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Union Engineering A/S

Snaremosevej 27
7000 Fredericia
Business Registration No
13827540

Annual report 2018

The Annual General Meeting adopted the annual report on 26.06.2019

Chairman of the General Meeting

Name: Grant William O'Grady

Contents

Entity details

Entity

Union Engineering A/S
Snaremosevej 27
7000 Fredericia

Central Business Registration No (CVR): 13827540
Registered in: Fredericia
Financial year: 01.01.2018 - 31.12.2018

Board of Directors

Grant William O'Grady
Henning Wolfgang Wistorf
Jakob Bech Lauritsen

Executive Board

Jakob Bech Lauritsen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Egtved Allé 4
6000 Kolding

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Union Engineering A/S for the financial year 01.01.2018 - 31.12.2018.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Fredericia, 26.06.2019

Executive Board

Jakob Bech Lauritsen

Board of Directors

Grant William O'Grady

Henning Wolfgang Wistorf

Jakob Bech Lauritsen

Independent auditor's report

To the shareholders of Union Engineering A/S

Opinion

We have audited the financial statements of Union Engineering A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity’s financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018 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 financial statements section of this auditor’s report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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 responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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:

Independent auditor's report

- 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 Entity’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 Entity’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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Independent auditor's report

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

Violation of company law and similar legislation

During the year, Management has not complied with all company-law formalities relating to holding of board meetings. Management may incur liability in this respect.

Kolding, 26.06.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Ole Søndergaard Larsen
State Authorised Public Accountant
Identification No (MNE) mne11676

Allan Trolle Pedersen
State Authorised Public Accountant
Identification No (MNE) mne34339

Management commentary

	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Revenue	202.278	238.865	331.331	349.447	396.674
Gross profit/loss	57.769	60.889	84.745	75.447	91.595
Operating profit/loss	(6.348)	(7.405)	21.507	11.347	11.540
Net financials	(11.906)	4.490	46.228	12.152	23.483
Profit/loss for the year	(17.947)	(1.119)	63.114	21.681	32.245
Total assets	205.183	206.955	272.633	290.191	317.145
Investments in property, plant and equipment	849	258	468	0	0
Equity	41.854	61.467	66.305	77.230	78.086
Ratios					
Gross margin (%)	28,6	25,5	25,6	21,6	23,1
Net margin (%)	(8,9)	(0,5)	19,0	6,2	8,1
Return on equity (%)	(34,7)	(1,8)	87,9	27,9	41,3
Equity ratio (%)	20,4	29,7	24,3	26,6	24,6

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	**Calculation formula**	**Calculation formula reflects**
Gross margin (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The primary activities of the Group are sales, projecting, production and installation of customized CO_2-plants on a global basis.

Focus areas of the Group relate either to technology for CO_2-recovery from various kinds of sources or technology for CO_2-application in different connections. The present focus areas of the Group include:

- CO_2-recovery plants for breweries and distilleries
- CO_2-production plants for soft drinks industry
- CO_2-plants for industrial gases industry
- CO_2-plants for desalination industry
- CO_2-plants for oil & gas industry
- After Sales Services

The activities are carried out through the Parent Company as well as through the subsidiaries in China, Brazil and the US.

Development in activities and finances

The revenue amounted to DKK 202 m (DKK 239 m). The profit for the year before tax amounted to DKK -18,3m (DKK -2,9 m), whereas the profit for the year after tax amounted to DKK -17,9 m (DKK -1,1 m).

Unusual circumstances affecting recognition and measurement

Profit for the year is affected by writedown of assets in the Brazilian subsidiary of DKK 6.8 m.

Outlook

For 2019 a positive development in both revenue and performance are expected.

Particular risks

Operating risks

The most considerable operating risk of the Group is connected to the achievement of the estimated revenue as well as managing the project from sales to commissioning. As a consequence Union Engineering a/s has focus on using state of art project management tools. As CO_2–plants are sold as investment goods, there have been periodical fluctuations in demand. This risk is being defeated by consciously aiming at low fixed capacity costs in order to ensure permanent achievable breakeven sales. Focus on marketing and sales of CO_2–plants combined with quality and project management, standardization, product improvement and product development ensures the continued position of the Group as world leading supplier of CO_2–plants.

Financial risks, including foreign exchange exposure

Due to its global activities, the Group is exposed to exchange rate fluctuations in particular. Inconstant state of exchange may create some uncertainty for the Group's market potential and earnings.

Management commentary

The currency exposure of the Group is mainly identified by matching in- and outgoing payments in the same currency as well as using foreign exchange contracts.

The Parent Company controls the financial risks of the Group centrally and coordinates the cash management of the Group, including capital production and placement of cash surplus. The Group complies with a financial policy approved by the Board of Directors – operating with a low risk profile with the result that currency, interest and credit risks occur based on commercial conditions only.

The share capital of Union Engineering a/s is not divided into share classes. On a regular basis, Management evaluates whether the Group has an adequate capital structure. No adjustments have been made neither in the guidelines of the Group nor in the procedures of handling and administrating liquidity during 2018.

Credit risks

The policy of the Group regarding acceptance of credit risks involves current credit evaluation of major customers and other partners. Depending on the nature of the project sold as well as homeland of the customer, the outstanding debt of the client is being ensured through letters of credit, credit insurance companies, appropriate prepayments or sufficient credit rating.

Intellectual capital resources

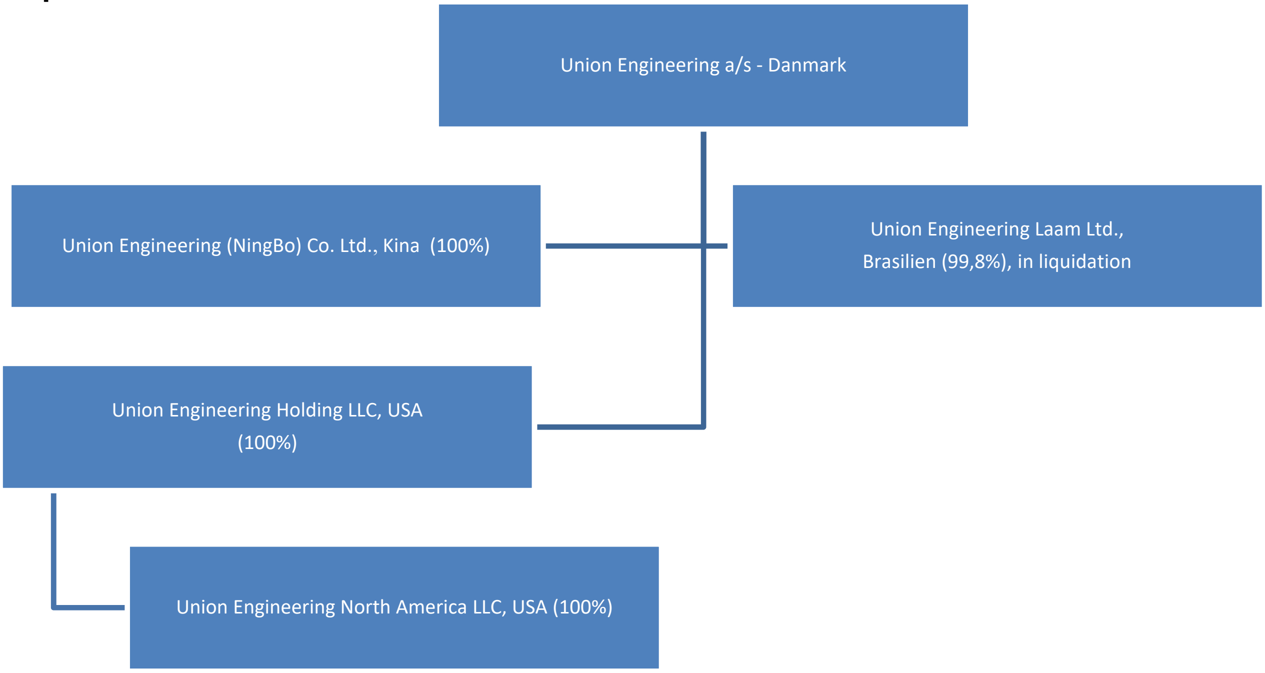
The Group wants to further consolidate its position as the world's leading supplier of CO_2–plants. In this connection the intellectual capital resources of the Company are of decisive importance. The organization is divided according to individual focus areas and subsequently ensures the utmost utilization of knowledge in connection with sales and projecting of CO_2–plants to each client individually. The Group has set up a central process & technology development centre to ensure always to have a lead within the new knowledge of and technology within the CO_2–area. The Group pursues an active staff policy in order to secure and retain qualified employees.

Research and development activities

The development and optimisation of the CO_2–plants has continued during 2018. The Group wants to be world-leading within every focus area on the world market. This is ensured by optimizing the various kinds of plants in order to meet the needs of each individual client. The Group maintains focus on improving existing technologies as well as development on new technologies in general and applying for protection of these as intellectual property rights to the greatest extent possible.

Management commentary

Group relations



Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue		202.278	238.865
Production costs	2, 3	(144.509)	(177.976)
Gross profit/loss		**57.769**	**60.889**
Distribution costs	2	(20.724)	(26.292)
Administrative expenses	2	(42.226)	(40.832)
Other operating income		348	398
Other operating expenses		(1.515)	(1.568)
Operating profit/loss		**(6.348)**	**(7.405)**
Income from investments in group enterprises		(12.393)	4.600
Other financial income	4	29.099	26.117
Other financial expenses	5	(28.612)	(26.227)
Profit/loss before tax		**(18.254)**	**(2.915)**
Tax on profit/loss for the year	6	307	1.796
Profit/loss for the year	7	**(17.947)**	**(1.119)**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Completed development projects		1.206	1.863
Acquired patents		10.272	11.462
Intangible assets	8	**11.478**	**13.325**
Plant and machinery		0	0
Other fixtures and fittings, tools and equipment		1.066	1.419
Leasehold improvements		1.691	1.984
Property, plant and equipment	9	**2.757**	**3.403**
Investments in group enterprises		40.277	55.421
Deposits		1.953	1.896
Fixed asset investments	10	**42.230**	**57.317**
Fixed assets		**56.465**	**74.045**
Manufactured goods and goods for resale		6.818	4.611
Prepayments for goods		3.187	3.440
Inventories		**10.005**	**8.051**
Trade receivables		24.555	36.119
Contract work in progress	11	41.751	60.189
Receivables from group enterprises		63.222	26.183
Other receivables		2.229	341
Income tax receivable		209	0
Prepayments	12	1.831	1.397
Receivables		**133.797**	**124.229**
Cash		**4.916**	**630**
Current assets		**148.718**	**132.910**
Assets		**205.183**	**206.955**

Balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital	13	10.000	10.000
Reserve for net revaluation according to the equity method		0	6.290
Reserve for development expenditure		941	1.453
Retained earnings		30.913	43.724
Equity		**41.854**	**61.467**
Deferred tax	14	4.388	5.285
Other provisions	15	5.384	7.438
Provisions		**9.772**	**12.723**
Prepayments received from customers		5.822	3.978
Contract work in progress	11	18.074	30.906
Trade payables		101.589	75.936
Payables to group enterprises		15.594	9.732
Income tax payable		0	3.036
Other payables		12.478	9.177
Current liabilities other than provisions		**153.557**	**132.765**
Liabilities other than provisions		**153.557**	**132.765**
Equity and liabilities		**205.183**	**206.955**
Events after the balance sheet date	1		
Unrecognised rental and lease commitments	17		
Contingent liabilities	18		
Assets charged and collateral	19		
Related parties with controlling interest	20		
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Statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Reserve for development expenditure DKK'000
Equity beginning of year	10.000	6.290	1.453
Exchange rate adjustments	0	(1.321)	0
Fair value adjustments of hedging instruments	0	0	0
Dividends from group enterprises	0	(1.430)	0
Transfer to reserves	0	0	(512)
Profit/loss for the year	0	(3.539)	0
Equity end of year	**10.000**	**0**	**941**

	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	43.724	61.467
Exchange rate adjustments	0	(1.321)
Fair value adjustments of hedging instruments	(345)	(345)
Dividends from group enterprises	1.430	0
Transfer to reserves	512	0
Profit/loss for the year	(14.408)	(17.947)
Equity end of year	**30.913**	**41.854**

Cash flow statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Operating profit/loss		(6.348)	(7.399)
Amortisation, depreciation and impairment losses		3.983	10.151
Other provisions		(2.054)	(1.447)
Working capital changes	16	9.863	(21.342)
Cash flow from ordinary operating activities		**5.444**	**(20.037)**
Financial income received		29.099	26.118
Financial expenses paid		(28.614)	(26.233)
Income taxes refunded/(paid)		(97)	23
Cash flows from operating activities		**5.832**	**(20.129)**
Acquisition etc of intangible assets		(640)	(2.206)
Acquisition etc of property, plant and equipment		(849)	(136)
Acquisition of fixed asset investments		(57)	0
Cash flows from investing activities		**(1.546)**	**(2.342)**
Increase/decrease in cash and cash equivalents		**4.286**	**(22.471)**
Cash and cash equivalents beginning of year		630	23.104
Currency translation adjustments of cash and cash equivalents		0	(3)
Cash and cash equivalents end of year		**4.916**	**630**

Notes

1. Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

	2018 DKK'000	2017 DKK'000
2. Staff costs		
Wages and salaries	59.946	67.790
Pension costs	4.429	5.016
Other social security costs	165	218
	64.540	**73.024**
Average number of employees	**87**	**98**

	Remuneration of management 2018 DKK'000	Remuneration of management 2017 DKK'000
Total amount for management categories	2.579	3.609
	2.579	**3.609**

Persuant to Sec. 98(3) of the Danish Financial Statements Act remuneration of management is disclosed for both categories combined.

	2018 DKK'000	2017 DKK'000
3. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	2.099	2.712
Depreciation on property, plant and equipment	1.495	2.173
Profit/loss from sale of intangible assets and property, plant and equipment	389	5.264
	3.983	**10.149**

Notes

	2018 DKK'000	2017 DKK'000
4. Other financial income		
Exchange rate adjustments	29.096	25.888
Other financial income	3	229
	29.099	**26.117**

	2018 DKK'000	2017 DKK'000
5. Other financial expenses		
Financial expenses from group enterprises	195	0
Other interest expenses	0	16
Exchange rate adjustments	27.840	25.864
Other financial expenses	577	347
	28.612	**26.227**

	2018 DKK'000	2017 DKK'000
6. Tax on profit/loss for the year		
Current tax	591	2.962
Change in deferred tax	(898)	(4.786)
Adjustment concerning previous years	0	28
	(307)	**(1.796)**

	2018 DKK'000	2017 DKK'000
7. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	(3.539)	4.600
Retained earnings	(14.408)	(5.719)
	(17.947)	**(1.119)**

Notes

	Completed develop-ment projects DKK'000	Acquired patents DKK'000
8. Intangible assets		
Cost beginning of year	4.365	17.994
Additions	0	1.040
Disposals	(399)	(389)
Cost end of year	**3.966**	**18.645**
Amortisation and impairment losses beginning of year	(2.502)	(6.532)
Amortisation for the year	(258)	(1.841)
Amortisation and impairment losses end of year	**(2.760)**	**(8.373)**
Carrying amount end of year	**1.206**	**10.272**

Completed development projects
Development activities comprise continuous development of the present product range and new development of CO2 products, including standardization of CO2 products in order to achieve better earnings.

Development projects are tested for impairment annually if there is an indication that the asset should be impaired. No such impairment was found during the preparation of the annual report and consequently the carrying amount is expected to b e realized in full.

Notes

	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve-ments DKK'000
9. Property, plant and equipment			
Cost beginning of year	557	29.841	4.668
Additions	0	849	0
Cost end of year	**557**	**30.690**	**4.668**
Depreciation and impairment losses beginning of year	(557)	(28.422)	(2.684)
Depreciation for the year	0	(1.202)	(293)
Depreciation and impairment losses end of year	**(557)**	**(29.624)**	**(2.977)**
Carrying amount end of year	**0**	**1.066**	**1.691**

	Invest-ments in group enterprises DKK'000	Deposits DKK'000
10. Fixed asset investments		
Cost beginning of year	6.954	1.896
Additions	0	57
Cost end of year	**6.954**	**1.953**
Revaluations beginning of year	48.467	0
Exchange rate adjustments	(1.321)	0
Share of profit/loss for the year	(12.393)	0
Dividend	(1.430)	0
Revaluations end of year	**33.323**	**0**
Carrying amount end of year	**40.277**	**1.953**

Notes

	2018 DKK'000	2017 DKK'000
11. Contract work in progress		
Contract work in progress	201.313	227.378
Progress billings regarding contract work in progress	(177.636)	(198.095)
Transferred to liabilities other than provisions	18.074	30.906
	41.751	**60.189**

12. Prepayments

Prepayments primarily comprise prepaid rent and comissions.

	Number	Par value DKK'000	Nominal value DKK'000
13. Contributed capital			
Ordinary shares	100.000	0,1	10.000
	100.000		**10.000**

	2018 DKK'000	2017 DKK'000
14. Deferred tax		
Intangible assets	2.611	2.931
Property, plant and equipment	(674)	(688)
Receivables	2.451	3.178
Provisions	0	(136)
	4.388	**5.285**

Changes during the year	
Beginning of year	5.285
Recognised in the income statement	(897)
End of year	**4.388**

15. Other provisions

Other provisions comprise non-recourse guarantee commitments.

Notes

	2018 DKK'000	2017 DKK'000
16. Change in working capital		
Increase/decrease in inventories	(6)	10.638
Increase/decrease in receivables	(7.366)	24.151
Increase/decrease in trade payables etc	17.235	(56.131)
	9.863	**(21.342)**

	2018 DKK'000	2017 DKK'000
17. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**27.651**	**28.121**

18. Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where Pentair Denmark Holding ApS serves as the administration company. According to the joint taxation provi-sions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial state-ments.

Performance and prepayments guarantees have been provided by third party with recourse against the Company amounting to DKK 28.234k against DKK 29.874k at 31.12.2017.

The Company has entered into bonus agreements with certain employee groups.

Furthermore, the Company provides its customers with warranties according to normal trade custom.

19. Assets charged and collateral

As security for the bank, all-moneys mortgage (receivables charges) has been issued in the amount of DKK 20.000k (DKK 20.000k in 2017). The book value amounts to DKK 24.555k (DKK 36.119k in 2017).

20. Related parties with controlling interest

The following parties have a controlling interest:

- Pentair PLC (no. 536025), Ireland, 43 London Wall, London EC2M5TF, United Kingdom (shareholder, ultimate owner).
- Pentair Denmark Holding ApS (shareholder), Snaremosevej 27, 7000 Fredericia.
- Union Engineering Holding II A/S (shareholder), Snaremosevej 27, 7000 Fredericia.

Notes

	Parent DKK'000	Subsidiaries DKK'000	Other related parties. DKK'000
21. Transactions with related parties			
Trade - sales	0	19.376	0
Trade - purchase	0	30.752	0
Service	0	7.113	0
Receivables	66	4.352	58.804
Liabilities other than provisions	3.036	10.000	2.558

In addition to the distribution of dividends there have been no transactions with the capital owners. Remuneration of management is shown in note 2.

22. Group relations

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

Pentair PLC (no. 536025), Ireland, 43 London Wall, London EC2M5TF, United Kingdom.

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

Pentair PLC (no. 536025), Ireland, 43 London Wall, London EC2M5TF, United Kingdom.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The comparative figures have been subject to reclassifications, without this having affected the financial profit/loss for the year or equity.

The accounting policies applied to these financial statements are consistent with those applied last year.

Consolidated financial statements

Referring to 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Accounting policies

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question, are classified directly as equity.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign subsidiaries or associates are classified directly as equity.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Accounting policies

Production costs
Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Also, provisions for loss on contract work in progress are recognised under production costs.

Distribution costs
Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative costs
Administrative costs comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other operating income
Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Other operating expenses
Other operating expenses comprise expenses of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises
Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income
Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses including interest expenses on payables to group enterprises, net capital or exchange losses on transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Accounting policies

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with Pentair Holding Denmark ApS and all it's Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet
Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights, but not more than 20 years. The amortisation periods used are 3-5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over not more than 20 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment
Plant and machinery as well as other fixtures and fittings, tools 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 time when it is ready to be put into operation. For self-constructed assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Accounting policies

Interest expenses are not included in cost.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	15 years
Other fixtures and fittings, tools and equipment	3-6 years
Leasehold improvements	3-6 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits or losses.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is calculated as the difference between cost of the investments and fair value of the pro rata share of assets and liabilities acquired. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. If the useful life cannot be estimated reliably, it is fixed at 10 years. Useful lives are reassessed annually. The amortisation periods used are 10-20 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

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

Accounting policies

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

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

Contract work in progress
Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as finance costs are recognised in the income statement as incurred.

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

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

Cash
Cash comprises cash in hand and bank deposits.

Accounting policies

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability.

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.

Other provisions
Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress 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 measured at their discounted value.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

On acquisition of enterprises and investments in group enterprises, provisions are made for costs relating to restructuring in the acquired enterprise that were decided and published at the acquisition date at the latest.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

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

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

Prepayments received from customers
Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Accounting policies

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank loans.