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# *Nordic Air Filtration A/S*

Bergenevej 1, DK-4900 Nakskov

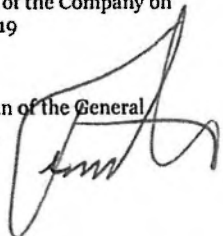
## Annual Report for 1 January - 31 December 2018

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CVR No 15 11 08 99

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
8 /5 2019

Chairman of the General  
Meeting



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## Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Nordic Air Filtration 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 and cash flows for 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

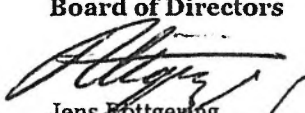
Nakskov, 8 May 2019

**Executive Board**

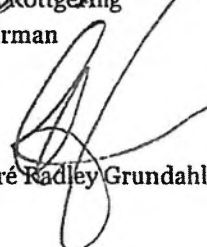


Frank Lykke Petersen

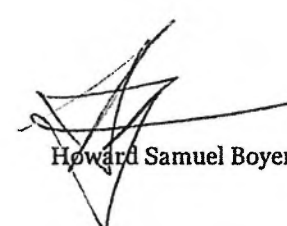
**Board of Directors**



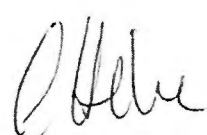
Jens Röttgering  
Chairman



André Radley Grundahl



Howard Samuel Boyer



Christopher Heinrich Helmut  
Heine

# Independent Auditor's Report

To the Shareholder of Nordic Air Filtration 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 and cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Nordic Air Filtration A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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.

# Independent Auditor's Report

## **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 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

## Independent Auditor's Report

Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

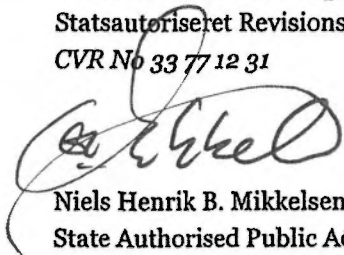
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 8 May 2019

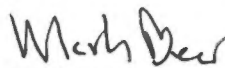
**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31



Niels Henrik B. Mikkelsen  
State Authorised Public Accountant  
mne16675



Mark Philip Beer  
State Authorised Public Accountant  
mne29472

## **Company Information**

### **The Company**

Nordic Air Filtration A/S

Bergenevej 1

DK-4900 Nakskov

Telephone: + 45 5495 1390

Website: [www.norcic-air-filtration.com](http://www.norcic-air-filtration.com)

CVR No: 15 11 08 99

Financial period: 1 January - 31 December

Municipality of reg. office: Lolland

### **Board of Directors**

Jens Röttgering, Chairman

Howard Samuel Boyer

Christopher Heinrich Helmut Heine

André Radley Grundahl

### **Executive Board**

Frank Lykke Petersen

### **Auditors**

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

Strandvejen 44

DK-2900 Hellerup

## 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	2015/16 TDKK	2014/15 TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Gross profit/loss	53.507	48.110	43.204	44.227	40.991
Operating profit/loss	6.782	-1.889	2.883	7.886	5.045
Net financials	628	-1.807	-56	-645	-481
Net profit/loss for the year	5.812	-2.908	2.155	5.540	3.576
<b>Balance sheet</b>					
Equity	32.830	26.943	29.749	27.530	21.910
Balance sheet total	95.954	93.100	82.382	69.710	61.580
<b>Cash flows</b>					
Cash flows from:					
- operating activities	1.219	12.599	7.677	2.932	6.688
- investing activities	-1.597	-2.661	-2.740	-906	-5.863
including investment in property, plant and equipment	-748	-1.999	-2.214	-935	-6.107
- financing activities	-18	-5.071	-4.152	-4.672	-2.675
Change in cash and cash equivalents for the year	-395	4.866	785	-2.646	-1.850
Number of employees	98	100	91	78	77
<b>Ratios</b>					
Solvency ratio	34,2%	28,9%	36,1%	39,5%	35,6%
Return on equity	19,4%	-10,3%	7,5%	22,4%	15,9%

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**

### **The Company's principal activities**

The main activities of the Company are manufacturing and sale of filter cartridges for industrial use in static- and pulse dust collectors and filter elements for use in the Gas Turbine Industry.

The products are mainly sold on the export markets.

### **Development in the year**

The income statement of the Company for 2018 shows a profit of DKK 5,811,872, and at 31 December 2018 the balance sheet of the Company shows equity of DKK 32,830,425.

Year 2018 has been the year where we have seen the good results from our invested time in creating sustainable growth in China, the Middle East and the USA.

The order intake during 2018 has been very satisfying, and the ramping up in Nakskov has been done accordingly, and contributed to the improved profitability of the company.

While localizing production and sales in Asia, the Middle East and in the USA, we have been able to grow new markets, and also new industries, within our own geographical market.

The result of the year 2018 is satisfactory.

### **Financing and expected development**

We expect year 2019 to be at the same level as 2018, in terms of activity and profitability.

### **Price risks**

The price level of the Company's raw material is fluctuating and therefore presents a risk as price increase only to a limited extent can be included in the prices of finished products.

### **Currency exposure**

Because a significant part of the goods are exported and the main part of raw materials are imported, the result, cash flow and equity are effected by the changes in interest rates and exchange rates for a number of currencies. The Company does not make use of instruments to hedge the exchange rate risks.

Foreign exchange adjustments of DKK 478k is recognized as an income in the profit and loss account in year 2018.

### **Interest rate exposure**

Moderate changes in the level of interest will have no considerable direct effect on earnings. Interest rate swap is established in relation to mortgage debt.

## **Management's Review**

### **Environmental and safety conditions**

Through investments, and production planning, the Company has obtained all necessary environmental authorizations. The Company is constantly aiming at investments and working routines, that improves the safety of the working conditions.

### **Research and development activities**

Development activities are carried out successively. Development activities primarily comprise the development of new products and production methods and comprise external expenses.

### **Consolidation**

Nordic Air Filtration A/S is a 100 % owned subsidiary of Hengst SE.

### **Subsequent events**

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

## Income Statement 1 January - 31 December

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
<b>Gross profit/loss</b>		<b>53.506.622</b>	<b>48.110.037</b>
Staff expenses	1	-43.925.822	-47.034.025
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	<u>-2.798.481</u>	<u>-2.964.895</u>
<b>Profit/loss before financial income and expenses</b>		<b>6.782.319</b>	<b>-1.888.883</b>
Financial income	3	1.234.539	769.211
Financial expenses	4	<u>-606.488</u>	<u>-2.575.858</u>
<b>Profit/loss before tax</b>		<b>7.410.370</b>	<b>-3.695.530</b>
Tax on profit/loss for the year	5	<u>-1.598.498</u>	<u>787.508</u>
<b>Net profit/loss for the year</b>		<b><u>5.811.872</u></b>	<b><u>-2.908.022</u></b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings	<u>5.811.872</u>	<u>-2.908.022</u>
	<b><u>5.811.872</u></b>	<b><u>-2.908.022</u></b>

## Balance Sheet 31 December

### Assets

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
Software		2.030.154	1.520.775
<b>Intangible assets</b>	<b>6</b>	<b><u>2.030.154</u></b>	<b><u>1.520.775</u></b>
Land and buildings		13.756.895	14.518.237
Plant and machinery		6.760.833	7.768.000
Other fixtures and fittings, tools and equipment		220.590	387.269
Property, plant and equipment in progress		223.851	0
<b>Property, plant and equipment</b>	<b>7</b>	<b><u>20.962.169</u></b>	<b><u>22.673.506</u></b>
<b>Fixed assets</b>		<b><u>22.992.323</u></b>	<b><u>24.194.281</u></b>
<b>Inventories</b>	<b>8</b>	<b><u>18.934.608</u></b>	<b><u>21.452.128</u></b>
Trade receivables		22.630.580	16.108.792
Receivables from group enterprises		23.850.248	22.821.629
Other receivables		1.719.946	1.630.481
Deferred income		389.625	352.204
<b>Receivables</b>		<b><u>48.590.399</u></b>	<b><u>40.913.106</u></b>
<b>Cash at bank and in hand</b>		<b><u>5.436.511</u></b>	<b><u>6.540.049</u></b>
<b>Currents assets</b>		<b><u>72.961.518</u></b>	<b><u>68.905.283</u></b>
<b>Assets</b>		<b><u>95.953.841</u></b>	<b><u>93.099.564</u></b>

## Balance Sheet 31 December

### Liabilities and equity

	Note	2018 DKK	2017 DKK
Share capital		500.000	500.000
Retained earnings		<u>32.330.425</u>	<u>26.442.555</u>
<b>Equity</b>		<b><u>32.830.425</u></b>	<b><u>26.942.555</u></b>
Provision for deferred tax		2.142.666	1.145.104
Other provisions	9	<u>1.873.293</u>	<u>1.537.750</u>
<b>Provisions</b>		<b><u>4.015.959</u></b>	<b><u>2.682.854</u></b>
Mortgage debt		4.770.472	5.149.055
Lease commitments		<u>1.018.401</u>	<u>1.955.079</u>
<b>Long-term debt</b>	10	<b><u>5.788.873</u></b>	<b><u>7.104.134</u></b>
Short-term part of long-term liabilities other than provision	10	395.000	395.000
Credit institutions		2.089.193	3.259.543
Lease obligations	10	930.000	900.000
Prepayments received from customers		270.964	286.802
Trade payables		8.923.176	13.252.197
Payables to group enterprises		32.982.642	31.350.644
Tax payables		622.336	0
Other payables		<u>7.105.273</u>	<u>6.925.835</u>
<b>Short-term debt</b>		<b><u>53.318.584</u></b>	<b><u>56.370.021</u></b>
<b>Liabilities other than provisions within the business</b>		<b><u>59.107.457</u></b>	<b><u>63.474.155</u></b>
<b>Liabilities and equity</b>		<b><u>95.953.841</u></b>	<b><u>93.099.564</u></b>
Contingent liabilities	13		
Related parties	14		
Accounting Policies	15		

## Statement of Changes in Equity

	<u>Share capital</u>	<u>Retained</u>	<u>Total</u>
	DKK	earnings	DKK
	DKK	DKK	DKK
Equity at 1 January	500.000	26.442.555	26.942.555
Fair value adjustment of hedging instruments, beginning of year	0	461.938	461.938
Fair value adjustment of hedging instruments, end of year	0	-364.542	-364.542
Tax on adjustment of hedging instruments for the year	0	-21.398	-21.398
Net profit/loss for the year	0	5.811.872	5.811.872
<b>Equity at 31 December</b>	<b>500.000</b>	<b>32.330.425</b>	<b>32.830.425</b>

## Cash Flow Statement 1 January - 31 December

	Note	2018 DKK	2017 DKK
Net profit/loss for the year		5.811.872	-2.908.022
Adjustments	11	3.768.928	3.984.034
Change in working capital	12	-8.989.653	13.609.784
<b>Cash flows from operating activities before financial income and expenses</b>		<b>591.147</b>	<b>14.685.796</b>
Financial income		1.234.539	769.211
Financial expenses		-606.488	-2.559.442
<b>Cash flows from ordinary activities</b>		<b>1.219.198</b>	<b>12.895.565</b>
Corporation tax paid		0	-297.057
<b>Cash flows from operating activities</b>		<b>1.219.198</b>	<b>12.598.508</b>
Purchase of intangible assets		-898.392	-661.380
Purchase of property, plant and equipment		-748.130	-1.999.396
Sale of property, plant and equipment		50.000	0
<b>Cash flows from investing activities</b>		<b>-1.596.522</b>	<b>-2.660.776</b>
Repayment of mortgage loans		-378.583	-425.335
Repayment of loans from credit institutions		-364.539	-3.436.566
Reduction of lease obligations		-906.678	-1.209.410
Raising of loans from group enterprises		1.631.998	0
<b>Cash flows from financing activities</b>		<b>-17.802</b>	<b>-5.071.311</b>
<b>Change in cash and cash equivalents</b>		<b>-395.126</b>	<b>4.866.421</b>
Cash and cash equivalents at 1 January		3.742.444	-1.123.977
<b>Cash and cash equivalents at 31 December</b>		<b>3.347.318</b>	<b>3.742.444</b>
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		5.436.511	6.540.049
Overdraft facility		-2.089.193	-2.797.605
<b>Cash and cash equivalents at 31 December</b>		<b>3.347.318</b>	<b>3.742.444</b>

## Notes to the Financial Statements

	<u>2018</u>	<u>2017</u>
	DKK	DKK
<b>1 Staff expenses</b>		
Wages and salaries	39.059.230	40.276.041
Pensions	3.040.115	2.993.397
Other social security expenses	615.372	1.029.414
Other staff expenses	1.211.105	2.735.173
	<u>43.925.822</u>	<u>47.034.025</u>
Average number of employees	<u>99</u>	<u>100</u>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
<b>2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment</b>		
Amortisation of intangible assets	389.013	198.715
Depreciation of property, plant and equipment	2.459.468	2.768.380
Gain and loss on disposal	-50.000	-2.200
	<u>2.798.481</u>	<u>2.964.895</u>
<b>3 Financial income</b>		
Interest received from group enterprises	752.939	718.367
Other financial income	3.128	50.844
Exchange adjustments	478.472	0
	<u>1.234.539</u>	<u>769.211</u>
	<u>2018</u>	<u>2017</u>
	DKK	DKK
<b>4 Financial expenses</b>		
Interest paid to group enterprises	248.583	272.014
Other financial expenses	357.905	488.787
Exchange loss	0	1.815.057
	<u>606.488</u>	<u>2.575.858</u>



## Notes to the Financial Statements

### 5 Tax on profit/loss for the year

Current tax	600.936	0
Deferred tax for the year	997.562	-787.508
	<u>1.598.498</u>	<u>-787.508</u>

### 6 Intangible assets

	<u>Software</u> DKK
Cost at 1 January	4.568.955
Additions for the year	<u>898.392</u>
Cost at 31 December	<u>5.467.347</u>
Impairment losses and amortisation at 1 January	3.048.180
Amortisation for the year	<u>389.013</u>
Impairment losses and amortisation at 31 December	<u>3.437.193</u>
Carrying amount at 31 December	<u>2.030.154</u>

## Notes to the Financial Statements

### 7 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	DKK	DKK	DKK	DKK
Cost at 1 January	22.823.217	23.065.541	2.269.664	0
Additions for the year	76.000	448.279	0	223.851
Disposals for the year	0	-119.141	-190.000	0
Cost at 31 December	<u>22.899.217</u>	<u>23.394.679</u>	<u>2.079.664</u>	<u>223.851</u>
Impairment losses and depreciation at 1 January	8.304.980	15.297.540	1.882.395	0
Depreciation for the year	837.342	1.455.447	166.679	0
Reversal of impairment and depreciation of sold assets	0	-119.141	-190.000	0
Impairment losses and depreciation at 31 December	<u>9.142.322</u>	<u>16.633.846</u>	<u>1.859.074</u>	<u>0</u>
Carrying amount at 31 December	<u>13.756.895</u>	<u>6.760.833</u>	<u>220.590</u>	<u>223.851</u>
Including assets under finance leases amounting to	<u>0</u>	<u>3.654.840</u>	<u>0</u>	<u>0</u>

### 8 Inventories

	2018 DKK	2017 DKK
Raw materials and consumables	14.585.236	16.154.608
Finished goods and goods for resale	4.002.402	4.808.545
Prepayments for goods	346.970	488.975
	<u>18.934.608</u>	<u>21.452.128</u>

### 9 Other provisions

Warranty provision for goods	1.873.293	1.537.750
	<u>1.873.293</u>	<u>1.537.750</u>

## Notes to the Financial Statements

### 10 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	<u>2018</u> DKK	<u>2017</u> DKK
<b>Mortgage debt</b>		
After 5 years	0	3.615.000
Between 1 and 5 years	<u>4.770.472</u>	<u>1.534.055</u>
Long-term part	4.770.472	5.149.055
Within 1 year	<u>395.000</u>	<u>395.000</u>
	<u>5.165.472</u>	<u>5.544.055</u>
<b>Lease commitments</b>		
After 5 years	0	0
Between 1 and 5 years	<u>1.018.401</u>	<u>1.955.079</u>
Long-term part	1.018.401	1.955.079
Within 1 year	<u>930.000</u>	<u>900.000</u>
	<u>1.948.401</u>	<u>2.855.079</u>

Leasing commitments (financial leasing) consist of production machinery. Final payments of purchaseoption is included in the debt.

### 11 Cash flow statement - adjustments

Financial income	-1.234.539	-769.211
Financial expenses	606.488	2.575.858
Depreciation, amortisation and impairment losses, including losses and gains on sales	2.798.481	2.964.895
Tax on profit/loss for the year	<u>1.598.498</u>	<u>-787.508</u>
	<u>3.768.928</u>	<u>3.984.034</u>

## Notes to the Financial Statements

	<u>2018</u>	<u>2017</u>
	DKK	DKK
<b>12 Cash flow statement - change in working capital</b>		
Change in inventories	2.517.520	3.918.139
Change in receivables	-7.677.293	-8.882.897
Change in other provisions	335.543	-598.661
Change in trade payables, etc	-4.165.423	19.173.203
	<u>-8.989.653</u>	<u>13.609.784</u>

### 13 Contingent liabilities

#### Charges and security

The following assets have been placed as security with mortgage credit institutes:

Land and buildings, carrying amount	13.756.895	13.966.521
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Debt to credit institutions is secured by way a businessmortgage of DKK 8.850k.

The mortgaged assets include trade receivable, inventory and intangible fixed assets.

#### Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	449.580	214.833
Between 1 and 5 years	910.120	429.700
	<u>1.359.700</u>	<u>644.533</u>

# Notes to the Financial Statements

## 14 Related parties

### Consolidated Financial Statements

Nordic Air Filtration A/S is included in the consolidated financial statement of:

<u>Name</u>	<u>Place of registered office</u>
Hengst Holding SE & Co. KG	Münster, Germany

# Notes to the Financial Statements

## 15 Accounting Policies

The Annual Report of Nordic Air Filtration A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in DKK.

### 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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

### Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in

## Notes to the Financial Statements

### 15 Accounting Policies (continued)

the income statement on a straight-line basis over the lease term.

#### 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.

#### Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

#### Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

# Notes to the Financial Statements

## 15 Accounting Policies (continued)

### 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.

#### Raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

#### Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

#### Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

#### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

#### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

#### Financial income and expenses

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



## Notes to the Financial Statements

### 15 Accounting Policies (continued)

#### 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.

## Balance Sheet

#### Intangible assets

Intangible assets, including software etc., are measured at cost less accumulated amortisation and impairment losses. Software is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

#### 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.

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:

Properties	5-30 years
Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	2-10 years
Leasehold improvements	3-10 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

## 15 Accounting Policies (continued)

### **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 finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

### **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.

### **Deferred income**

Deferred income comprise prepaid expenses concerning rent, insurance premiums and interest.

### **Equity**

#### ***Dividend***

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

### **Provisions**

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations. Provisions are measured and recognised based on experience with guarantee work.

### **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.

## Notes to the Financial Statements

### 15 Accounting Policies (continued)

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.

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

#### Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

## Cash Flow Statement

The cash flow statement shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

#### Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

#### Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

# Notes to the Financial Statements

## 15 Accounting Policies (continued)

### Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand as well as short-term securities with a term of less than three months which can be converted directly into cash at bank and in hand and involve only an insignificant risk of value changes.

## Financial Highlights

### Explanation of financial ratios

Solvency ratio

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

Return on equity

$$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$$