
Cotes A/S

Bjørnholms Allé 20,1, DK-8260 Viby J

Annual Report for 2023

CVR No. 15 20 03 32

The Annual Report was
presented and adopted
at the Annual General
Meeting of the
company
on 26/4 2024

Michael Tobias
Frøstrup
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	4
Financial Highlights	5
Management's Review	6
Financial Statements	
Income Statement 1 January - 31 December	8
Balance sheet 31 December	9
Statement of changes in equity	11
Notes to the Financial Statements	12

Management's statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Cotes A/S for the financial year 1 January - 31 December 2023.

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 2023 of the Company and of the results of the Company operations for 2023.

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.

Viby J, 26 April 2024

Executive Board

Martin Brøchner-Mortensen
CEO

Board of Directors

Flemming Poulfelt
Chairman

Michael Ærø Olsen

Axel Manøe Jepsen

Christina Aabo

Independent Auditor's report

To the shareholders of Cotes 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 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Cotes A/S for the financial year 1 January - 31 December 2023, 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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.

Independent Auditor's report

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 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 C, 26 April 2024

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Mads Meldgaard

State Authorised Public Accountant

mne24826

Company information

The Company	Cotes A/S Bjørnholms Allé 20,1 DK-8260 Viby J CVR No: 15 20 03 32 Financial period: 1 January - 31 December Incorporated: 1 June 1991 Financial year: 32th financial year Municipality of reg. office: Aarhus C
Board of Directors	Flemming Poulfelt, chairman Michael Ærø Olsen Axel Manøe Jepsen Christina Aabo
Executive Board	Martin Brøchner-Mortensen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Jens Chr. Skous Vej 1 DK-8000 Aarhus C
Bankers	Danske Bank Torvet 6 4100 Ringsted

Financial Highlights

Seen over a 5-year period, the development of the Company is described by the following financial highlights:

	2023	2022	2021	2020	2019
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Profit/loss of primary operations	9,306	1,927	8,043	10,045	2,965
Net profit/loss for the year	5,953	2,820	6,819	7,730	1,905
Balance sheet					
Balance sheet total	115,114	73,036	50,674	49,922	30,902
Investment in property, plant and equipment	1,099	95	347	760	357
Equity	25,686	19,733	19,229	14,332	7,894
Number of employees	37	33	33	36	39
Ratios					
Return on assets	8.1%	2.6%	15.9%	20.1%	9.6%
Solvency ratio	22.3%	27.0%	37.9%	28.7%	25.5%
Return on equity	26.2%	14.5%	40.6%	69.6%	16.7%

Management's review

Key activities

Cotes develops, manufactures, and sells adsorption dehumidifiers and has the experience and industry know-how to deliver the right dry-air solution in a responsible manner. Cotes is focused on to make a positive and sustainable impact in the world by producing and selling adsorption dehumidifiers to the Wind Energy Industry and Battery Manufacturing Industry. In addition, Cotes sells dry-air solutions to other industry applications through its global network of trusted partners.

The Cotes story is about dedicated and talented people, with passion on a mission to build the most sustainable and best adsorption dehumidifiers on the market with the mindset of supplying “The right way to dry”.

Development in the year

The income statement of the Company for 2023 shows a profit of DKK 5,953,478, and at 31 December 2023 the balance sheet of the Company shows a positive equity of DKK 25,686,009.

2023 has been a year of growth for Cotes both on existing market and new markets. The development in 2023 is considered by the Management as satisfactory.

In 2023 the Company continued to grow its market within the wind energy industry and improve its position as leading provider of adsorption dehumidifiers to the wind energy industry. The company did not just grow its existing market in 2023 but managed to get a foothold in the battery manufacturing market by increasing revenues and securing orders for 2024. The company's ability to grow in both industries is a testament to a highly skilled and motivated organisation and a scheduled growth plan executed during 2023 with investments in production and warehouse facility and sourcing.

The customer's interest and the company's growth in the battery manufacturing industry in 2023 has resulted in the company's decision to provide services to the industry which was not provided earlier however it is a development in line with customer's demand.

In 2023 the company started investigating the potential of introducing an adsorption dehumidifier within damage service after flooding. Further testing and investigation will take place in 2024 before the company potentially can introduce a new dehumidifying solution for this industry.

In 2023 initiatives towards Science-Based Targeting initiatives (SBTi) took place in order to transition the company towards a greener business model and implementation of sustainable practices. To secure further development towards setting SBTi commitments and prepare to report on ESG the company hired a HSE and Sustainability Manager in 2023. With this hire the company is developing in-house capabilities which was previously supported by SustainX.

The past year and follow-up on development expectations from last year

The company met targets and expectations from last year.

Last year Cotes initiated the journey to become more sustainable and more responsible through SBTi and succeeded the first step on the journey by CO2 baselining the targets for Scope 1 and 2. Due to several changes in the business Cotes needs to reset the CO2 baseline which will happen in 2024.

Targets and expectations for the year ahead

Cotes continues to embark on the journey to become more sustainable and more responsible in the way we conduct business and deliver quality adsorption dehumidifiers to clients around the world. Our ambitions for the future begin with initiatives and projects that accelerate Cotes' sustainability journey towards Science-Based Targeting initiatives (SBTi) and with a dedicated focus on scope 1-3.

In 2024, a profit before tax of between DKK 6 - 10 million is expected.

Management's review

Research and development

In 2023 the company continued to improve its product program, both in terms of current products and new products. Allocation of resources for product improvements is of high importance to the company, as it ensures to maintain the high quality level of the dehumidifiers and helps to meet any demand for changes coming from the customers.

Branches abroad

Cotes has one abroad branch located in Szczecin, Poland. The branch produces as well as stores and delivers goods in and out of country.

Uncertainty relating to recognition and measurement

There has been no uncertainty regarding recognition and measurement in the Annual Report.

Unusual events

The uncertainty of secure infrastructure within the wind energy industry and delay on large OEMs deployment of new turbine developments are subject for our continued growth and stability within production capacity. Besides uncertainty in the wind energy industry, supply chain challenges due to international conflicts are still factors that are subject for our products cost prices and long lead time. This is the most significant uncertainty to the operating profit of 2024.

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

	Note	2023	2022
		DKK	DKK
Gross profit		45,415,046	31,955,906
Staff expenses	1	-35,233,744	-29,675,918
Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment	2	-875,430	-353,270
Profit/loss before financial income and expenses		9,305,872	1,926,718
Income from investments in subsidiaries		-28,463	-144,316
Income from investments in associates		387,765	894,505
Financial income	3	888,511	1,160,565
Financial expenses	4	-2,609,316	-505,327
Profit/loss before tax		7,944,369	3,332,145
Tax on profit/loss for the year	5	-1,990,891	-512,420
Net profit/loss for the year	6	5,953,478	2,819,725

Balance sheet 31 December

Assets

	Note	2023	2022
		DKK	DKK
Completed development projects		1,326,856	1,754,008
Acquired other similar rights		2,706,024	2,420,995
Development projects in progress		2,273,401	879,417
Intangible assets	7	6,306,281	5,054,420
Other fixtures and fittings, tools and equipment		134,421	742,369
Leasehold improvements		1,011,285	35,881
Property, plant and equipment	8	1,145,706	778,250
Investments in subsidiaries	9	4,139,908	4,066,755
Investments in associates	10	1,189,373	1,001,232
Other receivables	11	692,827	894,703
Fixed asset investments		6,022,108	5,962,690
Fixed assets		13,474,095	11,795,360
Raw materials and consumables		27,075,119	19,787,641
Finished goods and goods for resale		7,948,171	3,901,800
Inventories		35,023,290	23,689,441
Trade receivables		43,902,391	21,071,665
Contract work in progress		1,533,185	4,288,462
Receivables from group enterprises		2,165,057	2,377,547
Receivables from associates		4,163,534	1,087,135
Other receivables		4,104,566	4,287,527
Prepayments	12	147,000	484,250
Receivables		56,015,733	33,596,586
Cash at bank and in hand		10,600,548	3,954,132
Current assets		101,639,571	61,240,159
Assets		115,113,666	73,035,519

Balance sheet 31 December

Liabilities and equity

	Note	2023	2022
		DKK	DKK
Share capital		1,180,555	1,325,000
Reserve for net revaluation under the equity method		2,541,745	2,570,208
Reserve for development costs		2,808,200	1,417,639
Retained earnings		19,155,509	14,419,684
Equity		25,686,009	19,732,531
Provision for deferred tax	13	1,298,379	895,750
Provisions		1,298,379	895,750
Credit institutions		2,504,662	3,827,893
Other payables		2,423,916	2,268,251
Long-term debt	14	4,928,578	6,096,144
Credit institutions	14	39,572,212	12,293,082
Prepayments received from customers		15,495,174	11,772,119
Trade payables		13,608,505	10,414,714
Payables to group enterprises		3,742,223	2,054,163
Corporation tax		1,612,758	1,926,430
Other payables	14	9,169,828	7,850,586
Short-term debt		83,200,700	46,311,094
Debt		88,129,278	52,407,238
Liabilities and equity		115,113,666	73,035,519
Contingent assets, liabilities and other financial obligations	15		
Related parties	16		
Subsequent events	17		
Accounting Policies	18		

Statement of changes in equity

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	1,325,000	2,570,208	1,417,639	14,419,684	19,732,531
Capital reduction	-144,445	0	0	144,445	0
Revaluation for the year	0	-28,463	0	0	-28,463
Development costs for the year	0	0	1,390,561	-1,390,561	0
Net profit/loss for the year	0	0	0	5,981,941	5,981,941
Equity at 31 December	1,180,555	2,541,745	2,808,200	19,155,509	25,686,009

Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
	DKK	DKK
1. Staff Expenses		
Wages and salaries	31,632,386	26,624,794
Pensions	1,927,375	1,649,111
Other social security expenses	224,466	368,700
Other staff expenses	1,449,517	1,033,313
	<u>35,233,744</u>	<u>29,675,918</u>
Including remuneration to the Executive Board and Board of Directors	<u>1,929,122</u>	<u>1,740,914</u>
Average number of employees	<u>37</u>	<u>33</u>
	<u>2023</u>	<u>2022</u>
	DKK	DKK
2. Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment		
Amortisation of intangible assets	642,753	18,221
Depreciation of property, plant and equipment	232,677	335,049
	<u>875,430</u>	<u>353,270</u>
	<u>2023</u>	<u>2022</u>
	DKK	DKK
3. Financial income		
Interest received from group enterprises	68,963	17,091
Other financial income	30,050	40,988
Exchange gains	789,498	1,102,486
	<u>888,511</u>	<u>1,160,565</u>

Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
	DKK	DKK
4. Financial expenses		
Interest paid to group enterprises	222,049	0
Other financial expenses	<u>2,387,267</u>	<u>505,327</u>
	<u>2,609,316</u>	<u>505,327</u>
	<u>2023</u>	<u>2022</u>
	DKK	DKK
5. Income tax expense		
Current tax for the year	1,588,262	0
Deferred tax for the year	402,629	512,428
Adjustment of deferred tax concerning previous years	0	-8
	<u>1,990,891</u>	<u>512,420</u>
	<u>2023</u>	<u>2022</u>
	DKK	DKK
6. Profit allocation		
Reserve for net revaluation under the equity method	-28,463	-144,316
Retained earnings	<u>5,981,941</u>	<u>2,964,041</u>
	<u>5,953,478</u>	<u>2,819,725</u>

Notes to the Financial Statements

7. Intangible fixed assets

	Completed development projects	Acquired other similar rights	Develop- ment projects in progress
	DKK	DKK	DKK
Cost at 1 January	9,019,145	2,549,337	879,417
Additions for the year	0	521,662	1,393,984
Transfers for the year	0	-21,032	0
Cost at 31 December	9,019,145	3,049,967	2,273,401
Impairment losses and depreciation at 1 January	7,265,137	128,342	0
Depreciation for the year	427,152	215,601	0
Impairment losses and depreciation at 31 December	7,692,289	343,943	0
Carrying amount at 31 December	1,326,856	2,706,024	2,273,401

Development projects relate to the development of new versions of the Company's existing products. The projects are expected to be completed in 2024. The projects are progressing according to plan using the resources allocated by Management to the development. The products are expected to be sold in the present market to the Company's existing customers. Prior to the initiation of the projects, the Company inquired of its customers as to the need for an updated program, which was well received.

8. Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	DKK	DKK
Cost at 1 January	1,428,650	1,521,023
Additions for the year	0	1,099,321
Disposals for the year	0	-852,579
Transfers for the year	-1,080,548	1,062,147
Cost at 31 December	348,102	2,829,912
Impairment losses and depreciation at 1 January	686,281	1,485,142
Depreciation for the year	75,739	156,938
Reversal of impairment and depreciation of sold assets	0	-353,391
Transfers for the year	-548,339	529,938
Impairment losses and depreciation at 31 December	213,681	1,818,627
Carrying amount at 31 December	134,421	1,011,285
Amortised over	3-5 years	3-5 years

Notes to the Financial Statements

	2023	2022
	DKK	DKK
9. Investments in subsidiaries		
Cost at 1 January	1,496,547	1,456,547
Additions for the year	101,616	40,000
Cost at 31 December	<u>1,598,163</u>	<u>1,496,547</u>
Value adjustments at 1 January	2,570,208	2,714,524
Net profit/loss for the year	-28,463	-144,316
Value adjustments at 31 December	<u>2,541,745</u>	<u>2,570,208</u>
Carrying amount at 31 December	<u>4,139,908</u>	<u>4,066,755</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Ownership
Cotes Polska z.o.o	Poland	PLN 280,000	100%
Cotes Dehumidification Shanghai co., ltd.	Shanghai	RMD 1.000,000	100%
Fugtkontrol ApS	Slagelse	DKK 40.000	100%
Cotes US Inc.	United States of America	USD 15.000	100%

	2023	2022
	DKK	DKK
10. Investments in associates		
Cost at 1 January	1,990,863	1,990,863
Cost at 31 December	<u>1,990,863</u>	<u>1,990,863</u>
Value adjustments at 1 January	-989,631	-1,399,261
Net profit/loss for the year	188,141	409,630
Value adjustments at 31 December	<u>-801,490</u>	<u>-989,631</u>
Carrying amount at 31 December	<u>1,189,373</u>	<u>1,001,232</u>

Notes to the Financial Statements

11. Other fixed asset investments

	Other receivables
	DKK
Cost at 1 January	444,327
Additions for the year	248,500
Cost at 31 December	<u>692,827</u>
Carrying amount at 31 December	<u>692,827</u>

12. Prepayments

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

	2023	2022
	DKK	DKK
13. Provision for deferred tax		
Intangible assets	1,387,382	1,111,973
Property, plant and equipment	28,071	11,579
Amortization	-9,069	-13,736
Tax loss carry-forward	0	-214,066
Inventories	-108,005	0
Deferred tax liabilities at 31 December	<u>1,298,379</u>	<u>895,750</u>

Deferred tax has been provided at 22% corresponding to the expected current tax rate.

Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
	DKK	DKK
14. 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:		
Credit institutions		
After 5 years	0	0
Between 1 and 5 years	2,504,662	3,827,893
Long-term part	2,504,662	3,827,893
Within 1 year	39,291,272	12,132,888
Other short-term debt to credit institutions	280,940	160,194
	<u>42,076,874</u>	<u>16,120,975</u>
Other payables		
After 5 years	0	0
Between 1 and 5 years	2,423,916	2,268,251
Long-term part	2,423,916	2,268,251
Other short-term payables	9,169,828	7,850,586
	<u>11,593,744</u>	<u>10,118,837</u>
	<u>2023</u>	<u>2022</u>
	DKK	DKK
15. Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with bankers:		
Floating charge, DKK 24,000k, in intangible rights, inventories, trade receivables and property, plant and equipments with a carrying amount of:	86,377,668	50,593,776

Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
	DKK	DKK
15. Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	945,933	550,980
Between 1 and 5 years	811,875	0
	<u>1,757,808</u>	<u>550,980</u>
Lease obligations, period of non-terminability 1-33 months	789,229	757,211
Guarantee obligations		
The company has provided guarantees to customers of	720,117	0

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of SRO Cotes ApS, which is the management company of the joint taxation purposes. 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.

Notes to the Financial Statements

16. Related parties and disclosure of consolidated financial statements

	<u>Basis</u>
Controlling interest	
Thomas Rønnow (Spain)	Significant Shareholder
SRO Cotes ApS (Denmark)	Parent Company
Cotes Polska z.o.o (Poland)	Subsidiary Company
Cotes Dehumidification Shanghai co., Ltd. (Shanghai)	Subsidiary Company
Fugtkontrol ApS (Denmark)	Subsidiary Company
Cotes US Inc. (USA)	Subsidiary Company
Other related parties	
TRO Holding (Denmark)	Shareholder
F-tech AS (Norway)	Associated Company

Transactions

There have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company:

<u>Name</u>	<u>Place of registered office</u>
SRO Cotes ApS (Denmark)	Bjørnholms Allé 20, 1. 8260 Viby J

The Group Annual Report of SRO Cotes ApS (Denmark) may be obtained at the following address:
cvr.dk

17. Subsequent events

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

Notes to the Financial Statements

18. Accounting policies

The Annual Report of Cotes A/S for 2023 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2023 are presented in DKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements for 2023 of SRO Cotes ApS, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of SRO Cotes ApS, the Company has not prepared a cash flow statement.

Recognition and measurement

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.

Leases

All leases are considered operating leases. Payments made under operating leases are recognised in 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. Gains and losses 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.

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.

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.

Notes to the Financial Statements

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

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

Expenses for 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 indirect production costs and expenses for premises, sales 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, work on own account recognised in assets, other operating income, expenses for raw materials and consumables, production wages and other external expenses.

Staff expenses

Staff costs include wages and salaries including compensated absence and pensions as well as other social security contributions etc. made to the entity's employees.

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries and associates

The items "Income from investments in subsidiaries" and "Income from investments in associates" in the income statement include the proportionate share of the profit for the year.

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 SRO Cotes ApS. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

Balance sheet

Intangible fixed assets

Development projects

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item 'Reserve for development costs'. The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 2-5 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:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	3-5 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 32,000 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment and investments 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.

Investments in subsidiaries and associates

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

Notes to the Financial Statements

Other fixed asset investments

Other fixed asset investments consist of 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 and costs of completion. 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 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.

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

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

Equity

Dividend

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

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

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 liabilities

Loans, such as 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.

Financial Highlights

Explanation of financial ratios

Return on assets	$\text{Profit/loss of ordinary primary operations} \times 100 / \text{Total assets at year end}$
Solvency ratio	$\text{Equity at year end} \times 100 / \text{Total assets at year end}$
Return on equity	$\text{Net profit for the year} \times 100 / \text{Average equity}$