

Vikan A/S

Rævevej 1

7800 Skive

CVR No.: 10 29 01 47

Annual report 2016

Approved at the Company's annual general meeting on 28th of March 2017

Chairman of the meeting



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Company details

Company

Vikan A/S

Rævevej 1

DK-7800 Skive

CVR No.: 10 29 01 47

Municipality: Skive

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Board of Directors

Niels Hermansen, Chairman

Poul Erik Vennekilde, Vice chairman

Torben Voss

Lotte Franch Wamberg

Henrik Christensen *

Else Marie Pedersen *

*) Employee representative

Executive Board

CEO Carsten Bo Pedersen

Auditors

Ernst & Young P/S

Englandsgade 25

DK-5000 Odense C

CVR No.: 30 70 02 28

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Vikan A/S for the financial year 1 January – 31 December 2016.

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

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Skive, 28th of March 2017

Executive Board



Carsten Bo Pedersen
CEO

Board of Directors



Niels Hermansen
Chairman

Poul Erik Vennekilde
Vice chairman



Torben Voss



Lotte Franch Wamberg



Henrik Christensen
Employee representative



Else Marie Pedersen
Employee representative

Independent auditor's report

To the shareholders of Vikan A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Vikan A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, notes and accounting policies, for the Group and the Parent Company, as well as consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the consolidated financial statements and the parent company financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

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

Independent auditor's report

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the note disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

Independent auditor's report

Based on our procedures, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Odense, 28th March 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

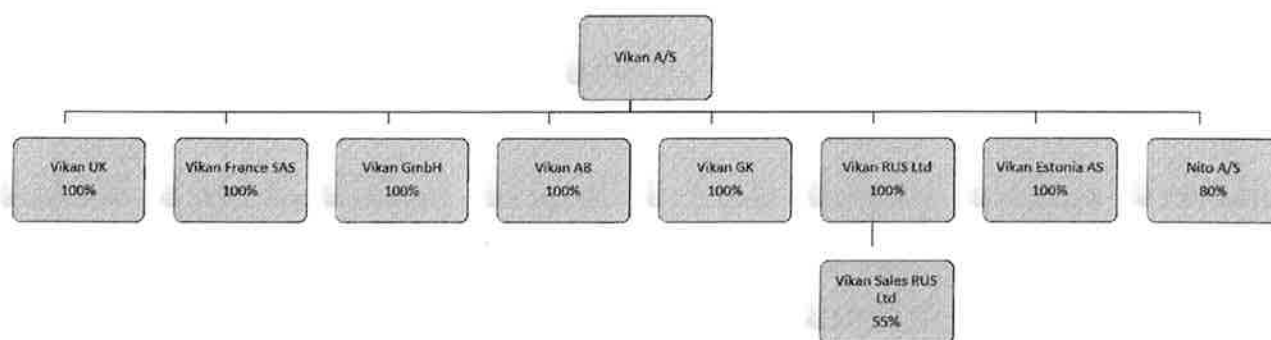

Brian Skovhus Jakobsen
State Authorised
Public Accountant


Michael Sig
State Authorised
Public Accountant

Management's review

Hereby, the Board of Directors and the Executive Board of Vikan A/S have prepared the annual report and the Management's review for 2016.

Group chart



The activities of the companies comprise production, sale and distribution.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------|---------|---------|---------|---------|
| | DKK'000 | DKK'000 | DKK'000 | DKK'000 | DKK'000 |
| Financial highlights of the Group | | | | | |
| Key figures | | | | | |
| Revenue | 356,493 | 347,100 | 327,944 | 310,640 | 298,338 |
| Gross profit | 160,261 | 151,849 | 137,671 | 130,063 | 116,419 |
| Operating profit | 55,124 | 47,063 | 40,669 | 36,839 | 30,706 |
| EBITDA | 67,745 | 59,525 | 52,094 | 47,599 | 40,978 |
| Financial income and financial expenses | -503 | -4,006 | -2,785 | -3,029 | -3,738 |
| Profit before tax | 54,621 | 43,057 | 37,884 | 33,810 | 26,969 |
| Profit for the year | 41,215 | 32,458 | 28,427 | 26,359 | 21,620 |
| Investments in property, plant and equipment | 9,743 | 10,448 | 17,337 | 11,876 | 15,518 |
| Inventories | 63,602 | 60,091 | 64,492 | 59,422 | 57,701 |
| Trade receivables | 50,826 | 52,535 | 47,092 | 43,862 | 48,734 |
| Equity | 108,982 | 94,448 | 85,071 | 82,393 | 77,628 |
| Net interest-bearing debt | 14,038 | 43,166 | 54,222 | 42,695 | 61,719 |
| Total assets | 250,967 | 218,425 | 214,520 | 208,026 | 206,917 |
| Cash flows from operating activities | 64,211 | 47,954 | 29,114 | 48,968 | 42,284 |
| Financial ratios | | | | | |
| Gross margin (%) | 45.0 | 43.7 | 42.0 | 41.9 | 39.0 |
| Operating margin (%) | 15.5 | 13.6 | 12.4 | 11.9 | 10.3 |
| Return on capital employed (%) | 25.9 | 22.6 | 19.2 | 17.8 | 16.0 |
| Debt leverage | 0.2 | 0.7 | 1.0 | 0.9 | 1.5 |
| Return on equity (%) | 40.5 | 36.2 | 34.6 | 32.9 | 28.2 |
| Solvency ratio (%) | 43.4 | 43.3 | 39.7 | 39.6 | 37.5 |

Management's review

Principal activities

The principal activities of the Vikan Group are to develop, manufacture and market hygienic cleaning tools for professional use. Products and services are based on the needs of our customers and statutory requirements. Vikan markets a broad range of cleaning tools and solutions which are primarily intended for the following sectors:

- Food & beverage
- Kitchens & restaurants
- Healthcare
- Education & local authorities
- Retail & supermarkets
- Transport

Vikan offers a wide range of products and solutions which ensure both hygienic and effective cleaning which contribute to ensuring that our customer's growing hygienic standards are being met. For further information please visit the Vikan website www.vikan.com

Development in activities and financial position in the financial year

Consolidated revenue totalled DKK 356 million in the year under review against DKK 347 million in 2015. Vikan Group continued to grow its core business areas under the Vikan brand umbrella with a strong focus on products and solutions to the food & beverage industry.

The combination of sales growth and improved efficiencies in the supply chain supported an increase in the consolidated result after tax which totalled DKK 42 million in 2016 against DKK 33 million in 2015. The realised result in 2016 is considered satisfactory and in line with the Company's overall strategic plan.

Vikan remains committed to its leading position as a provider of the most innovative hygiene cleaning tools. In 2016 the company continued to introduce a number of new products and solutions adding to the most comprehensive and distinctive range of professional hygiene cleaning tools.

Total investments amounted to DKK 10 million. Significant investments were completed in new production equipment, IT solutions and development of new products. In addition, significant investment have taken place in terms of strengthening and developing further competences in the organisation.

As of 1st September 2016, our subsidiary Nito A/S, acquired the business activities of Dyros, adding the entire Dyros range of high-quality connectors and related components to Nito's popular range of couplings.

The Group realised positive cash flows from operations totalling DKK 64 million.

Management's review

Outlook 2017

Vikan will continue the execution of its corporate strategy, which is expected to lead to further increase of market share and growth in sales. The financial result and investments are expected to be slightly above the 2016 level.

Cash resources and capital structure

At 31 December 2016, equity amounted to DKK 109 million. Solvency ratio totalled 43.4 % at the end of the financial year. Net interest-bearing debt decreased to DKK 13.9 million. Consequently, the debt leverage (relation between net interest-bearing debt and EBITDA) totalled 0.2 at the end of 2016.

Particular risks

Risks related to operations, financing activities, foreign exchange and interest rates and trade credit conditions are considered usual for the industry and they may have a considerable impact on future earnings. The management is working proactively to manage and reduce the risk related to both operational and financial activities. This includes fluctuation in raw material and hedging of cash flow.

Corporate social responsibility

Vikan A/S has currently not implemented an overall policy for corporate social responsibility, including human rights, climate and environment. However long-term sustainability and to uphold responsible business ethics has always been part of our philosophy and customer value proposition.

During 2016, the Company took several measures to improve the work environment, environmental impact and social responsibility.

Transactions with the Company's most important suppliers are made in accordance with guide lines regarding employee and environmental conditions and are in compliance with applicable legislation. During 2016 the Company has been audited and approved by major international customers with strict requirement.

Intellectual capital and gender quotation on the Management Board

The Company constantly invests in training of its employees. A number of training and development programs have been completed throughout the organisation in 2016.

Vikan A/S operates from the principle that diversity among its employees, including gender balance, contributes positively to the work environment and strengthens the Company's performance and competitiveness. The Company thus has a clear policy regarding discrimination and intends at all times to employ and retain its employees based on qualifications and competences.

At the end of 2016, more than half of Vikan A/S' employees are women. 25% of the Board of Directors and 60% of the executive management were women.

Management's review

Vikan A/S has as an objective that the underrepresented gender accounts for at least 40% of the Company's executive management.

Research and development

Continuous development of new products and technologies are taking place as an integrated part of the Company's ongoing operations in order to maintain its leading position as a provider of the most innovative hygiene cleaning tools. Research and development activities are based on both customer-specific projects as well as internally defined projects.

Environment

Vikan A/S is committed to operate in an environmental friendly manner. The Company continuously strives at improving its environmental impact, which among other things is achieved through the Company's environmental management system ISO 14001 and its focus on any potential for minimising the consumption of raw materials and other scarce resources.

Vikan A/S regularly optimises its energy consumption both in terms of production and administration in order to ensure low operating costs and to obtain the most optimum environmental impact.

All production sites are certified to the ISO standards ISO 9001 for quality and ISO 14001 for environment.

Reference is made to the Company's website for more details on the Company's environmental policy.

Income statement for the period 1 January – 31 December

| | | Consolidated | | Parent company | |
|--|-------|-----------------|-----------------|-----------------|-----------------|
| | Note | 2016 DKK'000 | 2015 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
| Revenue | 1 | 356,493 | 347,100 | 312,485 | 278,592 |
| Production costs | 2.3 | -196,232 | -195,251 | -178,491 | -175,697 |
| Gross profit | | 160,261 | 151,849 | 133,994 | 102,895 |
| Distribution costs | 2.3 | -69,009 | -71,094 | -63,076 | -45,751 |
| Administrative expenses | 2,3,4 | -36,128 | -33,692 | -23,443 | -22,358 |
| Operating profit | | 55,124 | 47,063 | 47,475 | 34,786 |
| Profit of group enterprises after tax | 5 | 0 | 0 | 4,553 | 8,813 |
| Financial income | 6 | 4,806 | 1,065 | 3,921 | 577 |
| Financial expenses | 7 | -5,309 | -5,071 | -4,359 | -4,193 |
| Profit before tax | | 54,621 | 43,057 | 51,590 | 39,983 |
| Tax on profit for the year | 8 | -12,811 | -9,984 | -10,375 | -7,525 |
| Profit before non-controlling interest | | 41,810 | 33,073 | 41,215 | 32,458 |
| Non-controlling interests' share of subsidiary results | | -595 | -615 | 0 | 0 |
| Profit for the year | | 41,215 | 32,458 | 41,215 | 32,458 |

Assets at 31 December

| | Note | Consolidated | | Parent company | |
|--|------|-----------------|-----------------|-----------------|-----------------|
| | | 2016 DKK'000 | 2015 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
| Research and development | | 1,355 | 1,670 | 1,355 | 1,670 |
| Patents and licences acquired | | 588 | 734 | 588 | 734 |
| Goodwill | | 2,018 | 234 | 143 | 233 |
| Intangible assets | 9 | 3,961 | 2,638 | 2,086 | 2,637 |
| Land and buildings | | 41,828 | 43,451 | 30,815 | 32,125 |
| Plant and machinery | | 22,839 | 22,811 | 19,677 | 22,050 |
| Fixtures and fittings, other plant and equipment | | 9,436 | 11,332 | 8,750 | 10,944 |
| Property, plant and equipment under construction | | 1,908 | 1,601 | 1,327 | 1,281 |
| Property, plant and equipment | 10 | 76,011 | 79,195 | 60,569 | 66,400 |
| Investments in group enterprises | | 0 | 0 | 30,978 | 32,859 |
| Investments | 11 | 0 | 0 | 30,978 | 32,859 |
| Non-current assets | | 79,972 | 81,833 | 93,633 | 101,896 |
| Raw materials and consumables | | 33,525 | 24,564 | 24,826 | 15,668 |
| Work in progress | | 680 | 819 | 209 | 463 |
| Finished goods and goods for resale | | 29,397 | 34,708 | 20,415 | 28,489 |
| Inventories | | 63,602 | 60,091 | 45,450 | 44,620 |
| Trade receivables | | 50,826 | 52,535 | 37,963 | 35,142 |
| Amounts owed by subsidiaries | | 18,500 | 9,229 | 23,488 | 13,047 |
| Other receivables | | 1,652 | 1,304 | 361 | 343 |
| Prepayments | 12 | 2,978 | 2,606 | 2,137 | 1,878 |
| Receivables | | 73,956 | 65,674 | 63,949 | 50,410 |
| Cash at bank and in hand | | 33,437 | 10,827 | 15,130 | 4,969 |
| Current assets | | 170,995 | 136,592 | 124,529 | 99,999 |
| Assets | | 250,967 | 218,425 | 218,162 | 201,895 |

Equity and liabilities at 31 December

| | Note | Consolidated | | Parent company | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2016 t.kr. | 2015 t.kr. | 2016 t.kr. | 2015 t.kr. |
| Share capital | 13 | 8,000 | 8,000 | 8,000 | 8,000 |
| Revaluation reserve | | 3,038 | 3,303 | 0 | 0 |
| Retained earnings | | 67,944 | 58,145 | 70,982 | 61,448 |
| Proposed dividends for the financial year | | 30,000 | 25,000 | 30,000 | 25,000 |
| Equity | | 108,982 | 94,448 | 108,982 | 94,448 |
| Non-controlling interests | 14 | 2,065 | 2,070 | 0 | 0 |
| Deferred tax | 15 | 8,592 | 9,229 | 7,128 | 7,862 |
| Provisions | | 8,592 | 9,229 | 7,128 | 7,862 |
| Mortgage debt | | 44,047 | 47,711 | 37,150 | 40,030 |
| Lease obligations | | 8,753 | 8,649 | 6,899 | 8,649 |
| Other payables | | 853 | 0 | 0 | 0 |
| Non-current liabilities other than provisions | 16 | 53,653 | 56,360 | 44,049 | 48,679 |
| Current portion of non-current liabilities | 16 | 8,678 | 6,863 | 7,030 | 6,080 |
| Bank loans and overdrafts | | 4,924 | 0 | 0 | 0 |
| Trade payables | | 20,226 | 15,686 | 15,595 | 12,754 |
| Payables to group enterprises | | 0 | 0 | 2,401 | 10,981 |
| Corporation tax | | 17,100 | 6,519 | 15,771 | 4,996 |
| Other payables | | 26,747 | 27,250 | 17,206 | 16,095 |
| Current liabilities | | 77,675 | 56,318 | 58,003 | 50,906 |
| Liabilities other than provisions | | 131,328 | 112,678 | 102,052 | 99,585 |
| Equity and liabilities | | 250,967 | 218,425 | 218,162 | 201,895 |
| Events after the balance sheet date | 17 | | | | |
| Charges and contingent liabilities, etc. | 18-19 | | | | |
| Other notes | 20-23 | | | | |

Statement of changes in equity for 2016

Consolidated

| | Note | Share capital DKK'000 | Revaluation reserve DKK'000 | Retained earnings DKK'000 | Proposed dividends DKK'000 | Total DKK'000 |
|--|-------------|--------------------------------------|--|--|---|--------------------------|
| Equity 01.01.2016 | | 8,000 | 3,303 | 58,145 | 25,000 | 94,448 |
| Dividends paid | | 0 | 0 | 0 | -25,000 | -25,000 |
| Profit for the year | | 0 | -265 | 11,480 | 30,000 | 41,215 |
| Foreign exchange adjustments regarding foreign subsidiaries | | 0 | 0 | -1,173 | 0 | -1,173 |
| Net adjustment of hedging instruments | | 0 | 0 | -508 | 0 | -508 |
| Equity 31.12.2016 | | 8,000 | 3,038 | 67,944 | 30,000 | 108,982 |

Parent company

| | Note | Share capital DKK'000 | Revaluation reserve DKK'000 | Retained earnings DKK'000 | Proposed dividends DKK'000 | Total DKK'000 |
|--|-------------|--------------------------------------|--|--|---|--------------------------|
| Equity 01.01.2016 | | 8,000 | 0 | 61,448 | 25,000 | 94,448 |
| Dividends paid for the year | | 0 | 0 | 0 | -25,000 | -25,000 |
| Profit for the year | 24 | 0 | 0 | 11,215 | 30,000 | 41,215 |
| Foreign exchange adjustments regarding foreign subsidiaries | | 0 | 0 | -1,173 | 0 | -1,173 |
| Net adjustment of hedging instruments | | 0 | 0 | -508 | 0 | -508 |
| Equity 31.12.2016 | | 8,000 | 0 | 70,982 | 30,000 | 108,982 |

Cash flow statement for the period 1 January – 31 December

| | Note | 2016 DKK'000 | 2015 DKK'000 |
|---|------|-----------------|-----------------|
| Operating profit | | 55,124 | 47,063 |
| Depreciation, etc. with no cash flow effect | | 12,621 | 12,462 |
| Other items with no cash flow effect | | -1,681 | 1,326 |
| Change in operating capital | 25 | 1,515 | -1,965 |
| | | 67,579 | 58,886 |
| Interest income received, etc. | | 4,806 | 1,065 |
| Interest expenses incurred, etc. | | -5,309 | -5,071 |
| Corporation tax paid | | -2,865 | -6,926 |
| Cash flows from operating activities | | 64,211 | 47,954 |
| Capital investment and activities, net | | -9,482 | -11,298 |
| Cash flows from investing activities | | -9,482 | -11,298 |
| Repayment of loans/raising of loans, net | | -2,172 | -2,335 |
| Changes in balances, group enterprises | | -9,271 | 2,588 |
| Dividends paid | | -25,600 | -25,600 |
| Cash flows from financing activities | | -37,043 | -25,347 |
| Changes in cash and cash equivalents | | 17,686 | 11,309 |
| Cash and cash equivalents at 1 January | | 10,827 | -482 |
| Cash and cash equivalents at 31 December | 26 | 28,513 | 10,827 |

| Notes | Consolidated | | Parent company | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 DKK'000 | 2015 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
| 1. Revenue | | | | |
| Broken down on geographical markets: | | | | |
| Denmark | 42,571 | 42,059 | 36,075 | 36,159 |
| Other countries | 313,922 | 305,041 | 276,410 | 242,433 |
| Total | 356,493 | 347,100 | 312,485 | 278,592 |

Revenue is not disclosed per business area, as such disclosure in the opinion of Management and for competitive reasons will be detrimental to the Company.

2. Staff costs

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Wages and salaries | 81,672 | 83,577 | 61,528 | 62,391 |
| Pension contributions | 5,548 | 5,664 | 4,285 | 4,472 |
| Other social security costs | 4,086 | 4,499 | 919 | 976 |
| | 91,306 | 93,740 | 66,732 | 67,839 |
| Thereof total remuneration of the Executive Board and the Board of Directors | 4,829 | 4,778 | 4,829 | 4,778 |
| Average number of employees | 223 | 242 | 132 | 144 |

According to section 98b of the Danish Financial Statements Act, remuneration of the Executive Board and the Board of Directors is disclosed as one item.

3. Impairment losses and amortisation

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Research and development | 316 | 300 | 315 | 300 |
| Patents and licences acquired | 549 | 803 | 556 | 810 |
| Goodwill | 157 | 504 | 91 | 90 |
| Buildings | 2,037 | 2,029 | 1,388 | 1,379 |
| Plant and machinery | 6,891 | 6,639 | 6,420 | 5,906 |
| Fixtures and fittings, other plant and equipment | 3,157 | 2,621 | 2,887 | 2,422 |
| Gain on the disposal of non-current assets | -486 | -434 | -423 | -434 |
| | 12,621 | 12,462 | 11,234 | 10,473 |

Impairment losses and amortisation are recognised as follows in the income statement:

| | | | | |
|-------------------------|---------------|---------------|---------------|---------------|
| Production costs | 9,118 | 8,465 | 7,932 | 7,203 |
| Distribution costs | 1,919 | 2,452 | 1,786 | 2,309 |
| Administrative expenses | 1,584 | 1,545 | 1,516 | 961 |
| | 12,621 | 12,462 | 11,234 | 10,473 |

| Notes | Consolidated | | Parent company | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2016 DKK'000 | 2015 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
| 4. Fees to auditors appointed at the annual g. m. | | | | |
| Statutory audit of the financial statements | 228 | 217 | 194 | 184 |
| Other assurance engagements | 22 | 15 | 22 | 15 |
| Tax assistance | 25 | 44 | 20 | 43 |
| Other assistance | 82 | 27 | 79 | 24 |
| | 357 | 304 | 315 | 266 |
| Fee to other auditors | 418 | 509 | 0 | 0 |
| 5. Profit of group enterprises after tax | | | | |
| Share of profit after tax | | | 4,646 | 9,206 |
| Changes in intra-group profit on inventories | | | -92 | 21 |
| Amortisation of group goodwill | | | -1 | -414 |
| | | | 4,553 | 8,813 |
| 6. Financial income | | | | |
| Interest income from group enterprises | 0 | 0 | 197 | 251 |
| Other financial income | 4,806 | 1,065 | 3,724 | 326 |
| | 4,806 | 1,065 | 3,921 | 577 |
| 7. Financial expenses | | | | |
| Interest expense, group enterprises | 0 | 0 | 0 | 510 |
| Other financial expenses | 5,309 | 5,071 | 4,359 | 3,683 |
| | 5,309 | 5,071 | 4,359 | 4,193 |
| 8. Tax on profit for the year | | | | |
| Current tax | 13,114 | 8,593 | 10,775 | 6,118 |
| Adjustment of deferred tax | -637 | 1,620 | -734 | 1,644 |
| Tax on changes in equity | 185 | -279 | 185 | -279 |
| Adjustments regarding previous years | 149 | 50 | 149 | 42 |
| | 12,811 | 9,984 | 10,375 | 7,525 |

Notes

| | Consolidated | | |
|--|-----------------------|--|-------------------------------------|
| | Goodwill | Patents and licences acquired | Research and Development |
| | DKK'000 | DKK'000 | DKK'000 |
| 9. Intangible assets | | | |
| Cost at 01.01.2016 | 16,929 | 7,391 | 1,969 |
| Additions | 1,940 | 409 | 0 |
| Disposals | 0 | 0 | 0 |
| Cost at 31.12.2016 | 18,869 | 7,800 | 1,969 |
| Amortisation at 01.01.2016 | -16,695 | -6,657 | -299 |
| Amortisation | -156 | -555 | -315 |
| Reversed amortisation in respect of disposals for the year | 0 | 0 | 0 |
| Amortisation at 31.12.2016 | -16,851 | -7,212 | -614 |
| Carrying amount at 31.12.2016 | 2,018 | 588 | 1,355 |
| Carrying amount at 31.12.2015 | 234 | 734 | 1,670 |
| | Parent company | | |
| | Goodwill | Patents and licences acquired | Research and Development |
| | DKK'000 | DKK'000 | DKK'000 |
| 9. Intangible assets | | | |
| Cost at 01.01.2016 | 850 | 7,396 | 1,969 |
| Additions | 0 | 409 | 0 |
| Disposals | 0 | 0 | 0 |
| Cost at 31.12.2016 | 850 | 7,805 | 1,969 |
| Amortisation at 01.01.2016 | -616 | -6,662 | -299 |
| Amortisation | -91 | -555 | -315 |
| Reversed amortisation in respect of disposals for the year | 0 | 0 | 0 |
| Amortisation at 31.12.2016 | -707 | -7,217 | -614 |
| Carrying amount at 31.12.2016 | 143 | 588 | 1,355 |
| Carrying amount at 31.12.2015 | 234 | 734 | 1,670 |

Notes

| | Consolidated | | | |
|--|----------------------------------|-----------------------------------|--|--|
| | Land and buildings DKK'000 | Plant and machinery DKK'000 | Fixtures and fittings, other plant and equipment DKK'000 | Property, plant and equip- ment under construction DKK'000 |
| 10. Property, plant and equipment | | | | |
| Cost at 01.01.2016 | 72,114 | 126,067 | 37,173 | 1,601 |
| Foreign exchange adjustment | -9 | -15 | -248 | 0 |
| Additions | 421 | 7,776 | 1,239 | 1,198 |
| Disposals | 0 | -5,410 | -541 | -891 |
| Cost at 31.12.2016 | 72,526 | 128,418 | 37,624 | 1,908 |
| Revaluation at 01.01.2016 | 4,235 | 0 | 0 | 0 |
| Amortisation | -339 | 0 | 0 | 0 |
| Revaluation at 31.12.2016 | 3,896 | 0 | 0 | 0 |
| Depreciation at 01.01.2016 | -32,899 | -103,256 | -25,841 | 0 |
| Foreign exchange adjustment | 2 | 15 | 226 | 0 |
| Amortisation | -1,697 | -6,933 | -3,114 | 0 |
| Reversed depreciation in respect of disposals for the year | 0 | 4,595 | 541 | 0 |
| Depreciation at 31.12.2016 | -34,594 | -105,579 | -28,188 | 0 |
| Carrying amount at 31.12.2016 | 41,828 | 22,839 | 9,436 | 1,908 |
| Carrying amount at 31.12.2015 | 43,450 | 22,811 | 11,332 | 1,601 |
| The carrying amount at 31.12.2016 includes: | | | | |
| Leased assets recognised | 0 | 12,777 | 0 | 0 |

Notes

Parent company

| | Land and buildings DKK'000 | Plant and machinery DKK'000 | Fixtures and fittings, other plant and equipment DKK'000 | Property, plant and equip- ment under construction DKK'000 |
|--|----------------------------------|-----------------------------------|--|--|
| 10. Property, plant and equipment | | | | |
| Cost at 01.01.2016 | 54,706 | 104,023 | 32,861 | 1,281 |
| Additions | 78 | 4,861 | 693 | 818 |
| Disposals | 0 | -5,350 | 0 | -772 |
| Cost at 31.12.2016 | 54,784 | 103,534 | 33,554 | 1,327 |
| Depreciation at 01.01.2016 | -22,581 | -81,972 | -21,917 | 0 |
| Depreciation | -1,388 | -6,420 | -2,887 | 0 |
| Reversed depreciation in respect of disposals for the year | 0 | 4,535 | 0 | 0 |
| Depreciation at 31.12.2016 | -23,969 | -83,857 | -24,804 | 0 |
| Carrying amount at 31.12.2016 | 30,815 | 19,677 | 8,750 | 1,327 |
| Carrying amount at 31.12.2015 | 32,125 | 22,051 | 10,944 | 1,281 |
| The carrying amount at 31.12.2016 includes: | | | | |
| Leased assets recognised | 0 | 10,469 | 0 | 0 |

Notes

Parent company

Investments
in group
enterprises
DKK'000

11. Investments

| | |
|--|----------------|
| Cost at 01.01.2016 | 73,051 |
| Additions | 61 |
| Cost at 31.12.2016 | 73,112 |
| Net revaluations at 01.01.2016 | -44,729 |
| Foreign exchange adjustment | -1,173 |
| Share of profit/loss for the year, net | 4,553 |
| Dividends paid | -5,602 |
| Net revaluations at 31.12.2016 | -46,951 |
| Carrying amount at 31.12.2016 | 26,161 |
| Carrying amount at 31.12.2015 | 28,322 |
| Recognised in the financial statements as follows: | |
| Investments in group enterprises | 30,978 |
| Set off against receivables from group enterprises | -4,817 |
| | 26,161 |

Investments in group enterprises comprise:

| | Registered | Ownership |
|------------------|------------|-----------|
| Vikan (UK) Ltd. | England | 100% |
| Vikan France SAS | France | 100% |
| Vikan AB | Sweden | 100% |
| Vikan Estonia AS | Estonia | 100% |
| Vikan GmbH | Germany | 100% |
| Nito A/S | Denmark | 80% |
| Vikan RUS LLC | Russia | 100% |
| Vikan Japan GK | Japan | 100% |

Notes

12. Prepayments

Prepayments comprise prepaid costs concerning IT licences, subscriptions, etc. regarding subsequent financial years.

Parent company

13. Share capital

The share capital comprises four shares of DKK 5,700 thousand, DKK 300 thousand, DKK 1,600 thousand and DKK 400 thousand. The shares are not divided into different classes of shares.

| | |
|-----------------------------|-------|
| Share capital at 01.01.2012 | 8,000 |
| Share capital at 31.12.2016 | 8,000 |

Consolidated

14. Non-controlling interests

| | 2016 DKK'000 | 2015 DKK'000 |
|--|-----------------|-----------------|
| Non-controlling interests at 1 January | 2,070 | 2,055 |
| Share of profit/loss for the year | 595 | 615 |
| Share of dividend paid in the year | -600 | -600 |
| Non-controlling interests at 31 December | 2,065 | 2,070 |

Consolidated

Parent company

15. Deferred tax

Deferred tax is incumbent on the following items:

| | 2016 DKK'000 | 2015 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Intangible assets | 2,363 | 1,796 | 2,315 | 1,796 |
| Property, plant and equipment | 5,000 | 6,044 | 3,796 | 4,853 |
| Inventories | 1,401 | 1,415 | 1,179 | 1,229 |
| Non-current liabilities other than provisions | -40 | -44 | -30 | -34 |
| Other payables | -132 | -132 | -132 | -132 |
| Other payables | 0 | 150 | 0 | 150 |
| | 8,592 | 9,229 | 7,128 | 7,862 |

Parent company

| | 2016 DKK'000 | 2015 DKK'000 |
|----------------------------|-----------------|-----------------|
| Deferred tax at 01.01.2016 | 7,862 | 6,219 |
| Adjustment of deferred tax | -734 | 1,643 |
| Deferred tax at 31.12.2016 | 7,128 | 7,862 |

Notes

Consolidated

16. Non-current liabilities

| | Maturity within 1 year DKK'000 | Maturity after 1 year DKK'000 | Total amortised liabilities DKK'000 | Total nominal liabilities DKK'000 |
|-------------------|---|--|--|--|
| Mortgage debt | 3,865 | 44,047 | 47,912 | 48,020 |
| Lease obligations | 4,386 | 8,753 | 13,139 | 10,843 |
| Other payables | 427 | 853 | 1,280 | 1,280 |

Non-current liabilities at 31.12.2016

| | | | | |
|--|--------------|---------------|---------------|---------------|
| | 8,678 | 53,653 | 62,331 | 60,143 |
|--|--------------|---------------|---------------|---------------|

Non-current liabilities at 31.12.2015

| | | | | |
|--|-------|--------|--------|--------|
| | 6,863 | 56,360 | 63,223 | 63,329 |
|--|-------|--------|--------|--------|

Falling due after more than five years:

Mortgage debt

27,305

Parent company

| | Maturity within 1 year DKK'000 | Maturity after 1 year DKK'000 | Total amortised liabilities DKK'000 | Total nominal liabilities DKK'000 |
|-------------------|---|--|--|--|
| Mortgage debt | 3,086 | 37,150 | 40,236 | 40,343 |
| Lease obligations | 3,944 | 6,899 | 10,843 | 10,843 |

Non-current liabilities at 31.12.2016

| | | | | |
|--|--------------|---------------|---------------|---------------|
| | 7,030 | 44,049 | 51,079 | 51,186 |
|--|--------------|---------------|---------------|---------------|

Non-current liabilities at 31.12.2015

| | | | | |
|--|-------|--------|--------|--------|
| | 6,080 | 48,679 | 54,759 | 54,866 |
|--|-------|--------|--------|--------|

Falling due after more than five years:

Mortgage debt

24,804

Notes

17. Events after the balance sheet date

No events have occurred after the balance sheet date affecting the evaluation of the annual report.

| | Consolidated | | Parent | |
|--|---------------|---------------|---------------|---------------|
| | 2016 t.kr. | 2015 t.kr. | 2016 t.kr. | 2015 t.kr. |

18. Charges

Mortgage debt is secured upon properties. The mortgage moreover comprises related plant and machinery.

| | | | | |
|--|--------|--------|--------|--------|
| Carrying amount of properties and operating equipment provided as collateral | 62,965 | 64,767 | 50,492 | 53,588 |
|--|--------|--------|--------|--------|

As collateral for commitments with banks in subsidiary, a mortgage deed secured upon the subsidiaries' properties has been deposited.

The mortgage moreover comprises related plant and machinery.

| | | |
|--|--------|--------|
| Carrying amount of properties and operating equipment provided as collateral in subsidiary | 12,473 | 11,179 |
|--|--------|--------|

As collateral for commitments with banks in subsidiaries, a mortgage deed secured upon the assets of the individual subsidiaries has been deposited.

19. Contractual obligations and contingencies, etc.

Contingent liabilities

| | | | | |
|---|-------|-------|-------|-----|
| Yearly operating leases regarding other operating equipment in Vikan A/S and subsidiaries | 1,997 | 1,844 | 1,045 | 806 |
| Total remaining payments on leases entered into | 3,313 | 1,844 | 1,374 | 806 |
| Yearly rent in Vikan A/S and subsidiaries | 1,559 | 1,501 | 722 | 446 |

The parent company has provided a guarantee for the subsidiaries' liabilities to credit institutions, mortgage debt and bank loans in Vikan GmbH, Nito A/S and Vikan AB.

| | | |
|---|-------|-------|
| Liabilities to credit institutions, mortgage debt and bank loans i subsidiaries | 7,677 | 8,463 |
|---|-------|-------|

The Company is jointly taxed with other companies in the Vikan Group. Jointly taxed companies which are not wholly-owned have limited and secondary liability for Danish withholding taxes on dividends, interest and royalties within the joint taxation unit.

Notes

20. Currency and interest rate risks and the use of derivative financial instruments

The Vikan Group has taken out interest swaps to hedge a fixed interest rate. Unrealised gain on interest swaps totalled a negative DKK 1.521 thousand in 2016 (2015: loss of 679 DKK thousand) and is recognised directly in equity adjusted for deferred tax.

21. Related party disclosures

Related parties exercising control of Vikan A/S:

Vissing Holding A/S, Rævevej 1, 7800 Skive (parent company)

Vissing Fonden, c/o Lawyer Torben Voss, Mølleå 1, 9000 Aalborg

Section 98c(7) of the Danish Financial Statements Act is applied regarding related party transactions.

22. Shareholders

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

Vissing Holding A/S, Rævevej 1, 7800 Skive

Brush Holding ApS, Sølystvej 59, 8600 Silkeborg

23. Group structure

Vikan A/S and related subsidiaries are included in the consolidated financial statements of Vissing Holding A/S.

Parent

| 2016 DKK'000 | 2015 DKK'000 |
|-----------------|-----------------|
| 30,000 | 25,000 |
| 11,215 | 7,458 |
| 41,215 | 32,458 |

24. Proposed profit appropriation

Proposed dividends for the financial year

Retained earnings

Consolidated

| 2016 DKK'000 | 2015 DKK'000 |
|-----------------|-----------------|
| -3,511 | 4,401 |
| 989 | -5,982 |
| 4,037 | -384 |
| 1,515 | -1,965 |

25. Changes in operating capital

Change in inventories

Change in receivables

Change in trade payables, etc.

Consolidated

| 2016 DKK'000 | 2015 DKK'000 |
|-----------------|-----------------|
| 33,437 | 10,827 |
| -4,924 | 0 |
| 28,513 | 10,827 |

26. Cash at hand and in bank

Cash at hand and in bank

Bank loans and overdrafts

Accounting policies

The annual report has been prepared in accordance with the provisions applying to reporting class C large enterprises under the Danish Financial Statements Act.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values of property, plant and equipment
2. Revaluation reserve

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

Re 2: The Company has chosen to set off depreciation of assets revalued against the revaluation reserve in the Company's equity. The change was made retrospectively and the comparative figures were restated accordingly. In previous years, the depreciation made of assets revalued was set off against the Company's distributable reserves.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared as the Company's cash flows are recognised in the consolidated financial statements.

Consolidated financial statements

The consolidated financial statements comprise Vikan A/S (parent company) and the enterprises (group enterprises) over which the parent company exercises control, see the group chart on page 5. Control is obtained in companies in which the parent company directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Entities over which the Group exercises significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% of the voting rights but less than 50%.

Consolidation principles

The consolidated financial statements are based on the financial statements of Vikan A/S and its subsidiaries. The consolidated financial statements are prepared by adding together financial statement items of similar nature. On consolidation, intra-group income and expenses, intra-group balances and dividends, and gains and losses on intra-group transactions are eliminated. The financial statements applied for consolidation purposes are prepared in accordance with the Group's accounting policies.

In the consolidated financial statements, the items of subsidiaries are recognised in full. The proportionate share of the non-controlling interests' results and net assets are recognised as separate items in the income statement and the balance sheet, respectively.

Investments in group enterprises are recognised after tax in one separate line item in the income statement.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets at the acquisition date.

Business combinations

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the assets and liabilities acquired (goodwill), is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised in the balance sheet as deferred income and recognised in the income statement as the adverse development is realised.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Receivables and payables and other monetary items denominated in foreign currencies which are not settled at the balance sheet date are translated at the exchange rate at the balance sheet date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment and the rate at the balance sheet date, respectively, are recognised in the income statement as financial income or financial expenses. Non-current assets purchased in foreign currencies are translated using historical rates.

On recognition of foreign subsidiaries and associates that are separate entities, the income statement is translated at the average exchange rate for the months which does not deviate significantly from the rate at the transaction date. Balance sheet items are translated to the exchange rates at the balance sheet date. Goodwill is deemed to relate to the independent foreign entity and translated at the balance sheet date. Currency translation differences arisen when translating foreign subsidiaries' equity at the beginning of the

year using the closing rate and when translating income statements from average exchange rates using the closing rate are recognised directly in equity.

Exchange rate adjustments of intra-group balances with independent foreign subsidiaries which are considered part of the total investment in the subsidiary in question are recognised directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently at fair value. Derivative financial instruments are recognised as other receivables or other liabilities, respectively.

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

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future transactions are recognised directly in equity. When the hedged transactions materialise, changes are recognised in the related items.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments used to hedge net investments in independent foreign subsidiaries or associates are recognised directly in equity.

Income statement

Revenue

Income from the sale of goods, comprising the sale of hygiene cleaning tools, is recognised as revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties.

To the extent that customers are offered a right of return in connection with the sale, revenue corresponding to the Company's experience with returns is recognised.

Production costs

Production costs comprise direct and indirect costs incurred in generating revenue for the year. Trading entities recognise their cost of sales, and production entities recognise cost of raw material, consumables and production staff as well as depreciation of production assets.

Production costs (continued)

Production costs comprise costs regarding development projects that do not qualify for recognition in the balance sheet as well as depreciation of development projects recognised.

Distribution costs

Costs incurred in distributing goods sold and in conducting sales campaigns are recognised as distribution costs. Also, costs relating to sales and distribution staff, advertising as well as depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred for management and administration of the Group, including expenses for the administrative staff and the management, office supplies as well as depreciation and amortisation.

Other operating income and costs

Other operating income and costs comprise items secondary to the primary activities of the Group.

Financial income and financial expenses

Financial income and expenses comprise interest income and expense, interest element of financial lease payments, realised and unrealised gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial liabilities, cash discounts, etc. as well as surcharges and refunds under the on-account tax scheme.

Corporation tax and deferred tax

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred tax is recognised and measured applying the liability method on all temporary differences between the carrying amount and tax value of assets and liabilities. The tax value of assets is calculated based on the planned use of the asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Corporation tax and deferred tax (continued)

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Vikan A/S is jointly taxed with the parent company, Vissing Holding A/S, and the subsidiary Nito A/S. The current Danish corporation tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full absorption with refunds for tax losses).

Balance sheet

Intangible assets

Goodwill and consolidated goodwill

Goodwill is amortised on a straight-line basis over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is usually amortised over five years, but may be amortised over a maximum amortisation period of 20 years, longest for strategically acquired enterprises with strong market positions and long-term earnings profiles, provided that the long amortisation period is assessed to better reflect the Group's utilisation of the resources in question.

The carrying amount of goodwill is assessed on an ongoing basis and is written down to the recoverable amount if the carrying amount exceeds the expected future net income from the enterprise or activity to which goodwill is allocated.

Development projects

Development costs comprise salaries, amortisation and other costs directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities in the Company are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are charged to the income statement as incurred.

Development costs that are recognised in the balance sheet are initially measured at cost and subsequently at cost less accumulated amortisation and impairment losses.

Development projects (continued)

Following the completion of the development work, development costs are amortised on a straight line basis over the estimated useful life. The amortisation period is usually five years and does not exceed 20 years.

Gains and losses on the disposal of development projects are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Property, plant and equipment

Land and buildings are measured at cost plus revaluation and as to buildings less accumulated depreciation and impairment losses. Revaluation is made based on regular, independent valuations of fair value.

Plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the date when it is ready to be put into operation. The cost of self-constructed assets comprises direct and indirect costs of materials, components, subsuppliers, and wages and salaries. The cost of assets held under finance leases is recognised at the lower of fair value of the assets and the present value of the future lease payments.

The basis of depreciation is cost less expected residual value at the end of the useful life. Depreciation is provided according to the straight-line method, based on the following expected useful lives:

| | |
|--|-------------|
| Buildings | 10-50 years |
| Plant and machinery | 5-8 years |
| Fixtures and fittings, other plant and equipment | 3-6 years |

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Profits and losses are recognised in the income statement together with depreciation and impairment losses or under other operating income if the selling price exceeds original cost.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured according to the equity method. This means that investments in the balance sheet are measured at the proportionate share of the enterprises' net asset value minus or plus non-amortised positive or negative group goodwill, respectively and minus or plus unrealised intra-group profits and losses.

In the income statement of the parent company, the share of the enterprises' profit/loss after elimination of unrealised intra-group profits and losses and minus or plus amortisation of group goodwill or negative group goodwill, respectively.

Subsidiaries and associates with negative net asset value are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down by the parent company's share of the net asset value if the amount owed is deemed irrecoverable. If the negative net asset value exceeds the amounts owed, the remaining amount is recognised under provisions if the parent company has a legal or a constructive obligation to cover the enterprise's deficit.

Net revaluation of investments in subsidiaries and associates is transferred to the reserve for net revaluation to the extent that the carrying amount exceeds cost.

On acquisition of subsidiaries, the purchase method is applied, see Consolidated financial statements above.

Inventories

Inventories are measured at the lower of cost in accordance with the FIFO method and the net realisable value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs. Goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads.

Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation and impairment losses regarding production machinery, buildings and equipment as well as factory administration and management. Financing costs are not included in the cost.

The net realisable value of inventories is determined taking into consideration estimated sales price less costs of completion and costs necessary to make the sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value, less provisions for bad debts.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years. Prepayments are measured at cost.

Dividends

Dividends are recognised as a liability at the date when they are adopted at the annual general meeting. The proposed dividend payment for the financial year is disclosed as a separate item under equity.

Cost of acquisition of, consideration received for and dividends received from treasury shares are recognised as retained earnings in equity.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, loss on work in progress, decided and published restructurings etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are discounted at the average bond yields.

On acquisition of enterprises, provisions for restructurings of the acquired enterprise are made provided that they have been adopted and announced not later than at the date of the acquisition.

Mortgage debt

Mortgage debt is measured at cost at the date of borrowing corresponding to the proceeds received less transaction costs paid. Subsequently, mortgage debt is measured at amortised cost corresponding to the capitalised value in accordance with the effective interest rate method.

Lease obligations

Leases for non-current assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are initially recognised in the balance sheet at cost, corresponding to the lower of fair value and the net present value of future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the Company's other non-current assets.

The capitalised residual lease obligation is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingencies, etc.

Other financial liabilities

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

Prepayments

Deferred income comprises payments received concerning income in subsequent years. Prepayments are measured at amortised cost, which usually corresponds to the nominal value.

Cash flow statement

The consolidated cash flow statement is presented in accordance with the indirect method and shows cash flows from operating, investing and financing activities and the Group's cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown in cash flows from investing activities. Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

Cash flows from operating activities are calculated as operating profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and investments as well as the acquisition, development, improvement and disposal, etc. of intangible assets, property, plant and equipment, including assets held under finance lease.

Cash flows from financing activities comprise changes in the size or composition of the parent company's share capital and related costs as well as the raising of loans, the closing of finance leases, repayment of interest-bearing debt and payment of dividends.

Cash and cash equivalents comprise cash and short-term securities with insignificant price risks less short-term bank loans.

Financial highlights

The financial ratios are calculated as follows:

| | | |
|----------------------------|---|---|
| Gross margin | = | $\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$ |
| Operating margin | = | $\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$ |
| Return on capital employed | = | $\frac{\text{Operating profit/loss} \times 100}{\text{Average number of operating assets}}$ |
| Debt leverage | = | $\frac{\text{Net interest-bearing debt}}{\text{EBITDA}}$ |
| Return on equity | = | $\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$ |
| Solvency ratio | | $\frac{\text{Equity} \times 100}{\text{Total assets}}$ |

Operating assets are calculated as the balance sheet total less liquid funds, interest-bearing assets (including shares) and investments in associates.