



## Union Engineering a/s

Snarelosevej 27  
7000 Fredericia  
CVR No. 13827540

## Annual report 2019

The Annual General Meeting adopted the  
annual report on 21.08.2020

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**Grant O'Grady**

Chairman of the General Meeting

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# Entity details

## Entity

Union Engineering a/s

Snaremoosevej 27

7000 Fredericia

CVR No.: 13827540

Registered office: Fredericia

Financial year: 01.01.2019 - 31.12.2019

## Board of Directors

Grant William O'Grady, formand

Valentina Masi

Michael Bove

## Executive Board

Michael Bove, direktør

## 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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019.

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, 21.08.2020

## Executive Board

**Michael Bove**  
direktør

## Board of Directors

**Grant William O'Grady**  
formand

**Valentina Masi**

**Michael Bove**

# 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 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 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:

- 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 of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Kolding, 21.08.2020

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
CVR No. 33963556

**Ole Søndergaard Larsen**

State Authorised Public Accountant  
Identification No (MNE) mne11676

**Lars Dam Østergaard**

State Authorised Public Accountant  
Identification No (MNE) mne34501

# Management commentary

## Financial highlights

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
<b>Key figures</b>					
Revenue	260,292	202,278	238,865	331,331	349,447
Gross profit/loss	71,767	57,769	60,889	84,745	75,447
Operating profit/loss	6,475	(6,348)	(7,405)	21,507	11,347
Net financials	812	488	(110)	141	(2,068)
Profit/loss for the year	19,357	(17,947)	(1,119)	63,114	21,681
Total assets	219,247	205,183	206,955	272,633	290,191
Investments in property, plant and equipment	1,003	849	258	468	0
Equity	61,582	41,854	61,467	66,305	77,230
Cash flows from (used in) operating activities	(21,222)	5,832	(20,129)	38,724	2,068
Cash flows from (used in) investing activities	20,188	(1,546)	(2,342)	(3,960)	(3,199)
<b>Ratios</b>					
Gross margin (%)	27.57	28.56	25.49	25.58	21.59
EBIT margin (%)	2.49	(3.14)	(3.10)	6.49	3.25
Net margin (%)	7.44	(8.87)	(0.47)	19.05	6.20
Return on equity (%)	37.43	(34.74)	(1.75)	87.94	27.9
Equity ratio (%)	28.09	20.40	29.70	24.32	26.61

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

### Gross margin (%):

$\frac{\text{Gross profit/loss}}{\text{Revenue}} * 100$

Revenue

### EBIT margin (%):

$\frac{\text{Operating profit/loss}}{\text{Revenue}} * 100$

Revenue

### Net margin (%):

$\frac{\text{Profit/loss for the year}}{\text{Revenue}} * 100$

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, projecting, production and installation of customized CO<sub>2</sub>-plants on a global basis.

Focus areas of the Group relate either to technology for CO<sub>2</sub>-recovery from various kinds of sources or technology for CO<sub>2</sub>-application in different connections. The present focus areas of the Group include:

- CO<sub>2</sub>-recovery plants for breweries and distilleries
- CO<sub>2</sub>-production plants for soft drinks industry
- CO<sub>2</sub>-plants for industrial gases industry
- CO<sub>2</sub>-plants for desalination industry
- CO<sub>2</sub>-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 260 m (DKK 202 m). The profit for the year before tax amounted to DKK 20,9 m (DKK -18,3 m), whereas the profit for the year after tax amounted to DKK 19,4 m (DKK -17,9 m). The profit is affected by a gain of DKK 13,6 m from disposal of the subsidiary in USA. The result is in line with expectations and considered satisfactory.

### Outlook

For 2020 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<sub>2</sub>-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<sub>2</sub>-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<sub>2</sub>-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.

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 2019.

**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.

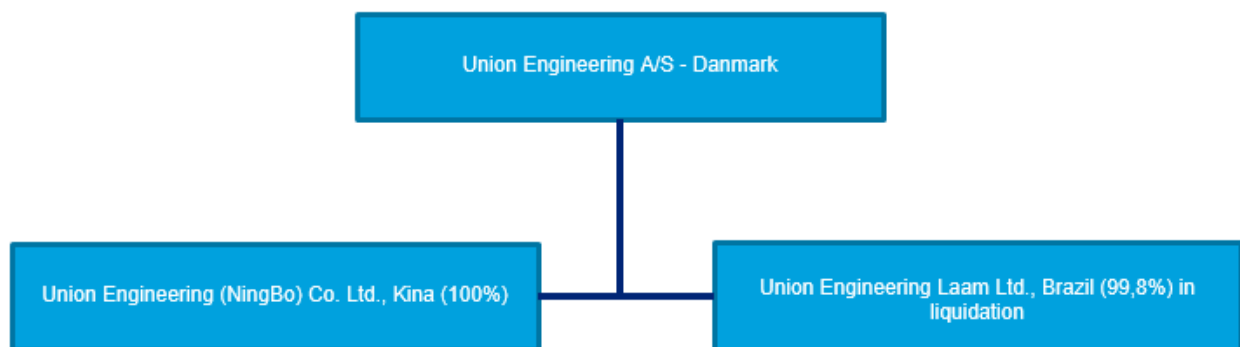
**Intellectual capital resources**

The Group wants to further consolidate its position as the world’s leading supplier of 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 centre 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 optimisation of the CO2-plants has continued during 2019. 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.

**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.

The outbreak of COVID-19 have not affected demand significantly and is not expected to do so for the remaining period in 2020. Consequently the impact is expected to be limited and the business areas in which Union operates are not considered to be sensitive to a large extent to COVID-19.

# Income statement for 2019

	Notes	2019 DKK'000	2018 DKK '000
Revenue		260,292	202,278
Production costs		(188,525)	(144,509)
<b>Gross profit/loss</b>		<b>71,767</b>	<b>57,769</b>
Distribution costs		(19,526)	(20,724)
Administrative expenses		(44,372)	(42,226)
Other operating income		328	348
Other operating expenses		(1,722)	(1,515)
<b>Operating profit/loss</b>		<b>6,475</b>	<b>(6,348)</b>
Income from investments in group enterprises		13,612	(12,394)
Other financial income	4	5,133	29,099
Other financial expenses	5	(4,321)	(28,611)
<b>Profit/loss before tax</b>		<b>20,899</b>	<b>(18,254)</b>
Tax on profit/loss for the year	6	(1,542)	307
<b>Profit/loss for the year</b>	7	<b>19,357</b>	<b>(17,947)</b>

# Balance sheet at 31.12.2019

## Assets

	Notes	2019 DKK'000	2018 DKK'000
Completed development projects	9	969	1,206
Acquired patents		8,924	10,272
<b>Intangible assets</b>	8	<b>9,893</b>	<b>11,478</b>
Plant and machinery		0	0
Other fixtures and fittings, tools and equipment		1,313	1,066
Leasehold improvements		1,399	1,691
<b>Property, plant and equipment</b>	10	<b>2,712</b>	<b>2,757</b>
Investments in group enterprises		32,249	40,277
Deposits		1,996	1,953
<b>Other financial assets</b>	11	<b>34,245</b>	<b>42,230</b>
<b>Fixed assets</b>		<b>46,850</b>	<b>56,465</b>
Manufactured goods and goods for resale		5,798	6,818
Prepayments for goods		6,994	3,187
<b>Inventories</b>		<b>12,792</b>	<b>10,005</b>
Trade receivables		25,857	24,555
Contract work in progress	12	35,253	41,751
Receivables from group enterprises		88,711	63,222
Other receivables		3,284	2,229
Income tax receivable		691	209
Prepayments	13	1,927	1,831
<b>Receivables</b>		<b>155,723</b>	<b>133,797</b>
<b>Cash</b>		<b>3,882</b>	<b>4,916</b>
<b>Current assets</b>		<b>172,397</b>	<b>148,718</b>
<b>Assets</b>		<b>219,247</b>	<b>205,183</b>

**Equity and liabilities**

	<b>Notes</b>	<b>2019 DKK'000</b>	<b>2018 DKK'000</b>
Contributed capital	14	10,000	10,000
Reserve for net revaluation according to the equity method		25,911	0
Reserve for development expenditure		755	941
Retained earnings		24,916	30,913
<b>Equity</b>		<b>61,582</b>	<b>41,854</b>
Deferred tax	15	6,411	4,388
Other provisions	16	5,069	5,384
<b>Provisions</b>		<b>11,480</b>	<b>9,772</b>
Bank loans		268	0
Prepayments received from customers		4,735	5,822
Contract work in progress	12	34,279	18,074
Trade payables		87,144	101,589
Payables to group enterprises		7,329	15,594
Other payables		12,430	12,478
<b>Current liabilities other than provisions</b>		<b>146,185</b>	<b>153,557</b>
<b>Liabilities other than provisions</b>		<b>146,185</b>	<b>153,557</b>
<b>Equity and liabilities</b>		<b>219,247</b>	<b>205,183</b>
Events after the balance sheet date	1		
Staff costs	2		
Amortisation, depreciation and impairment losses	3		
Unrecognised rental and lease commitments	18		
Contingent liabilities	19		
Assets charged and collateral	20		
Related parties with controlling interest	21		
Non-arm's length related party transactions	22		
Group relations	23		

# Statement of changes in equity for 2019

	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	Total DKK'000
Equity beginning of year	10,000	0	941	30,913	41,854
Effect of divestments of entities etc	0	(7,812)	0	7,812	0
Exchange rate adjustments	0	372	0	0	372
Transfer to reserves	0	33,323	(186)	(33,138)	(1)
Profit/loss for the year	0	28	0	19,329	19,357
<b>Equity end of year</b>	<b>10,000</b>	<b>25,911</b>	<b>755</b>	<b>24,916</b>	<b>61,582</b>



# Cash flow statement for 2019

	Notes	2019 DKK'000	2018 DKK'000
Operating profit/loss		6,475	(6,348)
Amortisation, depreciation and impairment losses		2,977	3,983
Other provisions		(315)	(2,054)
Working capital changes	17	(31,172)	9,863
<b>Cash flow from ordinary operating activities</b>		<b>(22,035)</b>	<b>5,444</b>
Financial income received		5,133	29,099
Financial expenses paid		(4,321)	(28,614)
Income taxes refunded/(paid)		1	(97)
<b>Cash flows from operating activities</b>		<b>(21,222)</b>	<b>5,832</b>
Acquisition etc of intangible assets		(776)	(640)
Acquisition etc of property, plant and equipment		(1,005)	(849)
Acquisition of fixed asset investments		(43)	(57)
Disposal of enterprises		22,012	0
<b>Cash flows from investing activities</b>		<b>20,188</b>	<b>(1,546)</b>
<b>Increase/decrease in cash and cash equivalents</b>		<b>(1,034)</b>	<b>4,286</b>
Cash and cash equivalents beginning of year		4,916	630
<b>Cash and cash equivalents end of year</b>		<b>3,882</b>	<b>4,916</b>
Cash and cash equivalents at year-end are composed of:			
Cash		3,882	4,916
<b>Cash and cash equivalents end of year</b>		<b>3,882</b>	<b>4,916</b>

# 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.

The outbreak of COVID-19 have not affected demand significantly and is not expected to do so for the remaining period in 2020. Consequently the impact is expected to be limited and the business areas in which Union operates are not considered to be sensitive to a large extent to COVID-19.

## 2 Staff costs

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Wages and salaries	60,596	59,946
Pension costs	4,121	4,429
Other social security costs	99	165
	<b>64,816</b>	<b>64,540</b>
Average number of full-time employees	<b>82</b>	<b>87</b>

## Special incentive programmes

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

## 3 Depreciation, amortisation and impairment losses

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Amortisation of intangible assets	2,173	2,099
Depreciation of property, plant and equipment	1,048	1,495
Profit/loss from sale of intangible assets and property, plant and equipment	161	389
	<b>3,382</b>	<b>3,983</b>

## 4 Other financial income

	<b>2019</b>	<b>2018</b>
	<b>DKK'000</b>	<b>DKK'000</b>
Exchange rate adjustments	5,130	29,096
Other financial income	3	3
	<b>5,133</b>	<b>29,099</b>

## 5 Other financial expenses

	2019 DKK'000	2018 DKK'000
Financial expenses from group enterprises	124	195
Exchange rate adjustments	4,099	27,839
Other financial expenses	98	577
	<b>4,321</b>	<b>28,611</b>

## 6 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Current tax	(416)	591
Change in deferred tax	2,023	(898)
Adjustment concerning previous years	(65)	0
	<b>1,542</b>	<b>(307)</b>

## 7 Proposed distribution of profit and loss

	2019 DKK'000	2018 DKK'000
Retained earnings	19,357	(17,947)
	<b>19,357</b>	<b>(17,947)</b>

## 8 Intangible assets

	Completed development projects DKK'000	Acquired patents DKK'000
Cost beginning of year	3,966	18,645
Additions	0	745
Disposals	0	(434)
<b>Cost end of year</b>	<b>3,966</b>	<b>18,956</b>
Amortisation and impairment losses beginning of year	(2,760)	(8,373)
Amortisation for the year	(237)	(1,936)
Reversal regarding disposals	0	277
<b>Amortisation and impairment losses end of year</b>	<b>(2,997)</b>	<b>(10,032)</b>
<b>Carrying amount end of year</b>	<b>969</b>	<b>8,924</b>

## 9 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.



## 10 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	557	30,690	4,668
Additions	0	1,003	0
<b>Cost end of year</b>	<b>557</b>	<b>31,693</b>	<b>4,668</b>
Depreciation and impairment losses beginning of year	(557)	(29,624)	(2,977)
Depreciation for the year	0	(756)	(292)
<b>Depreciation and impairment losses end of year</b>	<b>(557)</b>	<b>(30,380)</b>	<b>(3,269)</b>
<b>Carrying amount end of year</b>	<b>0</b>	<b>1,313</b>	<b>1,399</b>

## 11 Financial assets

	Investments in group enterprises DKK'000	Deposits DKK'000
Cost beginning of year	6,954	1,953
Additions	0	43
Disposals	(616)	0
<b>Cost end of year</b>	<b>6,338</b>	<b>1,996</b>
Revaluations beginning of year	33,323	0
Exchange rate adjustments	372	0
Share of profit/loss for the year	28	0
Reversal regarding disposals	(7,812)	0
<b>Revaluations end of year</b>	<b>25,911</b>	<b>0</b>
<b>Carrying amount end of year</b>	<b>32,249</b>	<b>1,996</b>

## 12 Contract work in progress

	2019 DKK'000	2018 DKK'000
Contract work in progress	277,471	201,313
Progress billings regarding contract work in progress	(276,496)	(177,636)
Transferred to liabilities other than provisions	34,279	18,074
	<b>35,254</b>	<b>41,751</b>

## 13 Prepayments

Prepayments primarily comprise prepaid rent and commissions.

## 14 Share capital

	Number	Par value DKK'000	Nominal value DKK'000
Ordinary shares	100,000	0,1	10,000
	<b>100,000</b>		<b>10,000</b>

## 15 Deferred tax

	2019 DKK'000	2018 DKK'000
Intangible assets	2,459	2,611
Property, plant and equipment	(739)	(674)
Receivables	4,691	2,451
<b>Deferred tax</b>	<b>6,411</b>	<b>4,388</b>

Changes during the year	2019 DKK'000
Beginning of year	4,388
Recognised in the income statement	2,023
<b>End of year</b>	<b>6,411</b>

## 16 Other provisions

Other provisions comprise non-recourse guarantee commitments.

## 17 Changes in working capital

	2019 DKK'000	2018 DKK'000
Increase/decrease in inventories	(3,319)	(6)
Increase/decrease in receivables	(23,202)	(7,366)
Increase/decrease in trade payables etc	(4,651)	17,235
	<b>(31,172)</b>	<b>9,863</b>

## 18 Unrecognised rental and lease commitments

	2019 DKK'000	2018 DKK'000
Liabilities under rental or lease agreements until maturity in total	<b>28,798</b>	<b>27,651</b>

## 19 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.

Performance and prepayments guarantees have been provided by third parties with recourse against the Company amounting to DKK 34.139k against DKK 28.234k at 31.12.2018.

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

## 20 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 2018). The book value of assets covered by the mortgage amounts to DKK 25.857k (DKK 24.555k in 2018).

## 21 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), Snaremoesvej 27, 7000 Fredericia.
- Union Engineering Holding II A/S (shareholder), Snaremoesvej 27, 7000 Fredericia.

## 22 Non-arm's length related party transactions

	<b>Parent</b> <b>DKK'000</b>	<b>Subsidiaries</b> <b>DKK'000</b>	<b>Other related</b> <b>parties</b> <b>DKK'000</b>
Trade - sales	0	8,250,868	0
Trade - purchase	0	45,758,000	0
Service	0	11,872,273	0
Receivables	83,031,655	4,673,377	1,006,056
Liabilities other than provisions	0	7,139,129	180,410

## 23 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.

## 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 its 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, sub-suppliers 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:

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.

**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.

**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.

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.