
Nordic Air Filtration A/S

Bergenevej 1, DK-4900 Nakskov

Annual Report for 1 January - 31 December 2019

CVR No 15 11 08 99

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
30/4 2020

Frank Lykke Petersen
Chairman of the General
Meeting



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 January - 31 December	9
Balance Sheet 31 December	10
Statement of Changes in Equity	12
Cash Flow Statement 1 January - 31 December	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 Nordic Air Filtration A/S for the financial year 1 January - 31 December 2019.

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 2019 of the Company and of the results of the Company operations and cash flows for 2019.

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, 30 April 2020

Executive Board

Frank Lykke Petersen

Board of Directors

Jens Röttgering
Chairman

Howard Samuel Boyer

Christopher Heinrich Helmut
Heine

André Radley Grundahl

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 2019 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2019 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 2019, 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 Financial 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.

Hellerup, 30 April 2020

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.nordic-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:

	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK	2015/16 TDKK
Key figures					
Profit/loss					
Gross profit/loss	44.753	53.507	48.110	43.204	44.227
Operating profit/loss	-647	6.782	-1.889	2.883	7.886
Net financials	-190	628	-1.807	-56	-645
Net profit/loss for the year	-672	5.812	-2.908	2.155	5.540
Balance sheet					
Equity	32.243	32.830	26.943	29.749	27.530
Balance sheet total	67.246	95.954	93.100	82.382	69.710
Cash flows					
Cash flows from:					
- operating activities	10.648	1.219	12.599	7.677	2.932
- investing activities	-3.756	-1.597	-2.661	-2.740	-906
including investment in property, plant and equipment	-3.134	-748	-1.999	-2.214	-935
- financing activities	-1.076	-18	-5.071	-4.152	-4.672
Change in cash and cash equivalents for the year	5.816	-395	4.867	785	-2.646
Number of employees	93	99	100	91	78
Ratios					
Solvency ratio	47,9%	34,2%	28,9%	36,1%	39,5%
Return on equity	-2,1%	19,4%	-10,3%	7,5%	22,4%

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 2019 shows a loss of DKK 671,583, and at 31 December 2019 the balance sheet of the Company shows equity of DKK 32,243,170.

Year 2019 has been under the influence of a general decline in industrial activities in Europe, where the Company has its main market. This has led to a decline in order intake, subsequently a decline in turnover and profit.

Furthermore, the Company was, during year 2019, faced with a claim, which have had a major impact on the result of year 2019. The claim is settled in 2020.

The result of the year 2019 is unsatisfactory.

Financing and expected development

The Company's outlook for the future will be negatively affected by the Covid-19 outbreak. It is, however, too early yet to give an opinion as to the extent of the negative implications on the Company's outlook.

Before the Covid-19 outbreak, the Company expected the result before tax for 2020 to improve by DKK 4 – 6 mill compared to 2019.

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 103k is recognized as an income in the profit and loss account in year 2019.

Management's Review

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.

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

The implications of COVID-19 with many governments across the world deciding to "closedown their countries" will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), and therefore will not have any effect on the Financial Statements for 2019 (a non-adjusting event).

In order to mitigate the impacts of the COVID-19 outbreak, the Company has temporarily shut down part of the production. The employees concerned have been sent home with pay, and the Company will apply for compensation under the Government's economic stimulus packages.

The changed operation will have a negative impact on the Company's revenue as well as net profit for 2020. At this time, it is not possible to provide a reliable estimate of the impact. Management assesses that the financial resources available are adequate to continue the planned activities in 2020.

Income Statement 1 January - 31 December

	Note	2019 DKK	2018 DKK
Gross profit/loss		44.753.013	53.506.622
Staff expenses	2	-42.579.825	-43.925.822
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-2.820.592	-2.798.481
Profit/loss before financial income and expenses		-647.404	6.782.319
Financial income	4	322.472	1.234.539
Financial expenses	5	-512.233	-606.488
Profit/loss before tax		-837.165	7.410.370
Tax on profit/loss for the year	6	165.582	-1.598.498
Net profit/loss for the year		-671.583	5.811.872

Distribution of profit

Proposed distribution of profit

Retained earnings		-671.583	5.811.872
		-671.583	5.811.872

Balance Sheet 31 December

Assets

	Note	2019 DKK	2018 DKK
Software		2.170.393	2.030.154
Intangible assets	7	2.170.393	2.030.154
Land and buildings		12.920.795	13.756.895
Plant and machinery		5.592.703	6.760.833
Other fixtures and fittings, tools and equipment		113.548	220.590
Property, plant and equipment in progress		3.130.067	223.851
Property, plant and equipment	8	21.757.113	20.962.169
Fixed assets		23.927.506	22.992.323
Inventories	9	19.893.011	18.934.608
Trade receivables		12.258.735	22.630.580
Receivables from group enterprises		874.008	23.850.248
Other receivables		683.387	1.719.946
Corporation tax		253.000	0
Prepayments		193.500	389.625
Receivables		14.262.630	48.590.399
Cash at bank and in hand		9.163.250	5.436.511
Currents assets		43.318.891	72.961.518
Assets		67.246.397	95.953.841

Balance Sheet 31 December

Liabilities and equity

	Note	2019 DKK	2018 DKK
Share capital		500.000	500.000
Retained earnings		31.743.170	32.330.425
Equity		32.243.170	32.830.425
Provision for deferred tax		2.000.884	2.142.666
Other provisions	10	1.352.625	1.873.293
Provisions		3.353.509	4.015.959
Mortgage debt		4.390.940	4.770.472
Lease commitments		0	1.018.401
Other payables		1.380.944	0
Long-term debt	11	5.771.884	5.788.873
Short-term part of long-term liabilities other than provision	11	395.000	395.000
Credit institutions		297.003	2.089.193
Lease obligations	11	954.783	930.000
Prepayments received from customers		309.954	270.964
Trade payables		7.536.850	8.923.176
Payables to group enterprises		7.773.939	32.982.642
Tax payables		0	622.336
Other payables		8.610.305	7.105.273
Short-term debt		25.877.834	53.318.584
Debt		31.649.718	59.107.457
Liabilities and equity		67.246.397	95.953.841
Subsequent events	1		
Contingent liabilities	14		
Related parties	15		
Accounting Policies	16		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 January	500.000	32.330.425	32.830.425
Fair value adjustment of hedging instruments, beginning of year	0	364.542	364.542
Fair value adjustment of hedging instruments, end of year	0	-256.429	-256.429
Tax on adjustment of hedging instruments for the year	0	-23.785	-23.785
Net profit/loss for the year	0	-671.583	-671.583
Equity at 31 December	500.000	31.743.170	32.243.170

Cash Flow Statement 1 January - 31 December

	Note	2019 DKK	2018 DKK
Net profit/loss for the year		-671.583	5.811.872
Adjustments	12	2.844.770	3.768.928
Change in working capital	13	9.539.748	-8.989.654
Cash flows from operating activities before financial income and expenses		11.712.935	591.146
Financial income		322.471	1.234.539
Financial expenses		-512.231	-606.488
Cash flows from ordinary activities		11.523.175	1.219.197
Corporation tax paid		-875.321	0
Cash flows from operating activities		10.647.854	1.219.197
Purchase of intangible assets		-621.746	-898.392
Purchase of property, plant and equipment		-3.134.029	-748.130
Sale of property, plant and equipment		0	50.000
Cash flows from investing activities		-3.755.775	-1.596.522
Repayment of mortgage loans		-373.532	-378.583
Raising of loans from credit institutions		297.003	-364.538
Reduction of lease obligations		-999.618	-906.678
Raising of loans from group enterprises		0	1.631.998
Cash flows from financing activities		-1.076.147	-17.801
Change in cash and cash equivalents		5.815.932	-395.126
Cash and cash equivalents at 1 January		3.347.318	3.742.444
Cash and cash equivalents at 31 December		9.163.250	3.347.318
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		9.163.250	5.436.511
Overdraft facility		0	-2.089.193
Cash and cash equivalents at 31 December		9.163.250	3.347.318

Notes to the Financial Statements

1 Subsequent events

The implications of COVID-19 with many governments across the world deciding to "closedown their countries" will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), and therefore will not have any effect on the Financial Statements for 2019 (a non-adjusting event).

In order to mitigate the impacts of the COVID-19 outbreak, the Company has temporarily shut down part of the production. The employees concerned have been sent home with pay, and the Company will apply for compensation under the Government's economic stimulus packages.

The changed operation will have a negative impact on the Company's revenue as well as net profit for 2020. At this time, it is not possible to provide a reliable estimate of the impact. Management assesses that the financial resources available are adequate to continue the planned activities in 2020.

	<u>2019</u> DKK	<u>2018</u> DKK
2 Staff expenses		
Wages and salaries	38.439.206	39.059.230
Pensions	2.294.850	3.040.115
Other social security expenses	1.128.772	615.372
Other staff expenses	716.997	1.211.105
	<u>42.579.825</u>	<u>43.925.822</u>
Average number of employees	<u>93</u>	<u>99</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Amortisation of intangible assets	481.508	389.013
Depreciation of property, plant and equipment	2.339.084	2.459.468
Gain and loss on disposal	0	-50.000
	<u>2.820.592</u>	<u>2.798.481</u>

Notes to the Financial Statements

4 Financial income

Interest received from group enterprises	218.536	752.939
Other financial income	598	3.128
Exchange adjustments	103.338	478.472
	322.472	1.234.539

5 Financial expenses

Interest paid to group enterprises	182.144	248.583
Other financial expenses	330.089	357.905
	512.233	606.488

6 Tax on profit/loss for the year

	2019	2018
	DKK	DKK
Current tax	-23.800	600.936
Deferred tax for the year	-141.782	997.562
	-165.582	1.598.498

7 Intangible assets

	Software
	DKK
Cost at 1 January	5.467.347
Additions for the year	621.747
Cost at 31 December	6.089.094
Impairment losses and amortisation at 1 January	3.437.193
Amortisation for the year	481.508
Impairment losses and amortisation at 31 December	3.918.701
Carrying amount at 31 December	2.170.393

Notes to the Financial Statements

8 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	22.899.217	23.394.679	2.079.663	223.851
Additions for the year	<u>0</u>	<u>227.813</u>	<u>0</u>	<u>2.906.216</u>
Cost at 31 December	<u>22.899.217</u>	<u>23.622.492</u>	<u>2.079.663</u>	<u>3.130.067</u>
Impairment losses and depreciation at 1 January	9.142.322	16.633.846	1.859.074	0
Depreciation for the year	<u>836.100</u>	<u>1.395.943</u>	<u>107.041</u>	<u>0</u>
Impairment losses and depreciation at 31 December	<u>9.978.422</u>	<u>18.029.789</u>	<u>1.966.115</u>	<u>0</u>
Carrying amount at 31 December	<u>12.920.795</u>	<u>5.592.703</u>	<u>113.548</u>	<u>3.130.067</u>
Including assets under finance leases amounting to	<u>0</u>	<u>3.064.321</u>	<u>0</u>	<u>0</u>

9 Inventories

	2019 DKK	2018 DKK
Raw materials and consumables	17.070.145	14.585.236
Finished goods and goods for resale	2.699.622	4.002.402
Prepayments for goods	<u>123.244</u>	<u>346.970</u>
	<u>19.893.011</u>	<u>18.934.608</u>

10 Other provisions

Warranty provision for goods	<u>1.352.625</u>	<u>1.873.293</u>
	<u>1.352.625</u>	<u>1.873.293</u>

Notes to the Financial Statements

11 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>2019</u> DKK	<u>2018</u> DKK
Mortgage debt		
Between 1 and 5 years	4.390.940	4.770.472
Long-term part	4.390.940	4.770.472
Within 1 year	395.000	395.000
	4.785.940	5.165.472
Other payables		
After 5 years	0	0
Between 1 and 5 years	1.380.944	0
Long-term part	1.380.944	0
Within 1 year	0	0
	1.380.944	0
Lease commitments		
After 5 years	0	0
Between 1 and 5 years	0	1.018.401
Long-term part	0	1.018.401
Within 1 year	954.783	930.000
	954.783	1.948.401

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

12 Cash flow statement - adjustments

Financial income	-322.472	-1.234.539
Financial expenses	512.233	606.488
Depreciation, amortisation and impairment losses, including losses and gains on sales	2.820.591	2.798.481
Tax on profit/loss for the year	-165.582	1.598.498
	2.844.770	3.768.928

Notes to the Financial Statements

	2019	2018
	DKK	DKK
13 Cash flow statement - change in working capital		
Change in inventories	-958.403	2.517.520
Change in receivables	9.372.066	-7.677.294
Change in other provisions	-520.668	335.543
Change in trade payables, etc	1.538.640	-4.165.423
Fair value adjustments of hedging instruments	108.113	0
	9.539.748	-8.989.654

14 Contingent liabilities

Charges and security

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

Land and buildings, carrying amount	12.920.795	13.756.895
-------------------------------------	------------	------------

Debt to credit institutions is secured by way a business mortgage of DKK 8,850k.

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

Debt to credit institutions is further secured by way of owners mortgage in land and buildings of DKK 5,200k

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	441.300	449.580
Between 1 and 5 years	646.800	910.120
	1.088.100	1.359.700

Notes to the Financial Statements

15 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

16 Accounting Policies

The Annual Report of Nordic Air Filtration A/S for 2019 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 2019 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

16 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

16 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, gross profit/loss is calculated as a summary of revenue, expenses for raw materials and consumables and other external expenses.

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

16 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

16 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.

Prepayments

Prepayments 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 in respect of repair work within the warranty period of . 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

16 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.

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.

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.

Notes to the Financial Statements

16 Accounting Policies (continued)

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

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