Union Engineering A/S

Snaremosevej 27
7000 Fredericia
CVR No. 13827540

Annual report 2023

The Annual General Meeting adopted the annual report on 26.06.2024

Andrew Gary Smyth
Chairman of the General Meeting

Contents

Entity details

Entity

Union Engineering A/S
Snaremosevej 27
7000 Fredericia

Business Registration No.: 13827540
Registered office: Fredericia
Financial year: 01.01.2023 - 31.12.2023

Board of Directors

Grant William O'Grady
Valentina Masi
Jesper Jensen

Executive Board

Jesper Jensen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Egtved Allé 4
6000 Kolding

Statement by Management

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 01.01.2023 - 31.12.2023.

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 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023.

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, 26.06.2024

Executive Board

Jesper Jensen

Board of Directors

Grant William O'Grady

Valentina Masi

Jesper Jensen

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 01.01.2023 - 31.12.2023, 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 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023 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 for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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:

- 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.

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 in the relevant law and regulations. We did not identify any material misstatement of the management commentary.

Kolding, 26.06.2024

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Lars Dam Østergaard
State Authorised Public Accountant
Identification No (MNE) mne34501

Management commentary

Financial highlights

	2023 DKK'000	2022 DKK'000	2021 DKK'000	2020 DKK'000	2019 DKK'000
Key figures					
Revenue	353,852	232,979	231,012	261,536	260,292
Gross profit/loss	87,143	43,364	55,180	82,996	71,767
Operating profit/loss	18,383	(22,618)	(6,635)	19,847	6,475
Net financials	2,376	(696)	(1,533)	454	812
Profit/loss for the year	14,926	(18,524)	(7,599)	17,290	19,357
Total assets	343,269	283,521	291,365	193,966	219,248
Investments in property, plant and equipment	646	1,806	596	307	1,003
Equity	149,886	136,731	155,853	76,970	61,582
Cash flows from (used in) operating activities	8,095	(7,739)	2,851	(1,939)	(21,224)
Cash flows from (used in) investing activities	(650)	(1,962)	(1,175)	(489)	20,190
Cash flows from (used in) financing activities	(4,863)	6,961	0	0	0
Ratios					
Gross margin (%)	24.63	18.61	23.89	31.73	27.57
EBIT margin (%)	5.20	(9.71)	(2.87)	7.59	2.49
Net margin (%)	4.22	(7.95)	(3.29)	6.61	7.44
Return on equity (%)	10.42	(12.66)	(6.53)	24.96	37.43
Equity ratio (%)	43.66	48.23	53.49	39.68	28.09

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin (%):
Gross profit/loss * 100
Revenue

EBIT margin (%):
Operating profit/loss * 100
Revenue

Net margin (%):
Profit/loss for the year * 100

Revenue

Return on equity (%):
Profit/loss for the year * 100
Average equity

Equity ratio (%):
Equity * 100
Total assets

Primary activities

The primary activities of the Group are sales, production and installation of customized CO2-plants on a global basis.

Focus areas of the Group relate either to technology for CO2-recovery from various kinds of sources or technology for CO2-application in different connections. The present focus areas of the Group include:

- CO2-recovery plants for breweries and distilleries
- CO2-production plants for soft drinks industry
- CO2-plants for industrial gases industry
- CO2-plants for desalination industry
- CO2-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 and Brazil.

Development in activities and finances

The revenue amounted to DKK 354 m (DKK 233 m). The profit for the year before tax amounted to DKK 21,682 m (DKK -22,373 m), whereas the profit for the year after tax amounted to DKK 14,926 m (DKK -18,524 m). This development is in line with expectations for revenue and earnings.

Profit/loss for the year in relation to expected developments

Due to the downstream merger of Union Engineering Holding II A/S into Union Engineering A/S, Union Engineering has been required to recognize goodwill of DKK 76m, which will be amortized over 7 years. In relation to the current period, the amortization was DKK 10.8m, which reduced the operating profit of Union Engineering A/S from DKK 29,2 to a profit of DKK 18,4m.

Outlook

For 2024 positive developments in both revenue and performance are expected.

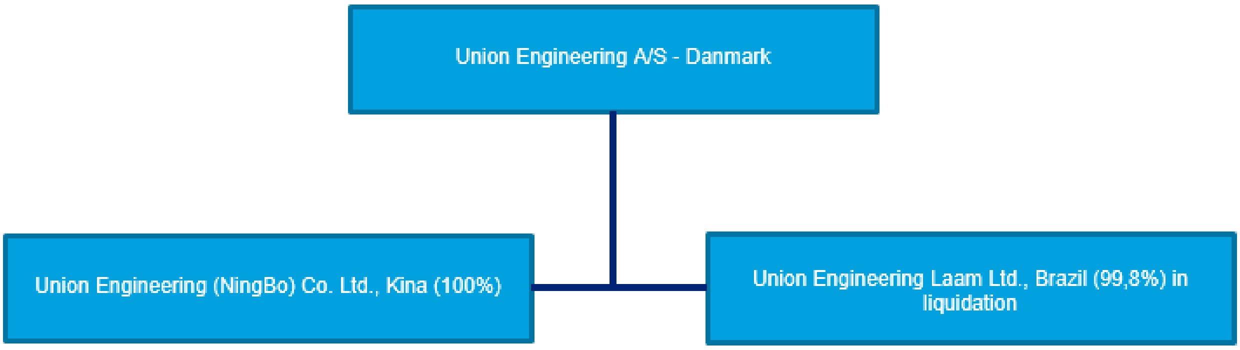
Knowledge resources

The Group wants to further consolidate its position as the world's leading supplier of CO2–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 CO2–plants to each client individually. The Group has set up a central process & technology development center to ensure always to have a lead within the new knowledge of and technology within the CO2–area. The Group pursues an active staff policy in order to secure and retain qualified employees.

Research and development activities

The development and optimization of CO2–plants has continued during 2023. The Group wants to be worldleading 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.

Group relations



Income statement for 2023

	Notes	2023 DKK'000	2022 DKK '000
Revenue		353,852	232,979
Production costs		(266,709)	(189,615)
Gross profit/loss		**87,143**	**43,364**
Distribution costs		(24,389)	(24,594)
Administrative expenses		(42,547)	(40,066)
Other operating income		380	345
Other operating expenses		(2,204)	(1,667)
Operating profit/loss		**18,383**	**(22,618)**
Income from investments in group enterprises		923	941
Other financial income	3	5,676	4,129
Other financial expenses	4	(3,300)	(4,825)
Profit/loss before tax		**21,682**	**(22,373)**
Tax on profit/loss for the year	5	(6,756)	3,849
Profit/loss for the year	6	**14,926**	**(18,524)**

Balance sheet at 31.12.2023

Assets

	Notes	2023 DKK'000	2022 DKK'000
Completed development projects	8	287	391
Acquired patents		2,002	3,571
Goodwill		43,532	54,413
Intangible assets	7	**45,821**	**58,375**
Plant and machinery		39	57
Other fixtures and fittings, tools and equipment		1,432	1,777
Leasehold improvements		308	652
Property, plant and equipment	9	**1,779**	**2,486**
Investments in group enterprises		35,484	36,334
Deposits		2,117	2,117
Financial assets	10	**37,601**	**38,451**
Fixed assets		**85,201**	**99,312**
Manufactured goods and goods for resale		17,601	19,432
Prepayments for goods		4,885	3,449
Inventories		**22,486**	**22,881**
Trade receivables		23,107	44,375
Contract work in progress	11	34,253	38,297
Receivables from group enterprises		169,731	73,163
Other receivables		1,943	942
Prepayments	12	3,576	4,161
Receivables		**232,610**	**160,938**
Cash		**2,972**	**390**
Current assets		**258,068**	**184,209**
Assets		**343,269**	**283,521**

Equity and liabilities

	Notes	2023 DKK'000	2022 DKK'000
Contributed capital	13	10,000	10,000
Reserve for net revaluation according to the equity method		29,148	29,996
Reserve for development expenditure		223	2,681
Retained earnings		85,515	94,054
Proposed dividend		25,000	0
Equity		**149,886**	**136,731**
Deferred tax	14	4,488	597
Other provisions	15	16,674	6,803
Provisions		**21,162**	**7,400**
Prepayments received from customers		3,781	8,246
Contract work in progress	11	43,723	25,629
Trade payables		104,743	86,289
Payables to group enterprises		6,994	11,857
Joint taxation contribution payable		2,864	0
Other payables		10,116	7,369
Current liabilities other than provisions		**172,221**	**139,390**
Liabilities other than provisions		**172,221**	**139,390**
Equity and liabilities		**343,269**	**283,521**

Staff costs	1
Amortisation, depreciation and impairment losses	2
Unrecognised rental and lease commitments	17
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Statement of changes in equity for 2023

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000
Equity beginning of year	10,000	29,996	2,681	94,054	0
Exchange rate adjustments	0	(1,771)	0	0	0
Transfer to reserves	0	0	(2,458)	2,458	0
Profit/loss for the year	0	923	0	(10,997)	25,000
Equity end of year	**10,000**	**29,148**	**223**	**85,515**	**25,000**

	Total DKK'000
Equity beginning of year	136,731
Exchange rate adjustments	(1,771)
Transfer to reserves	0
Profit/loss for the year	14,926
Equity end of year	**149,886**

Cash flow statement for 2023

	Notes	2023 DKK'000	2022 DKK'000
Operating profit/loss		18,383	(22,618)
Amortisation, depreciation and impairment losses		13,856	14,156
Other provisions		9,871	(1,016)
Working capital changes	16	(36,445)	2,537
Profit/loss from sale of intangible assets and property, plant and equipment		55	0
Cash flow from ordinary operating activities		**5,720**	**(6,941)**
Financial income received		5,677	4,129
Financial expenses paid		(3,300)	(4,825)
Taxes refunded/(paid)		(2)	(102)
Cash flows from operating activities		**8,095**	**(7,739)**
Acquisition etc of intangible assets		(4)	(156)
Acquisition etc of property, plant and equipment		(646)	(1,806)
Cash flows from investing activities		**(650)**	**(1,962)**
Free cash flows generated from operations and investments before financing		**7,445**	**(9,701)**
Incurrence of debt to group enterprises		(4,863)	6,961
Cash flows from financing activities		**(4,863)**	**6,961**
Increase/decrease in cash and cash equivalents		**2,582**	**(2,740)**
Cash and cash equivalents beginning of year		390	3,130
Cash and cash equivalents end of year		**2,972**	**390**
Cash and cash equivalents at year-end are composed of:			
Cash		2,972	390
Cash and cash equivalents end of year		**2,972**	**390**

Notes

1 Staff costs

	2023 DKK'000	2022 DKK'000
Wages and salaries	81,275	67,237
Pension costs	5,569	4,743
Other social security costs	235	251
	87,079	**72,231**
Average number of full-time employees	109	101

Persuant to Sec. 98(3) of the Danish Financial Statements Act remuneration of management is not disclosed.

2 Depreciation, amortisation and impairment losses

	2023 DKK'000	2022 DKK'000
Amortisation of intangible assets	12,503	13,164
Depreciation of property, plant and equipment	1,353	992
	13,856	**14,156**

3 Other financial income

	2023 DKK'000	2022 DKK'000
Exchange rate adjustments	2,205	3,986
Other financial income	3,471	143
	5,676	**4,129**

4 Other financial expenses

	2023 DKK'000	2022 DKK'000
Financial expenses from group enterprises	256	0
Other interest expenses	0	3
Exchange rate adjustments	2,848	4,467
Other financial expenses	196	355
	3,300	**4,825**

5 Tax on profit/loss for the year

	2023 DKK'000	2022 DKK'000
Current tax	3,817	(220)
Change in deferred tax	2,939	(3,614)
Adjustment concerning previous years	0	(15)
	6,756	**(3,849)**

6 Proposed distribution of profit and loss

	2023 DKK'000	2022 DKK'000
Ordinary dividend for the financial year	25,000	0
Retained earnings	(10,074)	(18,524)
	14,926	**(18,524)**

7 Intangible assets

	Completed development projects DKK'000	Acquired patents DKK'000	Goodwill DKK'000
Cost beginning of year	3,966	19,464	119,715
Additions	0	4	0
Disposals	0	(116)	0
Cost end of year	**3,966**	**19,352**	**119,715**
Amortisation and impairment losses beginning of year	(3,575)	(15,893)	(65,302)
Amortisation for the year	(104)	(1,518)	(10,881)
Reversal regarding disposals	0	61	0
Amortisation and impairment losses end of year	**(3,679)**	**(17,350)**	**(76,183)**
Carrying amount end of year	**287**	**2,002**	**43,532**

8 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 be realized in full.

9 Property, plant and equipment

	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improvements DKK'000
Cost beginning of year	519	10,073	4,250
Additions	0	646	0
Disposals	0	(2,101)	0
Cost end of year	**519**	**8,618**	**4,250**
Depreciation and impairment losses beginning of year	(462)	(8,296)	(3,598)
Depreciation for the year	(18)	(991)	(344)
Reversal regarding disposals	0	2,101	0
Depreciation and impairment losses end of year	**(480)**	**(7,186)**	**(3,942)**
Carrying amount end of year	**39**	**1,432**	**308**

10 Financial assets

	Investments in group enterprises DKK'000	Deposits DKK'000
Cost beginning of year	6,338	2,117
Cost end of year	**6,338**	**2,117**
Revaluations beginning of year	29,996	0
Exchange rate adjustments	(1,773)	0
Share of profit/loss for the year	923	0
Revaluations end of year	**29,146**	**0**
Carrying amount end of year	**35,484**	**2,117**

Investments in subsidiaries	**Registered in**	**Corporate form**	**Equity interest %**
Union Engineering Ningbo Co. Ltd.	China	Ltd.	100.00
Union Engineering Sulamericana Ltd.	Brazil	Ltd.	99.98

11 Contract work in progress

	2023 DKK'000	2022 DKK'000
Contract work in progress	353,927	280,697
Progress billings regarding contract work in progress	(363,397)	(268,029)
Transferred to liabilities other than provisions	43,723	25,629
	34,253	**38,297**

12 Prepayments

Prepayments primarily comprise prepaid rent and comissions.

13 Share capital

	Number	Par value DKK'000	Nominal value DKK'000
Ordinary shares	100,000	0,1	10,000
	100,000		**10,000**

14 Deferred tax

	2023 DKK'000	2022 DKK'000
Intangible assets	503	872
Property, plant and equipment	(318)	(353)
Receivables	5,843	1,031
Provisions	(1,540)	0
Tax losses carried forward	0	(953)
Deferred tax	**4,488**	**597**

Changes during the year	2023 DKK'000	2022 DKK'000
Beginning of year	597	4,548
Recognised in the income statement	3,891	(3,951)
End of year	**4,488**	**597**

15 Other provisions

Other provisions comprise non-recourse guarantee commitments as well as estimated costs related to claims. Reference is made to accounting policies where this is detailed further.

Provisions recognised in relation to specific claims from customers reflect Managements' estimate of the settlement costs. An assessment is made of each individual claim considering the nature of the matter but there is an inherent uncertainty related to this estimation of the provisions and financial statements for subsequent years may be affected by changes if the actual costs to settle the claims are different.

16 Changes in working capital

	2023 DKK'000	2022 DKK'000
Increase/decrease in inventories	395	(11,241)
Increase/decrease in receivables	(71,670)	6,540
Increase/decrease in trade payables etc	34,830	7,238
	(36,445)	**2,537**

17 Unrecognised rental and lease commitments

	2023 DKK'000	2022 DKK'000
Liabilities under rental or lease agreements until maturity in total	9,670	6,031

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 provisions 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 statements.

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

19 Assets charged and collateral

As security for the bank, floating mortgage (receivables charges) has been issued in the amount of DKK 20.000k (DKK 20.000k in 2021). The book value of assets covered by the mortgage amounts to DKK 44.375k (DKK 37.584k in 2021).

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.

21 Transactions with related parties

	Parent DKK'000	Subsidiaries DKK'000	Other related parties DKK'000
Trade - sales	0	7,426	25,162
Trade - purchase	0	36,659	6,350
Service	0	0	12,356
Receivables	164,170	1,655	5,387
Liabilities other than provisions	0	6,296	2,628

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 prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

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

Contribution of existing company

This year there have been contribution of an existing company. The uniting-of-interests method has been applied in drawing up the opening balance sheet in which the uniting of interests is considered completed at the time of formation without restatement of comparative figures (the book value method). When the opening balance sheet is drawn up applying the uniting-of-interests method, the assets and liabilities of the contributed company are recognised at carrying amounts based on the Entity's accounting policies. Any difference between the consideration agreed and the carrying amount of the net assets contributed is recognised in equity.

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.

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).

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 expenses
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.

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

Goodwill

Goodwill is the positive difference between cost of the investment and fair value of the pro rata share of assets and liabilities arising from acquisitions. 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. Useful lives are reassessed annually. The amortisation periods used are 11 years with a residual value of 0.

Goodwill is written down to the lower of recoverable amount and carrying amount.

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 amortisation periods used are 3-5 years and residual value is 0%.

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. Residual value is 0%.

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.

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:

	Useful life
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. 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.

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.

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

Cash
Cash comprises cash in hand and bank deposits.

Dividend
Proposed dividend for the financial year is disclosed as a separate item in equity.

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.

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.

Joint taxation contributions payable or receivable
Current joint taxation contributions receivable or joint taxation contributions payable are recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

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.

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 in-terest-bearing debt, purchase of treasury shares and payment of dividend.

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