

ATHCO-ENGINEERING A/S

Fabriksvej 12-14, 6000 Kolding
CVR no. 11 80 92 00

Annual report for the financial year 01.07.18 - 30.06.19

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 23.10.19

Preben Christensen
Dirigent

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The company

ATHCO-ENGINEERING A/S

Secondary firm names: ACO-Engineering A/S, NIRO COMBI A/S

Fabriksvej 12-14

6000 Kolding

Tel.: 76 33 35 55

Website: www.athco-engineering.dk

E-mail: info@athco-engineering.dk

Registered office: Kolding

CVR no.: 11 80 92 00

Financial year: 01.07 - 30.06

Executive Board

René Hansen

Board of Directors

Marcus Peter Hummer, chairman

Xue Yaoming, member

René Hansen, member

Flemming Torben Heden Knudsen, member

Bent Bjerregaard Bonde, employee representative

Lars Fuglsang Bruun, employee representative

Auditors

Beierholm

Statsautoriseret Revisionspartnerselskab

Bank

Danske Bank

Parent company

A.C.O HOLDING, KOLDING A/S, Kolding, Danmark

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.07.18 - 30.06.19 for ATHCO-ENGINEERING A/S.

The annual report is presented in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 30.06.19 and of the results of the company's activities and cash flows for the financial year 01.07.18 - 30.06.19.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Kolding, October 23, 2019

Executive Board

René Hansen

Board of Directors

Marcus Peter Hummer
Chairman

Xue Yaoming

René Hansen

Flemming Torben Heden
Knudsen

Bent Bjerregaard Bonde

Lars Fuglsang Bruun

To the Shareholder of ATHCO-ENGINEERING A/S**Opinion**

We have audited the financial statements of ATHCO-ENGINEERING A/S for the financial year 01.07.18 - 30.06.19, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 30.06.19 and of the results of the company's operations and cash flows for the financial year 01.07.18 - 30.06.19 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for conclusion

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

Management's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the

planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement regarding the management's review

Management is responsible for management's review.

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

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

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

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

Odense, October 23, 2019

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Jacob Pedersen
State Authorized Public Accountant
MNE-no. mne33725

FINANCIAL HIGHLIGHTS**Key figures**

Figures in DKK '000	2018/19	2017/18	2016/17	2015/16	2014/15
<i>Profit/loss</i>					
Gross profit	31,571	24,305	19,365	9,053	10,699
Profit before net financials	16,636	8,753	4,472	-3,425	-2,129
Total net financials	-43	4	-218	-412	-391
Profit for the year	12,875	6,779	3,302	-2,986	-1,953
<i>Balance</i>					
Total assets	51,702	42,443	31,574	20,397	35,490
Investments in property, plant and equipment	8,642	1,096	413	697	3,899
Equity	27,920	15,045	8,266	4,964	7,950
<i>Cashflow</i>					
Net cash flow:					
Operating activities	14,350	1,242	8,884	10,247	222
Investing activities	-9,124	-643	-352	-385	-3,899
Financing activities	1,171	-2,051	-3,302	-4,630	2,818
Cash flows for the year	6,397	-1,452	5,230	5,232	-859

Ratios

	2018/19	2017/18	2016/17	2015/16	2014/15
<i>Profitability</i>					
Return on equity	60%	58%	50%	-46%	-17%

Equity ratio

Equity interest	54%	35%	26%	24%	22%
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Ratios definitions

Return on equity:
$$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$$

Equity interest:
$$\frac{\text{Equity, end of year} \times 100}{\text{Total assets}}$$

Primary activities

The company's activities comprise delivery of in-house design, engineering, production of fully welded stainless steel, high tech heat exchanger and thermo plates (pillow plates) products. The expertise of the company is to construct and deliver fully welded heat exchangers to the coal, oil, petrochemical industry in general and heat recovery technologies for energy savings into many industries.

Development in activities and financial affairs

The income statement for the period 01.07.18 - 30.06.19 shows a profit/loss of DKK 12,875,464 against DKK 6,778,606 for the period 01.07.17 - 30.06.18. The balance sheet shows equity of DKK 27,920,492.

The management considers the financial year very satisfying.

The company has during the financial year seen an increase in the interest of the company technology and the benefits of using fully welded heat exchangers.

Outlook

The company expects continued growth in the period 01.07.19 - 30.06.2020

Knowledge resources

Each year the company invests considerable resources in training and development of the company's employees at all levels of the organisation. This is based on a systematic and targeted approach in the form of both compulsory and voluntary training of the company's employees. Investments in competence development are increasing and constitute an essential pillar in the company's continued development of current and new relevant technology areas in relation to existing key customers as well as increasing the client platform of the company significantly.

Special risks*Currency risks*

Based on the extent of the company's international trade, moderate changes in exchange rates will not have any major impact on earnings.

External environment

As part of the strategy for the company's overall environmental activities, an environmental

policy has been prepared setting out a number of environmental objectives. Focusing on environmentally sound operations, this policy forms a natural part of the company's objectives concerning product quality and production conditions.

Research and development activities

The company has over the years invested significant resources in the development of new components. Furthermore the company is in the process of developing a number of new unique fully welded heat exchangers for current and new markets.

Subsequent events

No important events have occurred after the end of the financial year.

Income statement

Note		2018/19 DKK	2017/18 DKK
	Gross profit	31,570,806	24,304,511
	Distribution costs	-1,024,222	-1,651,929
	Administration costs	-13,610,096	-13,599,791
	Other operating expenses	-300,000	-300,000
	Profit before net financials	16,636,488	8,752,791
2	Financial income	10,869	59,151
3	Financial expenses	-54,230	-54,750
	Profit before tax	16,593,127	8,757,192
4	Tax on profit or loss for the year	-3,717,663	-1,978,586
	Profit for the year	12,875,464	6,778,606
	Proposed appropriation account		
	Proposed dividend for the financial year	8,000,000	0
	Retained earnings	4,875,464	6,778,606
	Total	12,875,464	6,778,606

ASSETS		30.06.19	30.06.18
Note		DKK	DKK
	Leasehold improvements	291,828	414,301
	Plant and machinery	2,441,569	1,966,792
	Other fixtures and fittings, tools and equipment	673,840	291,810
	Property, plant and equipment under construction	6,525,950	0
5	Total property, plant and equipment	9,933,187	2,672,903
6	Deposits	1,200,000	500,000
	Total investments	1,200,000	500,000
	Total non-current assets	11,133,187	3,172,903
	Raw materials and consumables	2,512,499	1,785,123
	Work in progress	940,654	0
	Total inventories	3,453,153	1,785,123
7	Work in progress for third parties	10,451,638	11,234,139
	Trade receivables	15,477,155	18,964,617
	Receivables from group enterprises	6,374	1,502,810
	Income tax receivable	0	119,641
	Other receivables	250,274	1,348,020
	Prepayments	404,511	186,333
	Total receivables	26,589,952	33,355,560
	Cash	10,525,790	4,129,244
	Total current assets	40,568,895	39,269,927
	Total assets	51,702,082	42,442,830

EQUITY AND LIABILITIES		30.06.19	30.06.18
Note		DKK	DKK
	Share capital	2,000,000	2,000,000
	Retained earnings	17,920,492	13,045,028
	Proposed dividend for the financial year	8,000,000	0
	Total equity	27,920,492	15,045,028
8	Provisions for deferred tax	2,116,026	214,463
9	Other provisions	3,313,001	6,330,951
	Total provisions	5,429,027	6,545,414
10	Lease commitments	0	315,538
10	Deposits	0	175,000
	Total long-term payables	0	490,538
10	Short-term part of long-term payables	315,539	325,294
7	Prepayments received from work in progress for third parties	2,302,205	6,126,010
	Trade payables	8,862,661	5,851,962
	Deposits	175,000	0
	Income taxes	1,816,100	2,663,239
	Other payables	4,881,058	5,395,345
	Total short-term payables	18,352,563	20,361,850
	Total payables	18,352,563	20,852,388
	Total equity and liabilities	51,702,082	42,442,830
11	Contingent liabilities		
12	Charges and security		
13	Related parties		

Statement of changes in equity

Figures in DKK	Share capital	Retained earnings	Proposed dividend for the financial year	Total equity
Statement of changes in equity for 01.07.18 - 30.06.19				
Balance as at 01.07.18	2,000,000	13,045,028	0	15,045,028
Net profit/loss for the year	0	4,875,464	8,000,000	12,875,464
Balance as at 30.06.19	2,000,000	17,920,492	8,000,000	27,920,492

Cash flow statement

Note	2018/19 DKK	2017/18 DKK
	12,875,464	6,778,606
14 Adjustments	4,924,969	2,977,450
Change in working capital:		
Inventories	-1,668,030	428,051
Receivables	5,149,539	-12,118,224
Trade payables	3,010,699	1,273,992
Other payables relating to operating activities	-7,356,050	1,897,237
Cash flows from operating activities before net financials	16,936,591	1,237,112
Interest income and similar income received	10,869	59,153
Interest expenses and similar expenses paid	-54,230	-54,749
Income tax paid	-2,543,598	0
Cash flows from operating activities	14,349,632	1,241,516
Purchase of property, plant and equipment	-8,641,729	-1,096,042
Sale of property, plant and equipment	217,500	452,692
Purchase of investments	-700,000	0
Cash flows from investing activities	-9,124,229	-643,350
Repayment of payables to credit institutions	-325,293	-325,293
Arrangement of payables to group enterprises	1,496,436	0
Repayment of payables to group enterprises	0	-1,725,663
Cash flows from financing activities	1,171,143	-2,050,956
Total cash flows for the year	6,396,546	-1,452,790
Cash, beginning of year	4,129,244	5,582,034
Cash, end of year	10,525,790	4,129,244
Cash, end of year, comprises:		
Cash	10,525,790	4,129,244
Total	10,525,790	4,129,244

	2018/19	2017/18
	DKK	DKK

1. Employee aspects

Wages and salaries	27,762,237	24,825,455
Pensions	2,346,584	2,098,720
Other social security costs	126,611	111,642
Other staff costs	914,731	1,057,655
Total	31,150,163	28,093,472
Average number of employees during the year	56	49

2. Financial income

Interest, group enterprises	0	25,130
Foreign currency translation adjustments	0	668
Other financial income	10,869	33,353
Other financial income	10,869	34,021
Total	10,869	59,151

3. Financial expenses

Other interest expenses	50,144	49,441
Foreign currency translation adjustments	4,086	0
Other financial expenses	0	5,309
Total	54,230	54,750

	2018/19 DKK	2017/18 DKK
4. Tax on profit or loss for the year		
Current tax for the year	1,816,100	2,660,825
Adjustment of deferred tax for the year	1,901,563	-682,239
Total	3,717,663	1,978,586

5. Property, plant and equipment

Figures in DKK	Leasehold improve- ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction
Cost as at 01.07.18	3,323,164	18,090,203	4,466,997	0
Additions during the year	71,648	1,395,000	649,131	6,525,950
Disposals during the year	-14,640	-153,737	-681,720	0
Cost as at 30.06.19	3,380,172	19,331,466	4,434,408	6,525,950
Depreciation and impairment losses as at 01.07.18	-2,908,863	-16,123,411	-4,175,187	0
Depreciation during the year	-194,121	-886,573	-223,998	0
Reversal of depreciation of and impairment losses on disposed assets	14,640	120,087	638,617	0
Depreciation and impairment losses as at 30.06.19	-3,088,344	-16,889,897	-3,760,568	0
Carrying amount as at 30.06.19	291,828	2,441,569	673,840	6,525,950
Carrying amount of assets held under finance leases as at 30.06.19	0	288,458	0	0

6. Non-current financial assets

Figures in DKK	Deposits
Cost as at 01.07.18	500,000
Additions during the year	700,000
Cost as at 30.06.19	1,200,000

	30.06.19 DKK	30.06.18 DKK
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7. Work in progress for third parties

Work in progress for third parties	28,938,956	19,824,829
On-account invoicing	-20,789,523	-14,716,700
Work in progress for third parties	8,149,433	5,108,129

Work in progress for third parties is recognized in the balance sheet as:

Work in progress for third parties	10,451,638	11,234,139
Prepayments received from work in progress for third parties, short-term payables	-2,302,205	-6,126,010
Total	8,149,433	5,108,129

8. Deferred tax

Deferred tax as at 01.07.18	214,463	896,702
Deferred tax recognised in the income statement	1,901,563	-682,239
Deferred tax as at 30.06.19	2,116,026	214,463

30.06.19 30.06.18
DKK DKK

9. Other provisions

Other provisions are expected to be distributed as follows:

Non-current liabilities	885,652	2,103,555
Current liabilities	2,427,349	4,227,396
Total	3,313,001	6,330,951

Other provisions relate to provisions for guarantee commitments.

10. Long-term payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 30.06.19	Total payables at 30.06.18
Lease commitments	315,539	0	315,539	640,832
Deposits	0	0	0	175,000
Total	315,539	0	315,539	815,832

11. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 7 months and average lease payments of DKK 21k, a total of DKK 145k.

The company has concluded lease agreements on cars with terms to maturity of between 20-38 months and a total of DKK 800k.

The company has concluded lease agreements with a group enterprise. The tenancy can be terminated in June 2029, corresponding to a maturity of 120 months and average lease payments of DKK 400k, a total of DKK 48,000k.

Guarantee commitments

The company has a guarantee from bank and insurance company for quality and service for delivered goods for a total of DKK 7,086k with an expiry date 2019-2021.

Other contingent liabilities

The company is taxed jointly with R. HANSEN HOLDING ApS and is liable for income taxes on a pro rata basis and must comply with any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The maximum liability totals an amount corresponding to the share of the capital in the company which is owned directly or indirectly by the ultimate parent. The total known tax liability of the tax jointly companies is shown in the ultimate parent annual report.

12. Charges and security

The company has not provided any security over assets.

13. Related parties

The company is included in the consolidated financial statements of the parent company R. HANSEN HOLDING ApS, Kolding, Denmark.

	2018/19	2017/18
	DKK	DKK
14. Adjustments for the cash flow statement		
Other operating income	-140,747	-393,002
Depreciation and impairments losses of property, plant and equipment	1,304,692	1,396,268
Financial income	-10,869	-59,151
Financial expenses	54,230	54,749
Tax on profit or loss for the year	3,717,663	1,978,586
Total	4,924,969	2,977,450

15. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

LEASES

Leases relating to assets where the company has substantially all the risks and benefits incidental to the ownership of the asset (finance leases) are recognised in the balance sheet. On initial recognition, assets held under finance leases and related lease commitments are measured at the lower of the fair value of the leased asset and the present value of future lease payments. Subsequently, assets held under finance leases are treated like other similar assets.

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as payables. Subsequent to initial recognition, lease commitments are measured at amortised cost according to which the interest element of the lease payment is recognised in the income statement over the lease term.

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

15. Accounting policies - continued -**INCOME STATEMENT****Gross profit**

Gross profit comprises revenue and production costs as well as other operating income.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Income from the sale of services is recognised as delivery takes place. Revenue is measured at the selling value of the agreed consideration exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Construction contracts involving the delivery of highly customised installations are recognised as revenue according to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (percentage of completion method).

Income from the rental of properties is recognised in the income statement for the relevant period. Revenue is measured at fair value and determined exclusive of VAT and discounts.

Production costs

Costs incurred, directly or indirectly, to generate the revenue for the year, including raw materials and consumables, wages and salaries and lease of and depreciation, amortisation and impairment losses on the fixed assets used in the production process, are recognised under production costs.

Distribution costs

Costs for the distribution of goods sold during the year and sales campaigns etc., including wages and salaries for sales staff, advertising and exhibition costs etc. and lease of and depreciation, amortisation and impairment losses on the fixed assets used in the distribution and sales activity, are recognised under distribution costs.

15. Accounting policies - continued -**Administrative expenses**

Expenses incurred during the year for management and administration, including wages and salaries for administrative staff and management as well as office premise expenses, office expenses, bad debts etc. and lease of and depreciation, amortisation and impairment losses on the fixed assets used for administration, are recognised under administrative expenses.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

Depreciation and impairment losses

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value DKK
Leasehold improvements	3-7	0
Plant and machinery	3-7	180,000
Other plant, fixtures and fittings, tools and equipment	3-7	0

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other operating expenses

Other operating expenses comprise costs of a secondary nature in relation to the enterprise's activities, including costs relating to rental activities and losses on the sale of intangible assets and property, plant and equipment.

15. Accounting policies - continued -**Other net financials**

Interest income and interest expenses, the interest element of finance lease payments etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

BALANCE SHEET**Property, plant and equipment**

Property, plant and equipment comprise leasehold improvements, plant and machinery as well as other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. For self-constructed or self-produced assets, the cost also comprises production overheads. Production overheads include indirect material and labour costs as well as maintenance and depreciation of machinery, buildings and equipment used in the production process as well as the costs of factory administration and management. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

15. Accounting policies - continued -*Property, plant and equipment under construction*

Property, plant and equipment under construction are measured at cost. For self-constructed or self-produced assets, the cost also comprises production overheads. Costs incurred on property, plant and equipment under construction are transferred to the relevant asset category when the asset is ready for use.

Gains and losses on the disposal of property, plant and equipment

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

15. Accounting policies - continued -

The cost of manufactured finished goods and work in progress is determined as the value of direct and indirect material and labour costs. Production overheads include indirect material and labour costs as well as maintenance and depreciation of machinery, buildings and equipment used in the production process as well as the costs of factory administration and management. Interest on loans arranged to finance production is not included in the cost.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Work in progress for third parties

Work in progress for third parties is measured at the selling price of the work performed less on-account invoicing made for each piece of work in progress.

The selling price is measured according to the stage of completion at the balance sheet date and total expected income from each piece of work in progress. The degree of completion for each piece of work in progress is normally calculated as the ratio between the resources spent and the total budgeted resource consumption. For some work in progress where the resource consumption cannot be used as a basis, the ratio between completed subactivities and the combined subactivities for the individual piece of work in progress is used instead.

When the selling price of a piece of work in progress cannot be determined reliably, the selling price is measured at the lower of costs incurred and net realisable value.

The individual piece of work in progress is recognised under receivables or payables in the balance sheet depending on whether the net value of the selling price less prepayments received is positive or negative.

15. Accounting policies - continued -

When it is likely that the total costs of the individual piece of work in progress will exceed total sales income, the total expected loss is recognised as a provision.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

The proposed dividend for the financial year is recognised as a separate item in equity.

Provisions

Other provisions comprise expected expenses incidental to loss on work in progress, restructuring etc. and are recognised when the company has a legal or constructive obligation at the balance sheet date and it is probable that such obligation will draw on the financial resources of the company. Provisions are measured at net realisable value or fair value if the provision is expected to be settled over the longer term.

For assets, the regular use of which entails an obligation to restore the asset after use, the estimated expenses incidental thereto are recognised as provisions on a continuing basis over the useful lives of the assets. Such expenses are recognised in the income statement under other external expenses.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for

15. Accounting policies - continued -

tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Deposits recognised under liabilities comprise deposits received from lessees under the company's leases.

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the company's share capital and

15. Accounting policies - continued -

associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables. Cash flows from financing activities also comprise finance lease payments.

Cash and cash equivalents at the beginning and end of the year comprise cash and short-term payables to credit institutions.