recognised as the market price less costs of completion and selling costs. The net realisable value is determined with due consideration of negotiability, obsolescence, and the development of expected market prices.

Receivables

Receivables are measured at amortised cost, which usually corresponds to nominal value.

In order to meet expected losses, impairment takes place at the net realisable value. The company has chosen to use IAS 39 as a basis for interpretation when recognising impairment of financial assets, which means that impairments must be made to offset losses where an objective indication is deemed to have occurred that an account receivable or a portfolio of accounts receivable is impaired. If an objective indication shows that an individual account receivable has been impaired, an impairment takes place at individual level.

Accounts receivable for which there is no objective indication of impairment at the individual level are evaluated at portfolio level for objective indication of impairment. The portfolios are primarily based on the debtors' domicile and credit rating in accordance with the company's and the group's credit risk management policy. Determination of the objective indicators applied for portfolios are based on experience with historical losses.

Impairment losses are calculated as the difference between the carrying amount of accounts receivable and the present value of the expected cash flows, including the realisable value of any securities received. The effective interest rate for the individual account receivable or portfolio is used as the discount rate.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed, however with deduction of invoicing on account and expected losses. Contract work in progress is characterised by the manufactured goods featuring a high level of individualisation in the design. Furthermore, it is a requirement that before work is commenced, a binding contract is to be entered into, implying penalty or damages in case of subsequent cancellation.

The selling price is measured on the basis of the stage of completion on the balance sheet date and the total expected income from the individual contracts. The stage of completion is determined on the basis of an evaluation of the work performed, usually determined as the ratio of the costs incurred to the total expected cost of the contract in question.

When it is probable that the total contract costs will exceed the total contract revenue, the expected contract loss is immediately recognised as costs and provisions.

If the results of a contract can not be estimated reliably, the selling price is only recognised on a cost basis, however, to the extent that it is probable that the costs will be recovered.

Accounting policies

Contracts for which the selling price of the work performed exceeds invoicing on account and expected losses are recognised as trade debtors. Contracts for which invoicing on account and expected losses exceed the selling price are recognised as liabilities.

Prepayments from customers are recognised under liabilities.

Costs in connection with sales work and the achievement of contracts are recognised in the profit and loss account when incurred.

Prepayments and accrued income

Prepayments and accrued income recognised under assets comprise incurred costs concerning the following financial year.

Cash

Cash comprise cash at bank and on hand.

Equity

Share capital

Share capital comprises premium payments made in connection with the issue of shares. Costs incurred for carrying through an issue are deducted from the premium.

The premium reserve can be used for dividend, for issuing bonus shares, and for covering losses.

Reserve for hedging transactions

The reserve for hedging transactions arises when hedging instruments are subject to fair value adjustments.

The reserve is dissolved once the value adjustments have been applied or reversed.

The reserve is distributable.

Income tax and deferred tax

Current tax liabilities and current tax receivable are recognised in the statement of financial position as calculated tax on the taxable income for the year, adjusted for tax of previous years' taxable income and for tax paid on account.

The company is jointly taxed with consolidated Danish companies. The current corporate income tax is distributed between the jointly taxed companies in proportion to their taxable income and with full distribution with reimbursement as to tax losses. The jointly taxed companies are comprised by the Danish tax prepayment scheme.

Joint taxation contributions payable and receivable are recognised in the statement of financial position as "Income tax receivable" or "Income tax payable".

Accounting policies

According to the rules of joint taxation, Alfa Laval Copenhagen A/S is unlimitedly, jointly, and severally liable to pay the Danish tax authorities the total income tax, including withholding tax on interest, royalties, and dividends, arising from the jointly taxed group of companies.

Deferred tax is measured on the basis of temporary differences in assets and liabilities with a focus on the statement of financial position. Deferred tax is measured at net realisable value.

Adjustments take place in relation to deferred tax concerning elimination of unrealised intercompany gains and losses.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation prevailing in the respective countries on the reporting date when the deferred tax is expected to be released as current tax. Changes in deferred tax due to changed tax rates are recognised in the income statement, except for items included directly in the equity.

Deferred tax assets, including the tax value of tax losses allowed for carryforward, are recognised at the value at which they are expected to be realisable, either by settlement against tax of future earnings or by set-off in deferred tax liabilities within the same legal tax unit. Any deferred net tax assets are measured at net realisable value.

Other provisions

Provisions comprise expected costs of warranty commitments, loss on work in progress, restructuring, etc. Provisions are recognised when the company has a legal or actual commitment resulting from a previously occurred event and when it is probable that the settlement of the liability will result in consumption of the financial resources of the company.

Provisions are measured at net realisable value or at fair value. If the fulfilment of a liability is expected to take place far in the future, the liability is measured at fair value.

Liabilities

Financial liabilities other than provisions related to borrowings are recognised at the received proceeds less transaction costs incurred. In subsequent periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value when using the effective interest rate. The difference between the proceeds and the nominal value is recognised in the income statement during the term of the loan.

Also, capitalised residual leasing liabilities associated with financial leasing contracts are recognised in the financial liabilities.

Other liabilities concerning payables to suppliers, group enterprises, and other payables are measured at amortised cost which usually corresponds to the nominal value.