

---

# ***IRD Fuel Cells A/S***

Emil Neckelmanns Vej 15 A, DK-5220 Odense SØ

## **Annual Report for 1 January - 31 December 2018**

---

CVR No 14 68 96 05

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
17/4 2019

Xiao Li  
Chairman of the General  
Meeting



# Contents

	<u>Page</u>
<b>Management's Statement and Auditor's Report</b>	
Management's Statement	1
Independent Auditor's Report	2
<b>Management's Review</b>	
Company Information	5
Financial Highlights	6
Management's Review	7
<b>Financial Statements</b>	
Income Statement 1 January - 31 December	10
Balance Sheet 31 December	11
Statement of Changes in Equity	13
Notes to the Financial Statements	14

# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of IRD Fuel Cells A/S for the financial year 1 January - 31 December 2018.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

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

Odense, 17 April 2019

## Executive Board

Madeleine Odgaard

## Board of Directors

Xiao Li  
Chairman

Qingxi Shi

Chen Cong

# Independent Auditor's Report

To the Shareholder of IRD Fuel Cells A/S

## Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of IRD Fuel Cells A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

## Basis for opinion

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

## Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

## 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 misstate-

# Independent Auditor's Report

ment, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

# Independent Auditor's Report

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.

Aarhus, 17 April 2019

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Thomas Riis

statsautoriseret revisor

mne32174

## Company Information

### **The Company**

IRD Fuel Cells A/S  
Emil Neckelmanns Vej 15 A  
DK-5220 Odense SØ

CVR No: 14 68 96 05  
Financial period: 1 January - 31 December  
Municipality of reg. office: Odense

### **Board of Directors**

Xiao Li, Chairman  
Qingxi Shi  
Chen Cong

### **Executive Board**

Madeleine Odgaard

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Nobelparken  
Jens Chr. Skous Vej 1  
DK-8000 Aarhus C

## Financial Highlights

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

	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Gross profit/loss	-10.328	-8.845	-2.479	-3.253	-3.882
Operating profit/loss	-24.502	-19.879	-11.901	-11.841	-12.000
Net financials	-1.699	-1.714	-1.192	-557	-1.401
Net profit/loss for the year	-22.000	-17.294	-8.500	-8.090	-9.845
<b>Balance sheet</b>					
Balance sheet total	24.026	35.410	32.331	29.269	23.385
Equity	6.331	-2.477	7.958	2.589	10.824
Number of employees	28	25	22	30	29
<b>Ratios</b>					
Return on assets	-82,4%	-58,7%	-38,6%	-45,0%	-54,8%
Solvency ratio	26,4%	-7,0%	24,6%	8,8%	46,3%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.



# Management's Review

## Key activities

IRD Fuel Cells A/S develops, produces and sells tailor-made fuel cell and flow battery components.

The Company is based on core competencies that cover key fuel cell technologies, which are developed in cooperation with international customers, strategic partners and research groups

IRD Fuel Cells A/S is one of the world's leading fuel cell and electrolyser components companies and sells fuel cell, electrolysis and flow battery components worldwide.

The Company delivers components for solutions that address climate challenges in the transport sector, backup systems and balancing of renewable energy systems.

99% of the Company's customers are based outside Denmark, primarily in Europe, North America and Asia.

Its primary activities are located in Odense, and the Company has a subsidiary, IRD Fuel Cells LLC, in Albuquerque in New Mexico, USA.

## Development in activities and finances

The Company's income statement for 2018 shows a loss of TDKK -22.000, and the Company's balance sheet at 31 December 2018 shows a total of TDKK 24.026 and equity of TDKK 6.331. This financial performance is not satisfactory.

The loss is attributable to a significantly lower revenue than expected. The fixed costs have been maintained to ensure efficient operations with increasing revenue. The financial performance is affected by long test procedures and delayed customer orders.

The negative result for the year is primarily due to lower revenue than expected. The lower revenue is among other due to the timing of entering a framework agreement which materialized later than expected during 2018, thus generating very limited revenue in 2018. As a consequence, it is the expectation that revenue will increase in 2019 among other due to this framework agreement. Based on a forward-looking approach towards production levels and production flexibility maintained during 2018, costs have been maintained at a relatively high level compared to the realized revenue.

The company expects investments in production equipment to increase and to make the production capacity more efficient as well as investments in administrative systems in order to make processes more efficient to continue.

In November 2018 the EWII Group sold the IRD Full Cells A/S to FCCT ApS, owned by the Chinese company Wuhan Troowin Power System Technology Co. Ltd., which will support the development of IRD Fuel Cells A/S in terms of investments as well as financially.

# Management's Review

## Uncertainty relating to recognition and measurement

No uncertainties have been identified in relation to recognition and measurement in the annual report.

## Unusual circumstances affecting recognition and measurement

The Company's financial position at 31 December 2018 and the results of its activities and cash flows for the financial year 2018 are not affected by unusual circumstances.

## Outlook

The development in the hydrogen and fuel cells market within the transport sector as well as within energy storage is expected to develop attractively on key markets, including China, North America and Europe, which is why the company focus on continuing the momentum within these areas.

Based on the general market development in the world as well as a number of measures and initiatives taken together with key market players through-out 2018, the company management expects revenue to increase significantly leading to an improved net result.

## Business risks

The Company is dependent on how the market will develop for our customers' end-users. These again are dependent on the political impact on the market for renewable energy worldwide.

## Intellectual capital resources

An important part of focusing on components is servicing our customers, constantly optimising the components they buy for their intended use. Therefore, the Company's employees are typically specialists within the relevant technologies. Production staff are also well-educated and attend long-term in-house training.

## Environmental performance

Reporting on the Company's impact on the external environment and prevention and reduction measures is anchored in the Company. The reporting is made collectively for the entire IRD Group. We therefore refer to the parent's environmental impact report, which comprises IRD Fuel Cells A/S, and which is published in IRD's annual report for 2017.

## Research and development activities

IRD Fuel Cells A/S is deeply involved in research and development to extend useful lives and reduce costs for the next generation of fuel cell components and electrolysers. This work is carried out in cooperation with customers based on the most recent findings from reputable international universities and other research groups.

Our customers have a strong focus on the development of materials that improve performance and

## **Management's Review**

reduce costs. In this connection, several projects on the use and integration of brand-new catalysts with and without precious metals have been completed.

The Company's research and development activities are supported by large amounts from public programmes in Denmark, EU and USA.

### **Events after the balance sheet date**

No events have occurred after the balance sheet date which could have a material influence on the Company's financial position.

### **Development in the year**

The income statement of the Company for 2018 shows a loss of TDKK 22,000, and at 31 December 2018 the balance sheet of the Company shows equity of TDKK 6,331.

## Income Statement 1 January - 31 December

	Note	2018 TDKK	2017 TDKK
<b>Gross profit/loss</b>		<b>-10.328</b>	<b>-8.845</b>
Distribution expenses	2	-5.502	-3.923
Administrative expenses	2	-8.672	-7.111
<b>Operating profit/loss</b>		<b>-24.502</b>	<b>-19.879</b>
<b>Profit/loss before financial income and expenses</b>		<b>-24.502</b>	<b>-19.879</b>
Income from investments in subsidiaries		-1.384	-1.917
Financial income	3	1.055	434
Financial expenses	4	-1.370	-231
<b>Profit/loss before tax</b>		<b>-26.201</b>	<b>-21.593</b>
Tax on profit/loss for the year	5	4.201	4.299
<b>Net profit/loss for the year</b>		<b>-22.000</b>	<b>-17.294</b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings		-22.000	-17.294
		<b>-22.000</b>	<b>-17.294</b>

# Balance Sheet 31 December

## Assets

	Note	2018 TDKK	2017 TDKK
Acquired patents		246	374
<b>Intangible assets</b>	6	<b>246</b>	<b>374</b>
Plant and machinery		6.664	4.615
Other fixtures and fittings, tools and equipment		44	66
Leasehold improvements		3.194	4.259
Property, plant and equipment in progress		454	497
<b>Property, plant and equipment</b>	7	<b>10.356</b>	<b>9.437</b>
Investments in subsidiaries	8	0	1.603
Deposits	9	856	660
<b>Fixed asset investments</b>		<b>856</b>	<b>2.263</b>
<b>Fixed assets</b>		<b>11.458</b>	<b>12.074</b>
Raw materials and consumables		5.600	7.186
Finished goods and goods for resale		1.266	1.563
<b>Inventories</b>		<b>6.866</b>	<b>8.749</b>
Trade receivables		1.329	4.732
Receivables from group enterprises		198	124
Other receivables		2.195	2.653
Deferred tax asset		0	3.553
Corporation tax receivable from group enterprises		0	3.453
Prepayments		568	71
<b>Receivables</b>		<b>4.290</b>	<b>14.586</b>
<b>Cash at bank and in hand</b>		<b>1.412</b>	<b>1</b>
<b>Currents assets</b>		<b>12.568</b>	<b>23.336</b>
<b>Assets</b>		<b>24.026</b>	<b>35.410</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2018 TDKK	2017 TDKK
Share capital		2.000	2.000
Retained earnings		4.331	-4.477
<b>Equity</b>	10	<b>6.331</b>	<b>-2.477</b>
Provision for deferred tax		1	0
Provisions relating to investments in group enterprises		198	0
<b>Provisions</b>		<b>199</b>	<b>0</b>
Credit institutions		0	10
Prepayments received from customers		8.402	5.936
Trade payables		2.546	1.532
Payables to group enterprises		3.569	28.620
Other payables		2.979	1.789
<b>Short-term debt</b>		<b>17.496</b>	<b>37.887</b>
<b>Debt</b>		<b>17.496</b>	<b>37.887</b>
<b>Liabilities and equity</b>		<b>24.026</b>	<b>35.410</b>
Subsequent events	1		
Contingent assets, liabilities and other financial obligations	11		
Related parties	12		
Accounting Policies	13		

## Statement of Changes in Equity

	Share capital TDKK	Retained earnings TDKK	Total TDKK
<b>2018</b>			
Equity at 1 January	2.000	-4.477	-2.477
Net effect of correction of material misstatements	0	-2.930	-2.930
Adjusted equity at 1 January	2.000	-7.407	-5.407
Exchange adjustments	0	-243	-243
Contribution from group	0	33.981	33.981
Net profit/loss for the year	0	-22.000	-22.000
<b>Equity at 31 December</b>	<b>2.000</b>	<b>4.331</b>	<b>6.331</b>
<b>2017</b>			
Equity 1. januar	2.000	12.817	14.817
Net profit/loss for the year	0	-17.294	-17.294
<b>Equity at 31 December</b>	<b>2.000</b>	<b>-4.477</b>	<b>-2.477</b>

# Notes to the Financial Statements

## 1 Subsequent events

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

	<u>2018</u> TDKK	<u>2017</u> TDKK
<b>2 Staff</b>		
Wages and Salaries	15.146	12.345
Pensions	742	331
Other social security expenses	208	133
Other staff expenses	181	0
	<u>16.277</u>	<u>12.809</u>
<b>Average number of employees</b>	<u>28</u>	<u>25</u>
<b>3 Financial income</b>		
Interest received from group enterprises	40	92
Exchange gains	1.015	342
	<u>1.055</u>	<u>434</u>
<b>4 Financial expenses</b>		
Interest paid to group enterprises	229	174
Other financial expenses	29	34
Exchange loss	1.112	23
	<u>1.370</u>	<u>231</u>
<b>5 Tax on profit/loss for the year</b>		
Current tax for the year	-4.201	-3.453
Deferred tax for the year	0	-846
	<u>-4.201</u>	<u>-4.299</u>



## Notes to the Financial Statements

### 6 Intangible assets

	Acquired pa- tents TDKK
Cost at 1 January	609
Cost at 31 December	609
Impairment losses and amortisation at 1 January	235
Amortisation for the year	128
Impairment losses and amortisation at 31 December	363
<b>Carrying amount at 31 December</b>	<b>246</b>

### 7 Property, plant and equipment

	Plant and machinery TDKK	Other fixtures and fittings, tools and equipment TDKK	Leasehold improvements TDKK	Property, plant and equipment in progress TDKK
Cost at 1 January	16.803	369	6.389	497
Additions for the year	3.069	0	0	0
Disposals for the year	0	0	0	-43
Cost at 31 December	19.872	369	6.389	454
Impairment losses and depreciation at 1 January	12.188	303	2.130	0
Depreciation for the year	1.020	22	1.065	0
Impairment losses and depreciation at 31 December	13.208	325	3.195	0
<b>Carrying amount at 31 December</b>	<b>6.664</b>	<b>44</b>	<b>3.194</b>	<b>454</b>

## Notes to the Financial Statements

	2018 TDKK	2017 TDKK
<b>8 Investments in subsidiaries</b>		
Cost at 1 January	17.993	11.785
Additions for the year	<u>0</u>	<u>6.208</u>
Cost at 31 December	<u>17.993</u>	<u>17.993</u>
Value adjustments at 1 January	-16.390	-11.785
Exchange adjustment	-417	518
Net profit/loss for the year	-1.384	-1.592
Other adjustments	<u>0</u>	<u>-3.531</u>
Value adjustments at 31 December	<u>-18.191</u>	<u>-16.390</u>
Equity investments with negative net asset value transferred to provisions	<u>198</u>	<u>0</u>
<b>Carrying amount at 31 December</b>	<b><u>0</u></b>	<b><u>1.603</u></b>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
EWII Fuel Cells, LLC	New Mexico, USA	100%

### 9 Other fixed asset investments

	Deposits TDKK
Cost at 1 January	660
Additions for the year	<u>196</u>
Cost at 31 December	<u>856</u>
Impairment losses at 1 January	<u>0</u>
Impairment losses at 31 December	<u>0</u>
<b>Carrying amount at 31 December</b>	<b><u>856</u></b>

# Notes to the Financial Statements

## 10 Equity

The share capital consists of 2,000 shares of a nominal value of DKK 1. No shares carry any special rights.

## 11 Contingent assets, liabilities and other financial obligations

### Contingent assets

The company has a tax asset of TDKK 5.116 which is not capitalized.

### Contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

## 12 Related parties

	<b>Basis</b>
FCCT ApS	parent company

# Notes to the Financial Statements

## 13 Accounting Policies

The Annual Report of IRD Fuel Cells A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in TDKK.

### Consolidated financial statements

With reference to section 110 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

### Recognition and measurement

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

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

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

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

### Translation policies

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

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

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

## Income Statement

### Revenue

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

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

### Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

### Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue and cost of sales.

### Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

### Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

### Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Financial income and expenses

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

### Tax on profit/loss for the year

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

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Balance Sheet

#### Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 3-5 years.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

#### Property, plant and equipment

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

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

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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

Plant and machinery	5-8 years
Other fixtures and fittings, tools and equipment	3-8 years
Leasehold improvements	6 years

Depreciation period and residual value are reassessed annually.

#### Impairment of fixed assets

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

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

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Investments in subsidiaries

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

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

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

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

### Other fixed asset investments

Other fixed asset investments consist of rent deposits.

### Inventories

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

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

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

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

### Receivables

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



# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

### Deferred tax assets and liabilities

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

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

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

### Current tax receivables and liabilities

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

### Financial debts

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

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

# Notes to the Financial Statements

## 13 Accounting Policies (continued)

### Financial Highlights

#### Explanation of financial ratios

Return on assets

$$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$$

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$