

**WATSON-MARLOW FLEXICON A/S**

**FREJASVEJ 2-6, 4100 RINGSTED**

**ANNUAL REPORT**

**1 JANUARY - 31 DECEMBER 2020**

**The Annual Report has been presented and  
adopted at the Company's Annual General  
Meeting on 31 May 2021**

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**Lars Petersen**

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**COMPANY DETAILS**

<b>Company</b>	Watson-Marlow Flexicon A/S Frejasvej 2-6 4100 Ringsted  CVR No.: 10 13 93 84 Established: 1 January 1986 Registered Office: Ringsted Financial Year: 1 January - 31 December
<b>Board of Directors</b>	Andrew Gordon Silver, chairman Mette Juhl Jørgensen James Henry Wright
<b>Executive Board</b>	Mette Juhl Jørgensen
<b>Auditor</b>	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 2300 Copenhagen

**BOARD OF DIRECTORS STATEMENT AND MANAGEMENT'S STATEMENT**

*Today the Board of Directors and Executive Board have discussed and approved the Annual Report of Watson-Marlow Flexicon A/S for the financial year 1 January - 31 December 2020.*

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

*In our opinion the Financial Statements give a true and fair view of the Company's assets, liabilities and financial position 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.*

*The Management Commentary includes in our opinion a fair presentation of the matters dealt with in the Commentary.*

*We recommend the Annual Report be approved at the Annual General Meeting.*

Ringsted, 16 April 2021

Executive Board

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Mette Juhl Jørgensen

Board of Directors

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Andrew Gordon Silver  
Chairman

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Mette Juhl Jørgensen

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James Henry Wright

## INDEPENDENT AUDITOR'S REPORT

### *To the Shareholders of Watson-Marlow Flexicon A/S*

#### **Opinion**

*We have audited the Financial Statements of Watson-Marlow Flexicon A/S for the financial year 1 January - 31 December 2020, which comprise income statement, Balance Sheet, statement of changes in equity, cash flows, notes and a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.*

*In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and 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 the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.*

#### **Management's Responsibilities for the Financial Statements**

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

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

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.*

## INDEPENDENT AUDITOR'S REPORT

- *Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.*
- *Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.*
- *Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.*

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

### **Statement on Management's Review**

*Management is responsible for Management's Review.*

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

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

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

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

Copenhagen, 16 April 2021

Deloitte Statsautoriseret Revisionspartnerselskab  
CVR no. 33 96 35 56

Jens Sejer Pedersen  
State Authorised Public Accountant  
MNE no. mne14986

## FINANCIAL HIGHLIGHTS

	2020	2019	2018	2017	2016
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Gross profit/loss.....	68.285	57.270	50.615	55.698	50.937
Operating profit/loss of main activities...	41.879	31.203	25.905	31.240	30.319
Financial income and expenses, net.....	-402	-86	-50	-69	-92
Profit/loss for the year.....	32.424	24.268	20.157	24.300	23.570
<b>Balance sheet</b>					
Total assets.....	72.978	66.566	47.110	49.609	51.444
Equity.....	54.404	45.981	33.712	37.553	37.254
<b>Cash flows</b>					
Investment in property, plant and equipment.....	-357	-421	-280	-836	-644

## MANAGEMENT COMMENTARY

### **Principal activities**

As in prior years, the Company's primary activities consist of design, production and sale of filling and encapsulation machines.

### **Development in activities and financial and economic position**

The Gross Profit for the financial year amounts to DKK '000 68,285 against DKK '000 58,319 in the previous year, corresponding to an increase of 17%. Profit before Tax amounts to DKK '000 41,477 against DKK '000 31,118 last year.

The Company's growth has continued during the financial year especially due to an increase in export through the group's sales channels. The average staff number has increased by 4 FTE during the year in order to adjust the organization to the increased volume and prepare for further growth.

The Covid-19 pandemic has induced strong demand for the Company's products from the Biopharm sector. Furthermore, the pandemic has not had significant negative effect on the Company's supply chain during the year.

The Management considers the Profit for the year as satisfactory.

### **Profit/loss for the year compared to the expected development**

The increase in volume and profit for the year compared to 2019 has exceeded the Company's expectations for the year, as volume and profit for the year in line with 2019 was expected.

### **Significant events after the end of the financial year**

No events have occurred after the end of the financial year of material importance for the company's financial position.

### **Financial risk**

#### **Operational risks**

The Company's most significant operational risks are attached to the ability to maintain a strong position on its key markets and to be on the forefront of the technological development within the Company's main products.

#### **Financial risks**

The Company is through its operations, investments and financing only to a certain extent exposed to changes in foreign exchange rates and changes in the market rate of interest.

#### **Foreign exchanges risks**

The Company's revenue is almost entirely in DKK or EUR which significantly reduces its exchange risks. However, a part of the cost of goods is in GBP and USD so the Company is exposed to significant changes in these currencies.

### **Environmental situation**

The Company is certified according to ISO 9001:2015, ISO 14001:2015 and ISO 45001. The Company is working determinedly to improve the environmental effort. This is done within the framework of the Spirax-Sarco group's overall targets.

### **Knowledge resources**

The Company has always worked actively to attract and retain well-qualified manpower at all levels of the organization. As part of these efforts, the qualifications of the employees are continuously upgraded through both in-house and external training.

### **Future expectations**

The company expects volume for the year 2021 to be approximately the same level as in 2020, whereas profit is expected to be slightly lower.



## INCOME STATEMENT 1 JANUARY - 31 DECEMBER

	Note	2020 DKK '000	2019 DKK '000
<b>GROSS PROFIT</b> .....	1	<b>68.285</b>	<b>57.270</b>
Distribution costs.....	1	-10.536	-11.050
Administrative expenses.....	1	-15.870	-15.017
<b>OPERATING PROFIT</b> .....		<b>41.879</b>	<b>31.203</b>
Financial expenses.....	2	-402	-86
<b>PROFIT BEFORE TAX</b> .....		<b>41.477</b>	<b>31.117</b>
Tax on profit/loss for the year.....	3	-9.053	-6.849
<b>PROFIT FOR THE YEAR</b> .....	4	<b>32.424</b>	<b>24.268</b>

## BALANCE SHEET AT 31 DECEMBER

ASSETS	Note	2020 DKK '000	2019 DKK '000
Development projects completed.....		930	1.267
Intangible fixed assets acquired.....		92	132
Goodwill.....		44	218
<b>Intangible assets.....</b>	<b>5</b>	<b>1.066</b>	<b>1.617</b>
Other plant, machinery, tools and equipment.....		649	648
Leasehold improvements.....		169	357
<b>Property, plant and equipment.....</b>	<b>6</b>	<b>818</b>	<b>1.005</b>
Rent deposit and other receivables.....		452	447
<b>Financial non-current assets.....</b>	<b>7</b>	<b>452</b>	<b>447</b>
<b>NON-CURRENT ASSETS.....</b>		<b>2.336</b>	<b>3.069</b>
Raw materials and consumables.....		11.859	11.832
Work in progress.....		3.969	8.151
Finished goods and goods for resale.....		2.898	1.566
<b>Inventories.....</b>		<b>18.726</b>	<b>21.549</b>
Trade receivables.....		4.883	2.787
Receivables from group enterprises.....		9.424	26.006
Other receivables.....		3	672
Corporation tax receivable.....		0	714
Prepayments and accrued income.....	8	588	411
<b>Receivables.....</b>		<b>14.898</b>	<b>30.590</b>
<b>Cash and cash equivalents.....</b>		<b>37.018</b>	<b>11.358</b>
<b>CURRENT ASSETS.....</b>		<b>70.642</b>	<b>63.497</b>
<b>ASSETS.....</b>		<b>72.978</b>	<b>66.566</b>

## BALANCE SHEET AT 31 DECEMBER

EQUITY AND LIABILITIES	Note	2020 DKK '000	2019 DKK '000
Share capital.....	9	1.200	1.200
Reserve for development costs.....		725	988
Retained profit.....		28.479	19.793
Proposed dividend.....		24.000	24.000
<b>EQUITY.....</b>		<b>54.404</b>	<b>45.981</b>
Provision for deferred tax.....	10	371	1.061
Other provisions for liabilities.....	11	1.055	945
<b>PROVISIONS.....</b>		<b>1.426</b>	<b>2.006</b>
Other liabilities.....		3.933	1.305
<b>Non-current liabilities.....</b>	<b>12</b>	<b>3.933</b>	<b>1.305</b>
Prepayments received from customers.....		923	1.679
Trade payables.....		3.386	3.373
Payables to group enterprises.....		853	7.389
Corporation tax.....		1.286	0
Other liabilities.....		6.767	4.833
<b>Current liabilities.....</b>		<b>13.215</b>	<b>17.274</b>
<b>LIABILITIES.....</b>		<b>17.148</b>	<b>18.579</b>
<b>EQUITY AND LIABILITIES.....</b>		<b>72.978</b>	<b>66.566</b>
 Contingencies etc.	 13		
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## EQUITY

	Share capital	Reserve for development costs	Retained profit	Proposed dividend	Total
Equity at 1 January 2020.....	1.200	988	19.792	24.000	45.980
Proposed profit allocation, note 4.....			8.424	24.000	32.424
<b>Transactions with owners</b>					
Dividend paid.....				-24.000	-24.000
<b>Other legal bindings</b>					
Transferred to reserve for development costs.....		-263	263		0
<b>Equity at 31 December 2020.....</b>	<b>1.200</b>	<b>725</b>	<b>28.479</b>	<b>24.000</b>	<b>54.404</b>

## CASH FLOW STATEMENT 1 JANUARY - 31 DECEMBER

	<b>2020</b>	<b>2019</b>
	DKK '000	DKK '000
Profit/loss for the year.....	32.424	24.269
Reversed depreciation of the year.....	1.096	1.133
Adjustment of other financial income.....	57	86
Reversed tax on profit/loss for the year.....	9.053	6.849
Corporation tax paid.....	-7.743	-7.861
Change in inventories.....	2.823	-5.065
Change in receivables (ex tax).....	14.978	-12.674
Other cash flows from operating activities.....	110	0
Change in current liabilities (ex bank, tax, instalments payable and overdraft facility).....	-5.345	7.482
<b>CASH FLOWS FROM OPERATING ACTIVITY.....</b>	<b>47.453</b>	<b>14.219</b>
Purchase of intangible assets.....	0	-164
Purchase of property, plant and equipment.....	-357	-421
<b>CASH FLOWS FROM INVESTING ACTIVITY.....</b>	<b>-357</b>	<b>-585</b>
Change in other long-term liabilities.....	2.626	0
Dividends paid in the financial year.....	-24.000	-12.000
Other cash flows from financing activities.....	-62	-86
<b>CASH FLOWS FROM FINANCING ACTIVITY.....</b>	<b>-21.436</b>	<b>-12.086</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS.....</b>	<b>25.660</b>	<b>1.548</b>
Cash and cash equivalents at 1. januar.....	11.358	9.807
<b>CASH AND CASH EQUIVALENTS AT 31. DECEMBER.....</b>	<b>37.018</b>	<b>11.355</b>
Cash and cash equivalents at 31 December comprise:		
Cash and cash equivalents.....	37.018	11.355
<b>CASH AND CASH EQUIVALENTS, NET DEBT.....</b>	<b>37.018</b>	<b>11.355</b>

## NOTES

	2020 DKK '000	2019 DKK '000	Note
<b>Staff costs</b>			<b>1</b>
Average number of employees	58	55	
Wages and salaries.....	31.271	29.892	
Pensions.....	5.536	4.877	
Social security costs.....	514	567	
	<b>37.321</b>	<b>35.336</b>	
The remuneration of the Board of Executives is, in accordance with section 98 b(3) of the Danish Financial Statements Act, not disclosed, as the Board of Executives consists of only one member. No remuneration has been paid to the Board of Directors.			
<b>Financial expenses</b>			<b>2</b>
Other interest expenses.....	402	86	
	<b>402</b>	<b>86</b>	
<b>Tax on profit/loss for the year</b>			<b>3</b>
Calculated tax on taxable income of the year.....	9.740	6.480	
Adjustment of tax for previous years.....	2	3	
Adjustment of deferred tax.....	-689	366	
	<b>9.053</b>	<b>6.849</b>	
<b>Proposed distribution of profit</b>			<b>4</b>
Proposed dividend for the year.....	24.000	24.000	
Retained earnings.....	8.424	268	
	<b>32.424</b>	<b>24.268</b>	
<b>Intangible assets</b>			<b>5</b>
	Development projects completed	Intangible fixed assets acquired	Goodwill
Cost at 1 January 2020.....	1.687	201	4.845
Cost at 31 December 2020.....	<b>1.687</b>	<b>201</b>	<b>4.845</b>
Amortisation at 1 January 2020.....	420	69	4.626
Amortisation for the year.....	338	40	175
Amortisation at 31 December 2020.....	<b>758</b>	<b>109</b>	<b>4.801</b>
Carrying amount at 31 December 2020.....	<b>929</b>	<b>92</b>	<b>44</b>

Capitalized development costs consist of external costs incurred in connection with the development of a new, uniquely configurable aseptic fill / finish system. Management has high expectations for the system's use and has not found any indication of impairment in relation to the carrying amount.

## NOTES

			Note
<b>Property, plant and equipment</b>			<b>6</b>
	Other plant, machinery, tools and equipment	Leasehold improvements	
Cost at 1 January 2020.....	3.207	2.954	
Additions.....	357	0	
<b>Cost at 31 December 2020.....</b>	<b>3.564</b>	<b>2.954</b>	
Depreciation and impairment losses at 1 January 2020.....	2.560	2.597	
Depreciation for the year.....	355	188	
<b>Depreciation and impairment losses at 31 December 2020...</b>	<b>2.915</b>	<b>2.785</b>	
<b>Carrying amount at 31 December 2020.....</b>	<b>649</b>	<b>169</b>	
 <b>Financial non-current assets</b>			 <b>7</b>
		Rent deposit and other receivables	
Cost at 1 January 2020.....		447	
<b>Cost at 31 December 2020.....</b>		<b>447</b>	
Revaluation and impairment losses for the year.....		5	
<b>Revaluation at 31 December 2020.....</b>		<b>5</b>	
<b>Carrying amount at 31 December 2020.....</b>		<b>452</b>	
 <b>Prepayments and accrued income</b>			 <b>8</b>
Prepaid expenses.....	588	411	
	<b>588</b>	<b>411</b>	
 <b>Share capital</b>			 <b>9</b>
Allocation of share capital:			
Shares, 1.200 unit in the denomination of 1.000 DKK.....	1.200	1.200	
	<b>1.200</b>	<b>1.200</b>	

## NOTES

					Note
<b>Provision for deferred tax</b>					<b>10</b>
Provision for deferred tax comprises deferred tax on contract work in progress, inventory and intangible and tangible fixed assets.					
		<b>2020</b>		<b>2019</b>	
		DKK '000		DKK '000	
Deferred tax, beginning of year.....		1.061		695	
Deferred tax of the year, income statement.....		-689		366	
<b>Deferred tax for the year through profit/loss statement.....</b>		<b>371</b>		<b>1.061</b>	
<b>Other provisions for liabilities</b>					<b>11</b>
Provisions expected to mature within one year.....		1.055		945	
Other provisions for liabilities includes warranty provisions etc.					
<b>Long-term liabilities</b>					<b>12</b>
	31/12 2020	Repayment	Debt	31/12 2019	
	total liabilities	next year	outstanding	total liabilities	
			after 5 years		
Other liabilities.....	3.933	0	3.933	1.305	
	<b>3.933</b>	<b>0</b>	<b>3.933</b>	<b>1.305</b>	
<b>Contingencies etc.</b>					<b>13</b>
<b>Rental commitments</b>					
The company has entered into operating leases with remaining terms up to 23 months. The residual lease payments amount to DKK ('000) 1,614 (2019: DKK ('000) 1,953).					
The company has entered into rent deposit with a term of notice for 12 months. The rent payment in that period is DKK ('000) 1,385.					
<b>Contingent liabilities</b>					
<b>Joint liabilities</b>					
The Danish companies of the group is jointly and severally liable for tax on the group's jointly taxed income and for certain possible withholding taxes such as dividend tax and royalty tax, and for the joint registration of VAT.					
Tax payable of the group's jointly taxed income amounts to DKK ('000) 1,286 at the balance sheet date.					



## NOTES

### Note

#### Related parties

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The controlling interest of Watson-Marlow Flexicon A/S includes:

#### Controlling interest

Related parties with a controlling interest comprise Spirax-Sarco Investments Ltd., Charlton House, Cheltenham, Gloucestershire, GL53 BER, United Kingdom.

Related parties with a significant influence comprise Spirax-Sarco Engineering BV., Charlton House, Cheltenham, Gloucestershire, GL53 BER, United Kingdom.

#### Other related parties having performed transactions with the company

The company's related parties having a significant influence comprise subsidiaries and associates as well as the companies' Board of Directors, Board of Executives and executive officers and their relatives. Related parties also include companies in which the above mentioned group of persons has material interests.

#### Transactions with related parties

The company did not carry out any material transactions that were not concluded on market conditions. According to section 98c, subsection 7 of the Danish Financial Statements Act information is given only on transactions that were not performed on common market conditions.

#### Consolidated Financial Statements

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Name and registered office address of the Parent preparing consolidated financial statements for the smallest group:

Spirax-Sarco Engineering Plc, Charlton House, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom, [www.spiraxsarcoengineering.com](http://www.spiraxsarcoengineering.com).

## ACCOUNTING POLICIES

*The Annual Report of Watson-Marlow Flexicon A/S for 2020 has been presented in accordance with the provisions of the Danish Financial Statements Act for enterprises in reporting class C, medium enterprise.*

*The Annual Report is prepared consistently with the accounting principles applied last year.*

## INCOME STATEMENT

### **Net revenue**

*Net revenue from sale of merchandise and finished goods is recognised in the Income Statement if supply and risk transfer to purchaser has taken place before the end of the year and if the income can be measured reliably and is expected to be received. Net revenue is recognised exclusive of VAT, duties and less discounts related to the sale.*

### **Production costs**

*Production costs comprise costs, including wages and salaries and write-off, incurred to achieve the net revenue for the year. Commercial enterprises recognise cost of sales, and the manufacturing enterprises recognise production costs equal to the revenue for the year, including direct and indirect costs of raw materials and consumables, wages and salaries, rent and leasing and depreciation of production plant.*

*Amortisation of capitalised development and research costs and the development costs that do not fulfil the criteria for capitalisation are also recognised in production costs.*

*Write-down is recognised in connection with expected losses on project contracts.*

### **Distribution costs**

*The costs incurred for distribution of goods sold during the year and for sales campaigns carried out during the year are recognised in distribution costs. The costs of the sales personnel, advertising and exhibition costs and amortisation are also recognised in distribution costs.*

### **Administrative expenses**

*Administrative expenses recognise costs incurred during the year regarding management and administration of the group, inclusive of costs relating to the administrative staff, executives, office premises, office expenses etc and related amortisation.*

### **Financial income and expenses**

*Financial income and expenses include interest income and expenses, financial expenses of finance leases, realised and unrealised gains and losses arising from investments in financial assets, debt and transactions in foreign currencies, amortisation of financial assets and liabilities as well as charges and allowances under the tax-on-account scheme etc. Financial income and expenses are recognised in the income statement by the amounts that relate to the financial year.*

### **Tax**

*The tax for the year, which consists of the current tax for the year and changes in deferred tax, is recognised in the income statement by the portion that may be attributed to the profit for the year, and is recognised directly in the equity by the portion that may be attributed to entries directly to the equity.*

## BALANCE SHEET

### **Intangible fixed assets**

*Acquired goodwill is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over the expected useful life which is estimated to 10 years. The period of amortisation is determined based on an assessment of the acquired company's position in the market and earnings profile, and the industry-specific conditions.*

## ACCOUNTING POLICIES

### **Tangible fixed assets**

Production plant and machinery, other plants, fixtures and equipment are measured at cost less accumulated depreciation and write-down.

The depreciation base is cost less estimated residual value after end of useful life.

The cost includes the acquisition price and costs incurred directly in connection with the acquisition until the time when the asset is ready to be used. As regards self-manufactured assets, the cost price includes cost of materials, components, subcontractors, direct payroll and indirect production costs.

Straight-line depreciation is provided on the basis of an assessment of the expected useful lives of the assets and their residual value:

	<i>Useful life</i>
Production plant and machinery.....	2-8 years
Other plant, fixtures and equipment.....	3-5 years
Leasehold improvements.....	5 years

Estimated useful lives and residual values are reassessed annually.

Profit or loss on disposal of tangible fixed assets is stated as the difference between the sales price less selling costs and the carrying amount at the time of sale. Profit or loss is recognised in the income statement as other operating income or other operating expenses.

### **Fixed asset investments**

#### **Impairment of fixed assets**

The carrying amount of intangible and tangible fixed assets together with investments, which are not measured at fair value, are valued on an annual basis for indications of impairment other than that reflected by amortisation and depreciation.

In the event of impairment indications, an impairment test is made for each asset or group of assets, respectively. If the net realisable value is lower than the carrying amount, write-down is provided to the lower value.

The recoverable amount is calculated at the higher of net selling price and capital value. The capital value is determined as the fair value of the expected net cash flows from the use of the asset or group of assets and the expected net cash flows from sale of the asset or group of assets after the end of its useful life.

### **Inventories**

Inventories are measured at cost using the FIFO-principle. If the net realisable value is lower than cost, write-down is provided to the lower value.

The cost of merchandise as well as raw materials and consumables is calculated at acquisition price with addition of transportation and similar costs.

The cost of finished goods and work in progress includes cost of raw materials, consumables, direct payroll cost and indirect production cost. Indirect production costs include indirect materials and payroll and maintenance and depreciation of the machines, factory buildings and equipment used in the production process, cost of factory administration and management and capitalised development costs relating to the products.

The net realisable value of inventories is stated at sales price less completion costs and costs incurred to execute the sale and is determined with due regard to marketability, obsolescence and development in expected sales price.

## ACCOUNTING POLICIES

### **Receivables**

Receivables are measured at amortised cost which usually corresponds to nominal value. The value is reduced by write-down to meet expected losses.

### **Accruals, assets**

Accruals recognised as assets include costs incurred relating to the subsequent financial year.

### **Other provisions for liabilities**

Other provisions for liabilities include the expected cost of warranty commitments and deferred tax.

Warranty commitments include liabilities for improvement of work within the warranty period. The provision for liabilities is measured and recognised on the basis of experience with warranty work.

When it is likely that the total costs will exceed the total income on the contract work in progress, a provision is made for the total loss that is anticipated for the contract. The provision is recognised as a cost under production costs.

### **Tax payable and deferred tax**

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

The Company is subject to joint taxation with Danish group companies. The current corporation tax is distributed among the joint taxable companies in proportion to their taxable income and with full allocation and refund related to tax losses. The joint taxable companies are included in the on account tax scheme. Joint taxation contributions receivable and payable are recognised in the Balance Sheet under current assets and liabilities, respectively.

Deferred tax is measured on the temporary differences between the carrying amount and the tax value of assets and liabilities.

Deferred tax assets, including the tax value of tax loss carry-forwards, are measured at the expected realisable value of the asset, either by set-off against tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that under the legislation in force on the balance sheet date would be applicable when the deferred tax is expected to crystallise as current tax. Any changes in the deferred tax resulting from changes in tax rates, are recognised in the income statement, except from items recognised directly in equity.

### **Liabilities**

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

### **Foreign currency translation**

Transactions in foreign currencies are translated at the rate of exchange on the transaction date. Exchange differences arising between the rate on the transaction date and the rate on the payment date are recognised in the income statement as a financial income or expense.

Fixed assets acquired in foreign currencies are translated at the rate of exchange on the transaction date.

## CASH FLOW STATEMENT

The cash flow statement shows the company's cash flows for the year for operating activities, investing activities and financing activities in the year, the change in cash and cash equivalents of the year and cash and cash equivalents at beginning and end of the year.

## ACCOUNTING POLICIES

### *Cash flows from operating activities:*

*Cash flows from operating activities are computed as the results for the year adjusted for non-cash operating items, changes in net working capital and corporation tax paid.*

### *Cash flows from investing activities:*

*Cash flows from investing activities include payments in connection with purchase and sale of intangible and tangible fixed asset and fixed asset investments.*

### *Cash flows from financing activities:*

*Cash flows from financing activities include changes in the size or composition of share capital and related costs, and borrowings and repayment of interest-bearing debt and payment of dividend to shareholders.*

### *Cash and cash equivalents:*

*Cash and cash equivalents include bank overdraft and cash in hand.*