

Alfa Laval Copenhagen A/S

Maskinvej 5, 2860 Søborg

Company reg. no. 10 13 42 85

Annual report

1 January - 31 December 2019

The annual report was submitted and approved by the general meeting on the 29 May 2020.

A handwritten signature in blue ink, appearing to read 'Per Lund Hansen', is written over a horizontal line.

Per Lund Hansen
Chairman of the meeting

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Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, IAS/IFRS British English terminology has been used.
- Please note that decimal points remain unchanged from Danish version of the document. This means that DKK 146.940 corresponds to the English amount of DKK 146,940, and that 23,5 % corresponds to 23.5 %.

Management's report

The board of directors and the managing director have today presented the annual report of Alfa Laval Copenhagen A/S for the financial year 1 January to 31 December 2019.

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

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position at 31 December 2019 and of the company's results of its activities in the financial year 1 January to 31 December 2019.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Søborg, 29 May 2020

Managing Director



Per Lund Hansen

Board of directors



Nainesh Mahendrakumar Patel
Chairman



Per Lund Hansen



Ole Rüdbeck Petersen



John Pedersen



Susanne Rosentoft

Independent auditor's report

To the shareholder of Alfa Laval Copenhagen A/S

Opinion

We have audited the annual accounts of Alfa Laval Copenhagen A/S for the financial year 1 January to 31 December 2019, which comprise accounting policies used, profit and loss account, balance sheet, statement of changes in equity and notes. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2019 and of the results of the company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the annual accounts

The management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the annual accounts.

Independent auditor's report

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response 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 the risk of not detecting a misstatement 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 by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about 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 annual accounts 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 annual accounts, including the disclosures in the notes, and whether the annual accounts reflect 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 the internal control that we identify during our audit.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

Independent auditor's report

In connection with our audit of the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, 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 believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not find any material misstatement in the management's review.

Copenhagen, 29 May 2020

Ernst & Young

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 Ole Rudbeck Petersen John Pedersen Susanne Rosentoft
Managing Director	Per Lund Hansen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Allé 36 2000 Frederiksberg

Financial highlights

DKK in thousands.	2019	2018	2017	2016	2015
Income statement:					
Net turnover	1.428.922	1.553.629	1.402.472	1.378.971	1.682.085
Profit from ordinary operating activities	-87.422	-134.608	-123.739	-189.189	-96.432
Net financials	-8.433	-475	-3.736	-6.868	-6.901
Net profit or loss for the year	-74.811	-105.169	-100.036	-161.814	-80.381
Statement of financial position:					
Balance sheet total	680.659	795.211	759.231	854.228	940.167
Investments in tangible fixed assets represent	12.800	16.956	1.150	1.992	12.411
Equity	114.422	47.913	72.889	77.164	114.306
Employees:					
Average number of full-time employees	496	491	523	591	603
Key figures in %:					
Profit margin (EBIT-margin)	-6,1	-8,7	-8,8	-13,7	-5,7
Solvency ratio	16,8	6,0	9,6	9,0	12,2
Return on equity	-92,2	-174,1	-133,3	-169,0	-67,4

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 2015-2018. 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	$\frac{\text{Net profit or loss for the year} \times 100}{\text{Average equity}}$

We accelerate success for our customers, people and planet

The Alfa Laval Group is a leading global supplier of first-rate products in the areas of heat transfer, separation and fluid handling. Alfa Laval is active in the areas of Energy, Marine, Food & Water offering its expertise, products and service to a wide range of customers worldwide. We are constantly working on optimizing processes, creating responsible growth and driving progress - always going the extra mile to support customers in achieving their business and sustainability targets.

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. Thereby, Alfa Laval is not only accelerating success for its customers, but also for people and the planet. We work on making the world better every day. And that is what can be described as advancing better with Alfa Laval.

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 Oresund 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 110 service centres worldwide, which offer service to 160 countries worldwide.

Today, Alfa Laval has approx. 17,500 employees, of which the majority works in Sweden, Denmark, China, India and North America. In 2019, the Alfa Laval Group had a turnover of SEK 46.5bn equivalent to approx. DKK 31.5bn.

UN's 17 Global Goals for Sustainable Development are also Alfa Laval's goals

All countries must strive to achieve the 17 UN Sustainable Development Goals to put an end to poverty, reduce inequality and solve the climate crisis by 2030. Alfa Laval helps achieve these goals through the products and solutions it develops making them available to customers who aim to improve energy efficiency, reduce emissions, purify water, minimize waste and lead to efficient use of raw materials. In fact, Alfa Laval now lives up to 13 out of the 17 goals, which is an improvement over last year's 11 goals.

Recent years' development in the Alfa Laval Group and the Alfa Laval companies in Denmark

Following three years of our organic growth strategy, invoicing reached a record level in 2019. Sales amounted to SEK 46.5bn, an increase of 12.5 percent compared to the previous year.

The Marine Division was the main growth driver, as the demand for environmental solutions increased significantly following the implementation of new marine regulations. These orders account for more than SEK 4.7bn of the Alfa Laval Group's growth since 2016. The Marine Division reported an average organic growth of 11.3 percent.

There was also a strong organic growth in **the Energy Division**, which reported an average organic growth of 6.4 percent per year since 2016. To meet the growing global energy demand, the energy efficiency solutions are playing an increasingly important role. Alfa Laval's heat transfer technologies are critical to creating waste heat recovery solutions and improved thermal efficiency in industrial processes, which supported the 2019 growth in the division.

The Food & Water Division has also generated solid growth over the most recent three-year period with an average organic growth of 5.1 percent. Significant investments have been made in new product platforms, which are now gradually reaching the market. These new products include various sustainability features, such as reduced energy and water consumption, to support our customers in their ambition to contribute to a better, greener world.

For the past three years, Alfa Laval has focused on developing its **service activities**, which deliver critical technology to industrial processes throughout the world, and where reliability and uptime of equipment is paramount to all Alfa Laval's customers. Several improvement projects have been launched since 2016 to increase the ability to provide high-level service incl. several new and updated service centers as well as an increased number of service engineers. In 2019, the results of these initiatives started to show. For the first time in the strategy period, the service business grew 7 percent organically – ahead of our long-term growth target.

In 2019, some of Alfa Laval's highlights are as follows:

- A new facility for brazed heat exchanger was opened in Richmond, Virginia, in May, followed by the opening of a comprehensive distribution, service center and separation competence center in Greenwood, Indiana as well as an expanded spiral heat exchanger production in Broken Arrow, Oklahoma. These initiatives aimed at getting closer to the customers and to be able to deliver the necessary spare parts in shorter time across the USA.
- In the spring of 2017, Alfa Laval Copenhagen announced that the production of decanters, which to date had been carried out at the factory in Soborg, will be moved to Krakow in Poland. Thanks to a lot of orders, this relocation was postponed to the end of 2020, which enabled the factory in Soborg to continue to deliver decanters worldwide throughout 2019. At the same time, the decanter factory in Poland reached the desired level of production by the end of 2019.
- The relocation of the manufacturing unit for marine boilers and scrubbers to a new location in Qingdao, China, was successfully completed.
- At the end of 2019, a new state-of-the-art global Innovation and Test Centre for decanters was opened. The new centre, which is located in Soborg near Copenhagen, will have special focus on optimization in the areas of sustainability, increased performance and digitalization.

- In 2019, Alfa Laval Copenhagen has opened the doors to start-up companies that work with products or have expertise, which Alfa Laval could benefit from and vice versa. The purpose of inviting newly created companies in Alfa Laval Innovation House, Copenhagen, is to create an ecosystem where synergy and innovation are in the centre and where the direction of development is managed in relation to two lighthouses: Digitization and sustainability. During 2019, 11 start-ups have moved into the vacant premises in Søborg and have started cooperating with Alfa Laval experts within their fields.
- In November 2019, Alfa Laval Aalborg wins the award for Denmark's best "collaboration-workplace"

Alfa Laval in Denmark

In Denmark, Alfa Laval consists of five different legal entities, which together have a turnover of DKK 5.5bn. The approx. 1,800 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 sulphur 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 Limfjorden 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.

The 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 company 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.

Furthermore, Alfa Laval Kolding also has a global test and training centre which can be used by Alfa Laval employees, partners and end users.

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.

Development in financial matters

The 2019 income statement for Alfa Laval Copenhagen A/S shows a loss of DKK 74.8 m. and the company's balance sheet as of 31st of December 2019 shows an equity of DKK 114.4 m. The result before tax is a loss of DKK 95.9 m. in 2019 compared to a loss of DKK 153.1 m. in 2018. With the negative result for 2019 it must be stated that the result in the company has been unsatisfactory for a number of years.

During the years 2015-2016 there was a significant recession within the oil- and gas industry and within the company's marine activities. Afterwards followed the implementation of a larger restructuring of the company in 2017 and 2018, as the production of PureBallast systems was moved to Aalborg, and work have been done to move the manufacturing of Decanter centrifuges to Alfa Laval's production site in Krakow in Poland. This relocation will be ongoing until the end of 2020.

Alfa Laval Copenhagen A/S is the headquarter for the group's global activities within food and wastewater technology. In 2019 investments have been made in new R&D test facilities, which were inaugurated in November 2019. This will bring significantly improved possibilities for developing new technologies within decanters.

The mentioned restructuring and investments have during the recent years induced significant costs that have affected the financial result negatively, also including the year 2019.

The result of the year is in line with the expectations and work is actively being done on initiatives that should increase the profitability of the company in the long term.

The turnover is distributed geographically like this:

	2019	2018
	<u>Share in %</u>	<u>Share in %</u>
America	42	24
The East	26	28
Europe	28	43
Oceania and Africa	4	5
	100	100

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 2020 in 2021.

Unusual risks

The management's assessment is that the company is not affected by special risks 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 is made in accordance with the needs and development of the customers and industries. All expenses are booked as costs when it occurs. During the year 2019, significant investments have been made in new R&D test facilities at the site in Søborg. This will bring a notable improvement of the possibilities to develop new technologies within decanters.

Environmental circumstances

It is an important policy of the company to always comply 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 impact. Moreover, we take care that our internal processes have less impact on the environment and at the same time are sustainable. We have chosen to focus on improving a limited number of areas at a time 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: <http://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 2019 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-20192.pdf>

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 bases 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, security and health.

Report on the gender composition of management after The Danish Financial Statements 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-2019.pdf> (page 44).

Alfa Laval Copenhagen A/S wants, in line with the group policy, 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 2019 there is one staff-elected woman in the board of Alfa Laval Copenhagen A/S but no one elected by the annual general meeting.

Therefore, the objective is that one out of the annual general meeting elected members is a woman by the end of 2020. Based on the board's size at present this will correspond to 33%. The target figure is an ambitious but realistic target within the industries that Alfa Laval Copenhagen A/S operates within, where there historically have been an overrepresentation of male employees and managers. In 2019 there have been no changes in the board and therefore the goal has not been achieved yet, but work is being done on meeting the target by the end of 2020.

The board members are not chosen based on their gender, but on the basis of 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. This has increased the number of female managers from 18% to 25% during the last year.

Alfa Laval Copenhagen A/S aims through it's employee composition to reflect the society and signal diversity. The company have at present 35 different nationalities employed among its employees in Søborg.

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 2019", Lund or the group's website www.alfalaval.com/about-us/sustainability/.

Events after the closing date

The global Corona pandemic that started late 2019 in China and afterwards has spread worldwide during the first part of 2020 will most likely influence the world economy significantly in 2020.

Alfa Laval Copenhagen's products are critical components within production of food and cleaning of wastewater. In the short run many industries will be affected by the Corona crisis through postponed or cancelled investments in production plants etc. This may potentially affect the company's sales volume but it is not possible to give a more detailed evaluation at the moment due to big uncertainties. However, the assumption is that the underlying drivers for the sales continues to exist, which will secure the long term 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 2019 have occurred.

Expected development 2020

In 2020 a lower revenue than for 2019 is expected. This is primarily connected to PureBallast sales activities were moved from Søborg to the company's sister company in Aalborg in 2020. Furthermore, the Corona pandemic and the global financial consequences are expected to have a certain impact on the demand of the company's products in 2020.

Income statement 1 January - 31 December

DKK in thousands.

Note	2019	2018
1 Net turnover	1.428.922	1.553.629
Production costs	-1.144.900	-1.245.250
Gross results	284.022	308.379
Distribution costs	-292.148	-287.190
Administration costs	-91.169	-90.062
Other operating income	208.886	183.852
Other operating costs	-197.013	-249.587
Operating profit	-87.422	-134.608
3 Financial income	4.256	11.200
4 Financial costs	-12.689	-11.675
Results before tax	-95.855	-135.083
5 Income taxes	21.044	29.914
6 Results for the year	-74.811	-105.169

Statement of financial position 31 December

DKK in thousands.

Assets			
<u>Note</u>		<u>2019</u>	<u>2018</u>
Fixed assets			
7	Licenses, trademarks etc.	0	0
	Intangible fixed assets in total	0	0
8	Land and property	89.197	36.017
8	Production plant and machinery	8.014	11.917
8	Other plants, operating assets, and fixtures and furniture	12.074	5.178
8	Property, plant and equipment under construction	0	2.636
	Tangible fixed assets in total	109.285	55.748
	Fixed assets in total	109.285	55.748
Current assets			
	Raw materials and consumables	102.156	218.085
	Work in progress	19.022	38.690
	Manufactured goods and trade goods	2.911	12.791
	Inventories in total	124.089	269.566
	Trade debtors	5.601	51.113
9	Work in progress for the account of others	171.880	132.314
	Amounts owed by group enterprises	227.663	200.749
10	Deferred tax assets	10.475	5.462
	Receivable corporate tax	15.759	47.573
	Other debtors	12.315	24.949
11	Accrued income and deferred expenses	3.592	7.737
	Debtors in total	447.285	469.897
	Current assets in total	571.374	739.463
	Assets in total	680.659	795.211

Statement of financial position 31 December

DKK in thousands.

Equity and liabilities			
<u>Note</u>		<u>2019</u>	<u>2018</u>
Equity			
12	Contributed capital	74.005	74.004
	Results brought forward	40.417	-26.091
	Equity in total	114.422	47.913
Provisions			
13	Other provisions	43.339	52.262
	Provisions in total	43.339	52.262
Liabilities			
	Leasing liabilities	40.942	0
	Other payables	12.683	0
14	Long-term liabilities in total	53.625	0
14	Current portion of long term payables	9.966	0
9	Prepayments received from customers concerning work in progress for the account of others	47.522	64.367
	Trade creditors	51.137	101.187
	Debt to group enterprises	222.326	327.008
	Other payables	138.322	202.474
	Short-term liabilities in total	469.273	695.036
	Liabilities in total	522.898	695.036
	Equity and liabilities in total	680.659	795.211
2 Employee costs			
15 Guaranties and securities			
16 Contingencies			
17 Related parties			

Statement of changes in equity

DKK thousand.

	Contributed capital	Retained earnings	Total
Equity 1 January 2019	74.004	-26.091	47.913
Cash capital increase	1	131.999	132.000
Profit or loss for the year brought forward	0	-74.811	-74.811
Adjustments previous years	0	8.354	8.354
Adjustment of financial instruments (cashflow hedge)	0	966	966
	74.005	40.417	114.422

Notes

DKK in thousands.

	2019	2018
1. Net turnover		
Proces Technology	946.535	933.608
Marine & Diesel	482.387	620.021
	1.428.922	1.553.629
Geographical areas		
Europe	599.395	672.157
America	377.163	368.026
Asia	402.130	441.762
Oceania & Africa	50.234	71.684
	1.428.922	1.553.629
2. Employee costs		
Salaries and wages	347.579	343.464
Pension costs	31.475	30.828
Other costs for social security	-5	3.166
	379.049	377.458
Staff costs are recognised as follows in the income statement:		
Production costs	85.693	92.518
Distribution costs	248.351	236.745
Administration costs	45.005	48.195
	379.049	377.458
Average number of employees	496	491
Pursuant to section 98b(3)(ii) of the Danish Financial Statements Act, management remuneration is not disclosed.		
3. Financial income		
Interest, group enterprises	98	84
Other interest and exchange differences	4.158	11.116
	4.256	11.200

Notes

DKK in thousands.

	2019	2018
4. Financial costs		
Financial costs, group enterprises	4.663	3.826
Other financial costs	8.026	7.849
	12.689	11.675
5. Income taxes		
Tax of the results for the year	-15.759	-47.513
Adjustment for the year of deferred tax	-5.013	17.518
Adjustment of tax for previous years	0	81
Tax directly on equity	-272	0
	-21.044	-29.914
6. Proposed distribution of the results		
Allocated from results brought forward	-74.811	-105.169
Distribution in total	-74.811	-105.169
7. Licenses, trademarks etc.		
Cost 1 January 2019	16.598	16.598
Disposals during the year	-8.503	0
Cost 31 December 2019	8.095	16.598
Amortisation and writedown 1 January 2019	-16.598	-16.598
Depreciation, amortisation and writedown for the year, assets disposed of	8.503	0
Amortisation and writedown 31 December 2019	-8.095	-16.598
Book value 31 December 2019	0	0

Notes

DKK in thousands.

8. 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 2019	103.582	109.818	27.874	2.636
Adjustment due to change of accounting policies	56.656	0	3.469	0
Additions during the year	8.679	1.150	5.607	0
Disposals during the year	-55	-485	-976	-2.636
Cost 31 December 2019	168.862	110.483	35.974	0
Revaluation 1 January 2019	3.500	0	0	0
Revaluation 31 December 2019	3.500	0	0	0
Depreciation and writedown 1 January 2019	71.065	97.902	22.696	0
Depreciation for the year	12.110	4.914	2.180	0
Depreciation, amortisation and writedown for the year, assets disposed of	-10	-347	-976	0
Depreciation and writedown 31 December 2019	83.165	102.469	23.900	0
Book value 31 December 2019	89.197	8.014	12.074	0
Right of use assets are included with a book value of	48.079		2.342	
Depreciation for the year on right of use assets	8.577		1.127	

Notes

DKK in thousands.

	31/12 2019	31/12 2018
Depreciation and amortisation is distributed as follows		
Production	4.735	6.000
Distribution	1.502	862
Administration	12.599	3.692
	18.836	10.554
9. Work in progress for the account of others		
Sales value of the production of the period	597.501	656.550
Payments on account received	-473.143	-588.603
Work in progress for the account of others, net	124.358	67.947
The following is recognised:		
Work in progress for the account of others (Current assets)	171.880	132.314
Work in progress for the account of others (Prepayments received)	-47.522	-64.367
	124.358	67.947
10. Deferred tax assets		
Deferred tax assets 1 January 2019	5.462	22.980
Deferred tax of the results for the year	5.013	-17.518
	10.475	5.462
The following items are subject to deferred tax:		
Property, plant, and equipment	2.513	1.695
Financial fixed assets (internal profits)	-5.447	-5.816
Current assets	6.553	9.557
Provisions	6.749	26
Leases	107	0
	10.475	5.462

Notes

DKK in thousands.

11. Accrued income and deferred expenses

Accrued income and deferred expenses consists of prepaid costs.

	31/12 2019	31/12 2018
12. Contributed capital		
Contributed capital 1 January 2019	74.004	74.003
Cash capital increase	1	1
	74.005	74.004

The share capital consists of 74.005 shares, each with a nominal value of DKK 1.

Change in contributed capital last 5 years:

Capital increase 2019	1
Capital increase 2018	1
Capital increase 2017	1
Capital increase 2016	1
Capital increase 2015	1

13. Other provisions

Warranty obligations	23.876	44.682
Provision for losses on work in progress for the account of others	19.463	7.580
	43.339	52.262
0-1 year	39.011	43.946
1-5 year	4.328	8.316
more than 5 years	0	0
	43.339	52.262

Notes

DKK in thousands.

14. Liabilities other than provision

	Total payables 31 Dec 2019	Current portion of long term payables	Long term payables 31 Dec 2019	Outstanding payables after 5 years
Leasing liabilities	50.908	9.966	40.942	0
Other payables	12.683	0	12.683	12.683
	63.591	9.966	53.625	12.683

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

15. Guaranties and securities

Guarantees have been provided to customers for security of payments and contractual execution of signed sales contracts of DKK 12.402 thousand (2018: DKK 37.040 thousand).

The company has entered into forward exchange contracts in foreign currency to hedge commercial currency allocations, corresponding to a purchase value of DKK -3.6 million (2018: DKK 43.4 million). At the balance sheet date, the contracts have a fair value before tax corresponding to a purchase value of DKK -3.6 million (2018: DKK 44.6 million). Net loss is DKK 0 million (2018: DKK 1.2 million), of which DKK 0 million (2018: DKK 0 million) is a gain.

16. Contingencies

Contingent liabilities

	31/12 2019	31/12 2018
Lease liabilities	1.462	84.680
Total contingent liabilities	1.462	84.680

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.

Notes

DKK in thousands.

16. Contingencies (continued)

Joint taxation (continued)

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

17. 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.

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.

Transactions with group entities have been made at arm's length.

Primary related group transactions:

	2019	2018
Sales to parent company	64	7.511
Sales to other group entities	1.370.598	1.295.974
Sale of Pure Ballast activity	154.924	0
Purchases from parent company	17.002	40.647
Purchases from other group entities	515.602	416.335

Notes

DKK in thousands.

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 is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class C enterprises (large enterprises).

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement for the enterprise has been prepared, as the relevant information is included in the consolidated annual accounts 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.

The annual report are presented in Danish kroner (DKK).

Changes in the accounting policies

The enterprise has opted for early adoption of Act no 1716 of 27 December 2018 on amending the Danish Financial Statements Act, etc., thereby changing accounting policies in the following areas:

- IFRS 15 will be applied as the basis of interpretation for the recognition of revenue
- IFRS 16 will be applied as the basis of interpretation for the classification and recognition of leases

Consequences arising from the change in accounting policies are described below.

Change in accounting policies for revenue

The company has chosen to apply IFRS 15 as the basis for interpretation in relation to recognition of revenue.

The enterprise will be applying the standard retrospectively until the beginning of the current period with the accumulative effect of the initial application being recognised in equity opening balance, 2019 (modified retrospective application). Comparative figures for 2018 have not been adjusted and will, as previously, be presented according to IAS 11 and IAS 18. The accounting policies for the current year and the comparative figures are presented in two separate sections.

There is no requirement to apply the disclosure requirements under the Danish Financial Statements Act.

As the change in policies is implemented without any adjustment of comparative figures, the monetary effect of the changes in accounting policies for 2018 is unchanged.

The company has assessed the effect of adopting IFRS 15 and has concluded that there is no significant effect to the financial statements.

Accounting policies

Change of accounting policies for leases

The company has chosen to apply IFRS 16 as the basis for interpretation in relation to the classification and recognition of leases.

The company will be applying the standard retrospectively until the beginning of the current period with the accumulative effect of the initial application being recognised in equity opening balance, 2019 (modified retrospective application). Thus, the comparative figures for 2018 have not been adjusted and will, as previously, be presented according to IAS 17. The accounting policies for the current year and the comparative figures are presented in two separate sections.

IFRS 16 no longer differentiates between operating and finance leases. Unlike previously, all leases are, with a few exceptions, recognised in the statement of financial position. Thus, as from 1 January 2019, earlier operating leases are recognised in the opening balance.

Lease liabilities are recognised at a value corresponding to the present value of the remaining lease payments, discounted by the enterprise's marginal borrowing rate for the relevant asset types at 1 January 2019. Right-of-use assets are recognised at a value corresponding to the imputed lease liability adjusted for prepayments.

For earlier finance leases, measurement of the carrying amount of the right-of-use asset corresponds to the earlier carrying amount of the asset at 31 December 2018. Similarly, the lease is measured at the earlier carrying amount of the lease liability at 31 December 2018.

On the date of transition, no updated assessment of leases entered into prior to 1 January 2019 has been made. Contracts satisfying the lease definition according to the old definition under IAS 17 are retained as leases according to IFRS 16.

On the application of IFRS 16 and the modified retrospective application, the company will be using the following practical dispensation for rights-of-use assets formerly classified as operating leases:

- Applying a single discount rate to a group of leased assets with identical characteristics
- Omitting the recognition of a right-of-use asset for leases where the lease term expires within twelve months of the date of transition
- Omitting to recognise direct start-up costs when measuring the right-of-use asset at 1 January 2019

As of 31 December 2019, the monetary effects of the changes in accounting policies are as follows:

- Profit for the year before tax is reduced by TDKK 486 (loss)
- Tax for the year of the change in accounting policies amounts to TDKK 107 (profit)
- Profit for the year after tax is reduced by TDKK 379 (loss)
- The total of the statement of financial position is increased by TDKK 50.421 (1 January 2019: TDKK 60.125)
- Equity is decreased by TDKK 379 (1 January 2019: TDKK 0)

Accounting policies

As the change in policies is implemented without any adjustment of comparative figures, the monetary effect of the changes in accounting policies for 2018 is unchanged.

Recognition and measurement in general

Income is recognised in the profit and loss account concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs, these including depreciation, amortisation, writedown, provisions, and reversals which are due to changes in estimated amounts previously recognised in the profit and loss account are recognised in the profit and loss account.

Assets are recognised in the balance sheet when the company is liable to achieve future, financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

At the first recognition, assets and liabilities are measured at cost. Later, 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.

Translation of foreign currency

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.

Debtors, creditors, and other monetary items in foreign currency are translated by using the closing rate. The difference between the closing rate and the rate at the time of the occurrence or the recognition in the latest annual accounts of the amount owed or the liability is recognised in the profit and loss account under financial income and expenses.

Derived financial instruments

At the first recognition, derived financial instruments are recognised at cost in the balance sheet. Afterwards they are measured at fair value. Positive and negative fair values of derived financial instruments are recognised under other debtors and other creditors 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 profit and loss account together with any changes in the fair value of the hedged asset or the hedged liability.

Accounting policies

Income statement

Segment information

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.

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.

Revenue - comparative figures

The company will be applying IAS 11 and IAS 18 as its basis of interpretation for the recognition of revenue.

Revenue is recognised in the income statement if delivery and passing of risk to the buyer have taken place before the end of the year and if the income can be determined reliably and inflow is anticipated. Recognition of revenue is exclusive of VAT and taxes and less any discounts relating directly to sales.

Income from the sale of goods where installation is a prerequisite for considering significant risks to have been transferred to the buyer is recognised in revenue when the installation is complete.

Income from construction contracts, involving a high degree of customisation is recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the sales value of work performed during the year (percentage of completion method). The method is used when total income and expenses relating to the contract and the stage of completion can be measured reliably.

Accounting policies

Where income from a construction contract cannot be estimated reliably, contract revenue corresponding to the expenses incurred is recognised only in so far as it is probable that such expenses will be recoverable from the counterpart.

Production costs

The production costs comprise costs, including salaries, wages and depreciation, which are incurred in order to achieve the net turnover of the year. Trade enterprises recognise cost of sales, and manufacturing enterprises recognise production costs corresponding to the turnover of the year. These costs include direct and indirect costs for raw materials and consumables, salaries and wages, rent and leasing, and depreciation on the production plant.

Distribution costs

The distribution costs comprise costs which have been incurred for distribution of goods sold during the year and for sales campaigns carried out during the year. Additionally, costs for sales staff, costs for advertising and exhibitions, and depreciation are recognised in the profit and loss account.

Administration costs

Administration costs comprise costs which have been incurred during the year for management and administration, including costs for the administrative staff, the executive board, offices, stationery and office supplies, and depreciation.

Cost of sales

Costs of sales includes costs for the 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.

Net financials

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

Accounting policies

Tax of the results for the year

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

The company is subject to the Danish legislation concerning compulsory joint taxation with the Danish group enterprises.

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

The balance sheet

Intangible fixed 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.

Tangible fixed assets

Land and buildings are measured at cost with addition of revaluations and with deduction of accrued depreciation and writedown. Land is not depreciated.

Land and buildings are revaluated on the basis of regular, independent evaluation of the fair value. The net revaluation at fair value adjustment is recognised directly on the equity after deduction of deferred tax and tied up in a particular revaluation reserve. Net impairment at fair value adjustments is recognised in the profit and loss account.

The basis of depreciation is cost with the addition of revaluations at fair value and with the deduction of expected residual value after the end of the useful life of the asset. The depreciation period is fixed at the acquisition date and reevaluated annually. If the residual value exceeds the book value of the asset, the depreciation expires.

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

Other tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

Accounting policies

The basis of depreciation is cost with deduction of 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 book value, the amortisation discontinues.

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

The cost comprises the acquisition cost and costs directly attached to 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.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

	Useful life
Buildings	10-40 years
Technical plants and machinery	7-15 years
Other plants, operating assets, fixtures and furniture	3-15 years

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or losses are recognised in the profit and loss account as other operating income or other operating expenses.

Right-of-use assets

Right-of-use assets - current year

The company 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 company 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 company'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 company expects to purchase the right-of-use asset. When determining the present value, the internal rate of return or, alternatively, the company'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.

Right-of-use assets - comparative figures

The company will be applying IAS 17 as its base of interpretation for recognition of classification and recognition of leases.

At their initial recognition in the statement of financial position, leases concerning property, plant, and equipment where the company holds all essential risks and advantages associated with the proprietary right (finance lease) are measured either at fair value or at the present value of the future lease payments, whichever value is lower. When calculating the present value, the discount rate used is the internal rate of return of the lease or, alternatively, the borrowing rate of the enterprise. Hereafter, assets held under a finance lease are treated in the same way as other similar property, plant, and equipment.

The capitalised residual lease commitment is recognised in the statement of financial position as a liability other than provisions, and the interest part of the lease is recognised in the income statement for the term of the contract.

Leases are regarded as operating leases. Payments in connection with operating leases and other lease agreements are recognised in the income statement for the term of the contract. The company's total liabilities concerning operating leases and lease agreements are recognised under contingencies, etc.

Writedown of fixed assets

The book values of both intangible and tangible fixed assets as well as equity investments in subsidiaries and associated enterprises are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

Accounting policies

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

The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net cash flow deriving from the use of the asset or the group of assets.

Previously recognised writedown is reversed when the condition for the writedown no longer exist. Writedown relating to goodwill is not reversed.

Inventories

Inventories are measured at cost on basis of the FIFO method. In case the net realisable value of the inventories is lower than the cost, writedown takes place to this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

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

Debtors

Debtors are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

Work in progress for the account of others

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.

Accrued income and deferred expenses

Accrued income and deferred expenses recognised under assets comprise incurred costs concerning the next financial year.

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

According to the rules of joint taxation, Alfa Laval Copenhagen A/S is unlimited, jointly and severally liable towards the Danish tax authorities for the total corporation tax, including withholding tax on interest, royalties and dividends, arising within the jointly taxed group of companies.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax assets, including the tax value of tax losses eligible for carry-over, 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.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

Other provisions

Provisions comprise expected costs for guarantee liabilities, loss on work in progress, restructuring, etc. Provisions are recognised when the company has a legal or actual liability which is due to a previous event and when it is likely that the settlement of the liability will result in expenditure of the financial resources of the company.

If the settlement of the liability is expected to take place in some remote future, provisions are measured at the net realisable value or at fair value.

Accounting policies

Liabilities

Financial liabilities related to borrowings are recognised at the received proceeds with the deduction of transaction costs incurred. In following periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value by use of the effective interest. The difference between the proceeds and the nominal value is recognised in the profit and loss account during the term of the loan.

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

Other liabilities are measured at net realisable value.