
Cotes A/S

Mariane Thomsens Gade, 2F, 11. 2, DK-8000 Aarhus
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Annual Report for 1 January - 31 December 2021

CVR No 15 20 03 32

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
02/05 2022

Martin Brøchner-
Mortensen
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 Cotes A/S for the financial year 1 January - 31 December 2021.

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 2021 of the Company and of the results of the Company operations for 2021.

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.

Aarhus C, 2 May 2022

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 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 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 2021, 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.

Independent Auditor's Report

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

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

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material 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.

Independent Auditor's Report

- 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, 2 May 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Mads Meldgaard

statsautoriseret revisor

mne24826

Company Information

The Company

Cotes A/S
Mariane Thomsens Gade, 2F, 11. 2
DK-8000 Aarhus C

CVR No: 15 20 03 32
Financial period: 1 January - 31 December
Municipality of reg. office: Aarhus

Board of Directors

Flemming Poulfelt, Chairman
Michael Ærø Olsen
Axel Manøe Jepsen
Christina Aabo

Executive Board

Martin Brøchner-Mortensen

Auditors

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

Bankers

Danske Bank
Torvet 6
4100 Ringsted

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 having positive and sustainable impacts in the world by producing and selling adsorption dehumidifiers to the Wind Energy Industry and Li-ion battery manufacturing. In addition, Cotes sells dry-air solutions to other industry applications through its global network of trusted partners.

The essence of the Cotes story is about family, talent, and dedication to building the best adsorption dehumidifiers on the market.

Development in the year

The income statement of the Company for 2021 shows a profit of DKK 6,014,435, and at 31 December 2021 the balance sheet of the Company shows equity of DKK 16,514,851.

The result is despite the circumstances regarding Covid-19, considered as satisfactory.

In 2021 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 our customers. In 2021 the Company also established a new market segment in the product portfolio, Cotes Exergic Technology, and has experienced an Increased demand of this ultradry-air solution for lithium-ion battery dry rooms.

Targets and expectations for the year ahead

Cotes has embarked on a 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.

Science-Based Targeting initiatives (SBTi) help us accelerate the transition towards an even greener business model and implement sustainable practices. Cotes has partnered up with SustainX and the Momentum Network to support and strengthen our focus and success with our sustainability journey.

Unusual events

All our products are subject to increasing prices of materials and longer lead times, which is the most significant uncertainty to the operating profit of 2022.

Management's Review

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	2021 DKK	2020 DKK
Gross profit/loss		32,956,300	36,008,548
Staff expenses	1	-24,292,409	-25,007,671
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-611,163	-955,801
Other operating expenses		-10,003	0
Profit/loss before financial income and expenses		8,042,725	10,045,076
Income from investments in subsidiaries	3	493,800	0
Income from investments in associates	4	-833,798	186,488
Financial income		720,837	69,398
Financial expenses		-577,031	-392,243
Profit/loss before tax		7,846,533	9,908,719
Tax on profit/loss for the year	5	-1,832,098	-2,178,895
Net profit/loss for the year		6,014,435	7,729,824

Distribution of profit

Proposed distribution of profit

Extraordinary dividend paid	0	50,000
Proposed dividend for the year	2,600,000	4,300,000
Retained earnings	3,414,435	3,379,824
	6,014,435	7,729,824

Balance Sheet 31 December

Assets

	Note	2021 DKK	2020 DKK
Completed development projects		0	122,745
Acquired other similar rights		355,205	42,570
Development projects in progress		1,458,745	1,123,936
Intangible assets	6	1,813,950	1,289,251
Other fixtures and fittings, tools and equipment		875,129	954,165
Leasehold improvements		83,718	126,750
Property, plant and equipment	7	958,847	1,080,915
Investments in subsidiaries	8	1,456,547	1,456,547
Investments in associates	9	591,602	1,538,200
Other receivables		926,146	990,469
Fixed asset investments		2,974,295	3,985,216
Fixed assets		5,747,092	6,355,382
Raw materials and consumables		13,844,508	7,851,976
Finished goods and goods for resale		2,541,230	4,164,293
Inventories		16,385,738	12,016,269
Trade receivables		9,887,426	11,954,308
Contract work in progress		265,632	20,351
Receivables from group enterprises		4,051,274	10,667,201
Receivables from associates		1,227,215	3,562,894
Other receivables		4,309,398	4,070,008
Prepayments		494,983	687,623
Receivables		20,235,928	30,962,385
Cash at bank and in hand		5,590,313	588,300
Currents assets		42,211,979	43,566,954
Assets		47,959,071	49,922,336

Balance Sheet 31 December

Liabilities and equity

	Note	2021 DKK	2020 DKK
Share capital	10	1,325,000	1,325,000
Reserve for development costs		501,388	316,602
Retained earnings		12,088,463	8,390,120
Proposed dividend for the year		2,600,000	4,300,000
Equity		16,514,851	14,331,722
Provision for deferred tax		383,322	422,954
Provisions		383,322	422,954
Credit institutions		3,832,684	5,518,367
Corporation tax		3,141,709	0
Other payables		2,269,151	2,352,129
Long-term debt	11	9,243,544	7,870,496
Credit institutions	11	1,456,889	7,183,340
Prepayments received from customers		0	14,153
Trade payables		9,593,699	4,955,522
Payables to group enterprises		910,103	1,645,646
Payables to associates		119,108	788,317
Corporation tax	11	5,108,577	2,300,804
Other payables	11	4,628,978	5,991,877
Deferred income		0	4,417,505
Short-term debt		21,817,354	27,297,164
Debt		31,060,898	35,167,660
Liabilities and equity		47,959,071	49,922,336
Contingent assets, liabilities and other financial obligations	12		
Accounting Policies	13		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	1,325,000	316,602	8,390,120	4,300,000	14,331,722
Ordinary dividend paid	0	0	0	-3,831,306	-3,831,306
Ordinary dividend on treasury shares	0	0	468,694	-468,694	0
Transfers, reserves	0	184,786	-184,786	0	0
Net profit/loss for the year	0	0	3,414,435	2,600,000	6,014,435
Equity at 31 December	1,325,000	501,388	12,088,463	2,600,000	16,514,851

Notes to the Financial Statements

	2021 DKK	2020 DKK
1 Staff expenses		
Wages and salaries	21,109,323	22,400,786
Pensions	1,560,525	1,634,295
Other social security expenses	388,947	470,450
Other staff expenses	1,233,614	502,140
	24,292,409	25,007,671
Average number of employees	33	36
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	147,093	412,241
Depreciation of property, plant and equipment	440,900	543,560
Impairment of property, plant and equipment	23,046	0
Gain and loss on disposal	124	0
	611,163	955,801
3 Income from investments in subsidiaries		
Dividend	493,800	0
	493,800	0
4 Income from investments in associates		
Available	-946,598	-152,663
Dividend	112,800	339,151
	-833,798	186,488

Notes to the Financial Statements

	2021 DKK	2020 DKK
5 Tax on profit/loss for the year		
Current tax for the year	1,871,738	2,300,804
Deferred tax for the year	-35,408	-121,890
Adjustment of deferred tax concerning previous years	-4,232	-19
	1,832,098	2,178,895

6 Intangible assets

	Completed development projects DKK	Acquired other similar rights DKK	Development projects in progress DKK
Cost at 1 January	3,384,023	128,342	2,389,670
Additions for the year	0	336,983	334,809
Cost at 31 December	3,384,023	465,325	2,724,479
Impairment losses and amortisation at 1 January	3,261,278	85,772	1,265,734
Amortisation for the year	122,745	24,348	0
Impairment losses and amortisation at 31 December	3,384,023	110,120	1,265,734
Carrying amount at 31 December	0	355,205	1,458,745

Development projects relate to the development of new versions of the Company's existing products. The projects are expected to be completed in 2022-23. 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.

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK	Leasehold improvements DKK
Cost at 1 January	3,172,197	1,579,731
Additions for the year	222,893	124,109
Disposals for the year	-21,959	0
Cost at 31 December	3,373,131	1,703,840
Impairment losses and depreciation at 1 January	2,218,032	1,452,981
Impairment losses for the year	23,046	0
Depreciation for the year	273,759	167,141
Impairment and depreciation of sold assets for the year	-16,835	0
Impairment losses and depreciation at 31 December	2,498,002	1,620,122
Carrying amount at 31 December	875,129	83,718

8 Investments in subsidiaries

	2021 DKK	2020 DKK
Cost at 1 January	1,456,547	515,183
Additions for the year	0	941,364
Carrying amount at 31 December	1,456,547	1,456,547

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Cotes Polska z.o.o.	Polen/Poland	PLN 280,000	100%	1,109,743	161,221
Cotes Dehumidification Shanghai co. ltd.	Shanghai	RMD 1,000,000	100%	2,384,083	542,561

Notes to the Financial Statements

	2021 DKK	2020 DKK
9 Investments in associates		
Cost at 1 January	1,990,863	1,990,863
Cost at 31 December	1,990,863	1,990,863
Value adjustments at 1 January	-452,663	-300,000
Revaluations for the year, net	-946,598	-152,663
Value adjustments at 31 December	-1,399,261	-452,663
Carrying amount at 31 December	591,602	1,538,200

10 Share capital

The share capital is broken down as follow:

	Number	Nominal value DKK
A-shares	500,000	500,000
B-shares	500,000	500,000
C-shares	325,000	325,000
		1,325,000

There have been no changes in the share capital during the last 5 years.

The Company holds a total of 144,445 shares with a nominal value of DKK 144,445 corresponding to 10.9% of the total capital.

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:

	2021 DKK	2020 DKK
Credit institutions		
Between 1 and 5 years	3,832,684	5,518,367
Long-term part	3,832,684	5,518,367
Within 1 year	1,322,719	1,287,020
Other short-term debt to credit institutions	134,170	5,896,320
Short-term part	1,456,889	7,183,340
	5,289,573	12,701,707
Corporation tax		
Between 1 and 5 years	3,141,709	0
Long-term part	3,141,709	0
Within 1 year	5,108,577	2,300,804
	8,250,286	2,300,804
Other payables		
Between 1 and 5 years	2,269,151	2,352,129
Long-term part	2,269,151	2,352,129
Other short-term payables	4,628,978	5,991,877
	6,898,129	8,344,006

Notes to the Financial Statements

	2021 DKK	2020 DKK
12 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with bankers:		
Floating charge, DKK 14,000k, in intangible rights, inventories, trade receivables and property, plant and equipments with a carrying amount	28,936,980	26,444,449
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	316,597	511,805
Between 1 and 5 years	233,380	138,495
	549,977	650,300
Obligation to designate buyer, operating leases. Expected residual value on expiry agreement	0	49,458
Lease obligations, period of non-terminability 3-35 months	2,640,146	3,981,606
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 [Indtast navn], 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

13 Accounting Policies

The Annual Report of Cotes A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021 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.

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

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

Notes to the Financial Statements

13 Accounting Policies (continued)

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.

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 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, work on own account recognised in assets, other operating income, expenses for raw materials and consumables 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. The item is net of refunds made by public authorities.

Notes to the Financial Statements

13 Accounting Policies (continued)

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

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the companies.

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

13 Accounting Policies (continued)

Balance Sheet

Intangible fixed assets

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

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

13 Accounting Policies (continued)

Assets costing less than DKK 14,100 are expensed in the year of acquisition.

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.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

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.

Receivables

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

Notes to the Financial Statements

13 Accounting Policies (continued)

Contract work in progress

Contract work in progress regarding service 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 equity item.

Treasury shares

Purchase and sales prices for treasury shares are recognised directly in retained earnings under equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares and increases retained earnings. Dividend on treasury shares is recognised directly in equity under retained earnings.

Deferred tax assets and liabilities

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

Deferred tax assets, including the tax base of tax loss carry-forwards, 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

Notes to the Financial Statements

13 Accounting Policies (continued)

deferred tax liabilities within the same legal tax entity.

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

Current tax receivables and liabilities

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

Financial debts

Loans, such as 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.

Deferred income

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