Sjølund A/S

Skamlingvejen 146, DK-6093 Sjølund

Annual Report for 1 October 2017 - 30 September 2018

CVR No 10 29 86 44

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 20/12 2018

Finn Mortensen
Chairman of the General Meeting

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Management's Statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Sjølund A/S for the financial year 1 October 2017 - 30 September 2018.

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

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 30 September 2018 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2017/18.

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

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

Kolding, 20 December 2018

Executive Board

Søren Ravn Jensen CEO	Finn Nørgaard Mortensen Executive Officer	Christian Østergaard Executive Officer

Supervisory Board

Harald Klaus Becker-Ehmck Chairman	Claudia Meike Martens	Michael Roschmann Skovgaard

Independent Auditor’s Report

To the Shareholder of Sjølund A/S

Opinion
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 30 September 2018 and of the results of the Group’s and the Parent Company’s operations and of consolidated cash flows for the financial year 1 October 2017 - 30 September 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Sjølund A/S for the financial year 1 October 2017 - 30 September 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows (”the Financial Statements”).

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 Group 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Based on the work we have performed, in our view, Management’s Review is in accordance with the 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 in Management’s Review.

Independent Auditor's Report

Management's responsibilities for the 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 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 Group's and 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 Group or 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and 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 Group and 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.

- 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.

Trekantområdet, 20 December 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

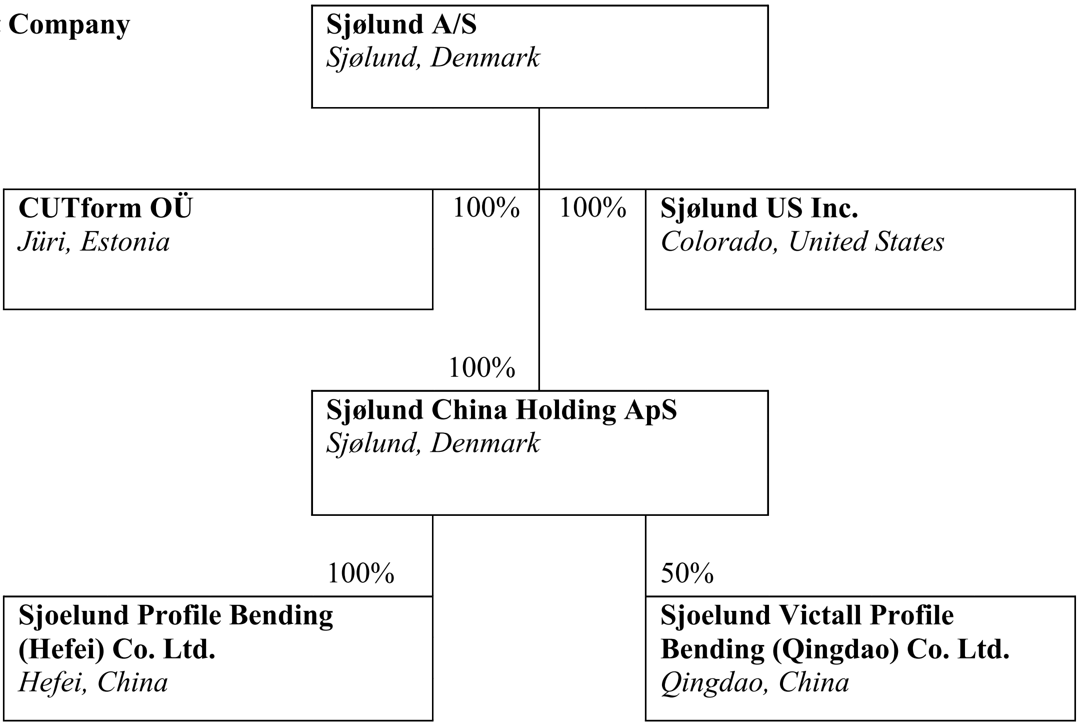
Jan Bunk Harbo Larsen State Authorised Public Accountant mne30224	Henrik Forthoft Lind State Authorised Public Accountant mne34169

Company Information

The Company	Sjølund A/S Skamlingvejen 146 DK-6093 Sjølund Telephone: + 45 76991777 Website: www.sjoelund.dk CVR No: 10 29 86 44 Financial period: 1 October - 30 September Incorporated: 10 May 1986 Municipality of reg. office: Kolding
Supervisory Board	Harald Klaus Becker-Ehmck, Chairman Claudia Meike Martens Michael Roschmann Skovgaard
Executive Board	Søren Ravn Jensen Finn Nørgaard Mortensen Christian Østergaard
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Herredsvej 32 DK-7100 Vejle

Group Chart

Parent Company



Financial Highlights

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

	Group				
	2017/18	2016/17	2015/16	2014/15	2013/14
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	76.439	89.606	80.931	65.903	41.350
Profit/loss before financial income and expenses	28.283	38.720	34.256	28.169	7.776
Net financials	-636	-5.317	-1.358	-1.438	-452
Net profit/loss for the year	20.950	25.165	25.710	20.977	4.877
Balance sheet					
Balance sheet total	176.598	104.385	96.497	84.635	56.446
Equity	66.353	45.651	31.390	21.332	5.190
Cash flows					
Cash flows from:					
- operating activities	26.927	12.548	27.608	9.629	-1.468
- investing activities	-46.927	-895	-8.291	-2.336	-4.604
including investment in property, plant and equipment	-910	-4.366	-8.291	-2.236	-4.604
- financing activities	47.370	-5.731	-5.504	-800	2.583
Change in cash and cash equivalents for the year	27.370	5.922	13.813	6.493	-3.489
Number of employees	121	129	115	108	92
Ratios					
Return on assets	16,0%	37,1%	35,5%	33,3%	13,8%
Solvency ratio	37,6%	43,7%	32,5%	25,2%	9,2%
Return on equity	37,4%	65,3%	97,5%	158,2%	136,6%

See the description under accounting policies.

Management's Review

Key activities

Sjølund Group's main activity is profile bending, machining and welding of steel and aluminum profiles. We drive to create value for our customers with delivering quality products and innovative solutions.

Development in the year

The income statement of the Group for 2017/18 shows a profit of TDKK 20,950, and at 30 September 2018 the balance sheet of the Group shows equity of TDKK 66,353.

The main reason for the decrease in result is a reduction in activity in several of our segments/markets. This has resulted in a decrease of the result since costs have been adjusted but lower activity still has impacted the net result. The result of the group is by management evaluated as satisfactory considering the marked development.

Acquisition of CUTform OÜ

As per end of September 2018 100% of the shares in the company CUTform OÜ has been purchased. CUTform OÜ has due to the time of the transaction not impacted the income statement but is fully incorporate into the balance sheet as per 30 September 2018. The acquisition is driven by market trends to enlarge the value offering and enabling the Sjølund Group to service customers and expand value offerings.

The past year and follow-up on development expectations from last year

The expectation going into this financial year was that the result would be at the level as last year. The result for 2017/18 is realized at TDKK 20,950 compared to TDKK 25,165 last year which is below expectations as per last financial report. This is due to decrease in activity as mentioned above.

Capital resources

With the presented balance sheet and the expectations for 2018/19 we believe that the company has sufficient capital resources available.

Special risks - operating risks and financial risks

Foreign exchange risks

As per the business model of the company there are no special risks neither commercially nor financially.

The Group has a currency exposure with regards to fluctuation in USD and due to business activities in the US market.

Management's Review

Targets and expectations for the year ahead

For the year 2018/19 the result is again expected to be at the same level as this year.

External environment

It is the valuation of the management that the environment impact of the activities of the Sjølund Group are limited. All production processes are powered by electricity with rec-certification. The production facility it heated with gas or electricity. Water is only used for sanitary purposes.

Furthermore, the group is certified in accordance with ISO 14001 standard and consequently monitoring and focusing on reduction and optimizing on the environment impact of the activities.

Income Statement 1 October - 30 September

	Note	Group 2017/18	Group 2016/17	Parent company 2017/18	Parent company 2016/17
		TDKK	TDKK	TDKK	TDKK
Gross profit/loss		**76.439**	**89.606**	**63.734**	**78.614**
Staff expenses	1	-44.002	-46.761	-37.426	-40.562
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-4.154	-4.125	-2.604	-2.763
Profit/loss before financial income and expenses		**28.283**	**38.720**	**23.704**	**35.289**
Income from investments in subsidiaries		0	0	2.629	-1.062
Income from investments in associates		0	-3.338	0	0
Financial income	2	680	142	1.121	277
Financial expenses	3	-1.316	-2.121	-1.309	-1.920
Profit/loss before tax		**27.647**	**33.403**	**26.145**	**32.584**
Tax on profit/loss for the year	4	-6.697	-8.238	-5.195	-7.419
Net profit/loss for the year		**20.950**	**25.165**	**20.950**	**25.165**

Balance Sheet 30 September

Assets

	Note	Group 2018 TDKK	Group 2017 TDKK	Parent company 2018 TDKK	Parent company 2017 TDKK
Costumer related assets		5.000	0	0	0
Goodwill		32.615	0	0	0
Intangible assets	5	**37.615**	**0**	**0**	**0**
Machinery		17.249	14.097	4.801	7.331
Other fixtures and fittings, tools and equipment		57	131	57	131
Property, plant and equipment in progress		370	0	370	0
Property, plant and equipment	6	**17.676**	**14.228**	**5.228**	**7.462**
Investments in subsidiaries	7	0	0	73.039	8.607
Investments in associates	8	0	0	0	0
Fixed asset investments		**0**	**0**	**73.039**	**8.607**
Fixed assets		**55.291**	**14.228**	**78.267**	**16.069**
Raw materials and consumables		13.949	11.205	9.536	10.553
Work in progress		5.756	4.638	4.877	4.638
Finished goods and goods for resale		5.899	0	4.060	0
Inventories		**25.604**	**15.843**	**18.473**	**15.191**
Trade receivables		57.716	62.385	37.329	49.788
Receivables from group enterprises		0	2.953	11.027	13.330
Other receivables		2.422	719	0	0
Deferred tax asset	9	1.390	1.447	725	747
Receivables		**61.528**	**67.504**	**49.081**	**63.865**
Cash at bank and in hand		**34.175**	**6.810**	**15.434**	**4.115**
Currents assets		**121.307**	**90.157**	**82.988**	**83.171**
Assets		**176.598**	**104.385**	**161.255**	**99.240**

Balance Sheet 30 September

Liabilities and equity

	Note	Group 2018	Group 2017	Parent company 2018	Parent company 2017
		TDKK	TDKK	TDKK	TDKK
Share capital		500	500	500	500
Retained earnings		35.853	45.151	35.853	45.151
Proposed dividend for the year		30.000	0	30.000	0
Equity		**66.353**	**45.651**	**66.353**	**45.651**
Credit institutions		52.371	0	52.371	0
Lease obligations		4.607	3.621	1.763	3.621
Long-term debt	11	**56.978**	**3.621**	**54.134**	**3.621**
Credit institutions	11	3.551	5	3.551	4
Lease obligations	11	2.309	1.550	1.858	1.550
Trade payables		17.114	17.835	11.606	16.666
Payables to group enterprises		5.395	15.341	5.422	15.197
Corporation tax		160	2.103	0	0
Other payables		24.738	18.279	18.331	16.551
Short-term debt		**53.267**	**55.113**	**40.768**	**49.968**
Debt		**110.245**	**58.734**	**94.902**	**53.589**
Liabilities and equity		**176.598**	**104.385**	**161.255**	**99.240**

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Statement of Changes in Equity

Group

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 October	500	45.151	0	45.651
Exchange adjustments relating to foreign entities	0	-248	0	-248
Net profit/loss for the year	0	-9.050	30.000	20.950
Equity at 30 September	**500**	**35.853**	**30.000**	**66.353**

Parent company

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 October	500	45.151	0	45.651
Exchange adjustments relating to foreign entities	0	-248	0	-248
Net profit/loss for the year	0	-9.050	30.000	20.950
Equity at 30 September	**500**	**35.853**	**30.000**	**66.353**

Cash Flow Statement 1 October - 30 September

	Note	Group 2017/18 TDKK	Group 2016/17 TDKK
Net profit/loss for the year		20.950	25.165
Adjustments	12	11.487	13.305
Change in working capital	13	3.871	-16.002
Cash flows from operating activities before financial income and expenses		**36.308**	**22.468**
Financial income		680	142
Financial expenses		-1.318	-2.121
Cash flows from ordinary activities		**35.670**	**20.489**
Corporation tax paid		-8.743	-7.941
Cash flows from operating activities		**26.927**	**12.548**
Purchase of property, plant and equipment		-910	-4.366
Fixed asset investments made etc		0	3.471
Business acquisition		-46.017	0
Cash flows from investing activities		**-46.927**	**-895**
Reduction of lease obligations		-1.550	-1.505
Repayment of payables to group enterprises		-6.993	4.365
Repayment of payables to associates		0	1.409
Raising of loans from credit institutions		55.913	0
Dividend paid		0	-10.000
Cash flows from financing activities		**47.370**	**-5.731**
Change in cash and cash equivalents		**27.370**	**5.922**
Cash and cash equivalents at 1 October		6.805	883
Cash and cash equivalents at 30 September		**34.175**	**6.805**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		34.175	6.810
Overdraft facility		0	-5
Cash and cash equivalents at 30 September		**34.175**	**6.805**

Notes to the Financial Statements

		Group		Parent company	
		2017/18	2016/17	2017/18	2016/17
		TDKK	TDKK	TDKK	TDKK
1	**Staff expenses**				
	Wages and salaries	39.300	40.946	32.724	35.666
	Pensions	3.044	3.189	3.044	3.189
	Other social security expenses	1.658	2.626	1.658	1.707
		44.002	**46.761**	**37.426**	**40.562**
	Including remuneration to the Executive and Supervisory Boards of:				
	Executive Board	4.121		4.121	
	Supervisory Board	261		261	
		4.382	**1.120**	**4.382**	**1.120**
	Average number of employees	**121**	**129**	**69**	**75**
2	**Financial income**				
	Interest received from group enterprises	0	142	126	277
	Other financial income	680	0	995	0
		680	**142**	**1.121**	**277**
3	**Financial expenses**				
	Interest paid to group enterprises	0	342	0	337
	Other financial expenses	1.316	1.779	1.309	1.583
		1.316	**2.121**	**1.309**	**1.920**

Notes to the Financial Statements

	Group		Parent company	
	2017/18	2016/17	2017/18	2016/17
	TDKK	TDKK	TDKK	TDKK
4 Tax on profit/loss for the year				
Current tax for the year	6.640	8.279	5.173	7.479
Deferred tax for the year	57	-41	22	-60
	6.697	**8.238**	**5.195**	**7.419**

5 Intangible assets

Group

	Costumer related assets	Goodwill
	TDKK	TDKK
Net effect from merger and acquisition	5.000	32.615
Cost at 30 September	5.000	32.615
Carrying amount at 30 September	**5.000**	**32.615**
Amortised over	10 years	10 years

Notes to the Financial Statements

6 Property, plant and equipment

Group

	Machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	TDKK	TDKK	TDKK
Cost at 1 October	71.234	2.326	0
Net effect from merger and acquisition	6.815	0	0
Additions for the year	540	0	370
Cost at 30 September	78.589	2.326	370
Impairment losses and depreciation at 1 October	57.137	2.195	0
Exchange adjustment	123	0	0
Depreciation for the year	4.080	74	0
Impairment losses and depreciation at 30 September	61.340	2.269	0
Carrying amount at 30 September	**17.249**	**57**	**370**
Including assets under finance leases amounting to	8.078	0	0

Parent company

	Machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	TDKK	TDKK	TDKK
Cost at 1 October	57.316	2.326	0
Additions for the year	0	0	370
Kostpris at 30 September	57.316	2.326	370
Impairment losses and depreciation at 1 October	49.985	2.195	0
Depreciation for the year	2.530	74	0
Impairment losses and depreciation at 30 September	52.515	2.269	0
Carrying amount at 30 September	**4.801**	**57**	**370**
Including assets under finance leases amounting to	4.783	0	0

Notes to the Financial Statements

7 Investments in subsidiaries

	Parent company 2018 TDKK	Parent company 2017 TDKK
Cost at 1 October	9.627	9.627
Additions for the year	62.052	0
Cost at 30 September	71.679	9.627
Value adjustments at 1 October	-1.020	945
Exchange adjustment	-249	-903
Net profit/loss for the year	2.629	-1.062
Amortisation of goodwill	0	0
Other adjustments	0	0
Value adjustments at 30 September	1.360	-1.020
Carrying amount at 30 September	**73.039**	**8.607**
Positive differences arising on initial measurement of subsidiaries at net asset value	37.615	0

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Sjølund China Holding ApS	Kolding, Denmark	DKK 9.620k	100%
Sjolund US Inc.	Colorado, United States	USD 1k	100%
CUTform OÜ	Jüri, Estonia	EUR 10k	100%

Notes to the Financial Statements

8 Investments in associates

	Group 2018 TDKK	Group 2017 TDKK	Parent company 2018 TDKK	Parent company 2017 TDKK
Cost at 1 October	7.727	7.727	0	0
Cost at 30 September	7.727	7.727	0	0
Value adjustments at 1 October	-7.727	-4.389	0	0
Net profit/loss for the year	0	-3.234	0	0
Other adjustments	0	-104	0	0
Value adjustments at 30 September	-7.727	-7.727	0	0
Carrying amount at 30 September	**0**	**0**	**0**	**0**

Investments in associates are specified as follows:

Name	Place of registered office	Votes and ownership
Sjoelund Victall Profile Bending (Qingdao) Co. Ltd.	Qingdao, China	50%

9 Deferred tax asset

	Group 2018 TDKK	Group 2017 TDKK	Parent company 2018 TDKK	Parent company 2017 TDKK
Deferred tax asset at 1 October	1.447	1.406	747	687
Amounts recognised in the income statement for the year	-57	41	-22	60
Deferred tax asset at 30 September	**1.390**	**1.447**	**725**	**747**

The recognised tax asset mainly comprises to leasehold improvements and machinery.

Notes to the Financial Statements

10 Distribution of profit

	Parent company 2017/18 TDKK	Parent company 2016/17 TDKK
Proposed dividend for the year	30.000	0
Reserve for net revaluation under the equity method	0	-41
Retained earnings	-9.050	25.206
	20.950	**25.165**

11 Long-term debt

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

The debt falls due for payment as specified below:

	Group		Parent company	
	2018 TDKK	2017 TDKK	2018 TDKK	2017 TDKK
Credit institutions				
After 5 years	38.166	0	38.166	0
Between 1 and 5 years	14.205	0	14.205	0
Long-term part	52.371	0	52.371	0
Within 1 year	3.551	0	3.551	0
Other short-term debt to credit institutions	0	5	0	4
Short-term part	3.551	5	3.551	4
	55.922	**5**	**55.922**	**4**
Lease obligations				
Between 1 and 5 years	4.607	3.621	1.763	3.621
Long-term part	4.607	3.621	1.763	3.621
Within 1 year	2.309	1.550	1.858	1.550
	6.916	**5.171**	**3.621**	**5.171**

Notes to the Financial Statements

	Group	
	2017/18	2016/17
	TDKK	TDKK

12 Cash flow statement - adjustments

	2017/18 TDKK	2016/17 TDKK
Financial income	-680	-142
Financial expenses	1.316	2.121
Depreciation, amortisation and impairment losses, including losses and gains on sales	4.154	4.125
Income from investments in associates	0	3.338
Tax on profit/loss for the year	6.697	8.238
Other adjustments	0	-4.375
	11.487	**13.305**

13 Cash flow statement - change in working capital

	2017/18 TDKK	2016/17 TDKK
Change in inventories	-5.873	910
Change in receivables	10.940	-14.271
Change in trade payables, etc	-1.196	-2.641
	3.871	**-16.002**

Notes to the Financial Statements

	Group		Parent company	
	2018	2017	2018	2017
	TDKK	TDKK	TDKK	TDKK

14 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	Group 2018 TDKK	Group 2017 TDKK	Parent company 2018 TDKK	Parent company 2017 TDKK
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	1.139	1.013	1.139	1.013
Between 1 and 5 years	377	313	377	313
	1.516	**1.326**	**1.516**	**1.326**
Lease commitments, non-cancellation period up to 147 months. (2016/17: 3 months.)	41.070	1.161	37.319	747

Other contingent liabilities

The company has issued guarantee to bank as a part of the group finance facility agreement in Sjølund Management ApS which is limited to DKK 134,100k.

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Sjølund Management ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

15 Related parties

	Basis
Controlling interest	
Sjølund Management ApS	Immediate Parent Company

Consolidated Financial Statements

The Company will be included in the Consolidated Annual Report of its immediate and ultimate Parent Companies.

Name	Place of registered office
Sjølund Management Holding ApS	Kolding, Denmark

The Group Annual Report of Sjølund Management Holding ApS may be obtained at the following address:

Skamlingvejen 146
6093 Sjølund
Denmark

16 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of Sjølund A/S for 2017/18 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Consolidated and Parent Company Financial Statements for 2017/18 are presented in TDKK.

Recognition and measurement

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

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

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

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

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Sjølund A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

Notes to the Financial Statements

17 Accounting Policies (continued)

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Business combinations

Acquisitions

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method). Cost comprises the fair value of the consideration paid as well as expenses for consultants etc directly related to the acquisition. Any remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straightline basis over its estimated useful life. Any remaining negative differences are recognised as income in the income statement at the date of acquisition.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill or negative goodwill, including in amortisation already made. Moreover, any change in contingent consideration is adjusted in the value of goodwill or negative goodwill.

Amortisation of goodwill is recognised in "Amortisation, depreciation and impairment losses".

Leases

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

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

Translation policies

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

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

Income Statement

Revenue

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

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

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise and expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

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

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Notes to the Financial Statements

17 Accounting Policies (continued)

Amortisation, depreciation and impairment losses

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

Income from investments in subsidiaries and associates

The items “Income from investments in subsidiaries” and “Income from investments in associates” in the income statement include the proportionate share of the profit for the year.

Financial income and expenses

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

Tax on profit/loss for the year

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

The Company is jointly taxed with Sjølund Management ApS. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

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

Costumer related assets are measured at the lower of cost less accumulated amortisation and recoverable amount. Client relationships are amortised on a straight-line basis over its useful life, which is assessed at 10 years.

Property, plant and equipment

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

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

Plant and machinery	5-8 years
Other fixtures and fittings, tools and equipment	3-5 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

The items"Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries and the associates.

Subsidiaries and associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Notes to the Financial Statements

17 Accounting Policies (continued)

Inventories

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

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

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

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

Receivables

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

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

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

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

Current tax receivables and liabilities

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

Financial debts

Loans are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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

Cash Flow Statement

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash and cash equivalents

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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