
Cotes A/S

Bjørnholms Allé 20, DK-8260 Viby J

Annual Report for 1 January - 31 December 2022

CVR No 15 20 03 32

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
19/6 2023

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 2022.

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 2022 of the Company and of the results of the Company operations for 2022.

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, 19 June 2023

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 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022 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 2022, 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, 19 June 2023

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Mads Meldgaard

statsautoriseret revisor

mne24826

Company Information

The Company

Cotes A/S
Bjørnholms Allé 20
DK-8260 Viby J

CVR No: 15 20 03 32
Financial period: 1 January - 31 December
Incorporated: 1 June 1991
Financial year: 31st financial year
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

Consolidated Financial Statements

The company is included in the group report for the parent company SRO Cotes ApS.

Financial Highlights

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

	2022 TDKK	2021 TDKK	2020 TDKK	2019 TDKK	2018 TDKK
Key figures					
Profit/loss					
Operating profit/loss	1,373	7,762	8,575	2,953	2,562
Profit/loss before financial income and expenses	1,927	8,043	10,045	2,965	2,574
Net profit/loss for the year	2,820	6,819	7,730	1,905	1,739
Balance sheet					
Balance sheet total	73,036	50,674	49,922	30,902	30,177
Equity	19,733	19,229	14,332	7,894	14,889
Investment in property, plant and equipment	95	347	760	357	18
Number of employees	33	33	36	39	42
Ratios					
Return on assets	2.6%	15.9%	20.1%	9.6%	8.5%
Solvency ratio	27.0%	37.9%	28.7%	25.5%	49.3%
Return on equity	14.5%	40.6%	69.6%	16.7%	23.4%

In connection with changes to accounting policies, the comparative figures back to 2018 have not been restated. See the description under accounting policies.

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 several industries globally.

Cotes is focused on having positive and sustainable impacts 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 several other industries through its global network of trusted partners.

The Cotes story is about dedicated and talented people, with passion and focus to build the most sustainable and best dry-air solutions for the industries with the mindset of ensuring "The right way to dry".

Development in the year

The income statement of the Company for 2022 shows a profit of DKK 2,819,725, and at 31 December 2022 the balance sheet of the Company shows equity of DKK 19,732,531.

The result is despite extraordinary challenging price inflation and supply chain challenges, considered as satisfactory.

In 2022, the company secured further foothold in the wind energy market by engaging with the largest wind turbine OEM's in the industry with regards to developing and delivering dry-air solutions for offshore wind turbines. Besides developing the market within wind energy, the company acquired a long-term partner, Fugtkontrol ApS, to secure the market position as dry-air solution supplier and to further develop the partner business to further growth.

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

Last year Cotes initiated the journey to become more sustainable and more responsible by through Science-Based Targeting initiatives (SBTi) and succeeded the first steps on this journey by CO2 baselining the setting targets for scope 1 and 2.

Management's Review

Targets and expectations for the year ahead

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

SBTi help the company to accelerate the transition towards an even greener business model and implement sustainable practices. Cotes have partnered up with SustainX and takes further actions in 2023 by establishing a HSE & Sustainability position in Cotes to support and strengthen the sustainability journey.

In 2023, a profit before tax of between DKK 6 - 10 million is expected.

Research and development

In 2022 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. In 2022, the company developed a lightweight and easy movable unit for the transport segment within the wind energy industry. The unit has a reduced environmental footprint by using partly recycled plastic rather than stainless steel for the cabinet and comply with work regulation as the unit weighs less than 11 kg.

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

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Unusual events

The uncertainty of deceleration of current price inflation and supply chain challenges due to international conflicts are factors that are subject for products' cost prices and lead times. This is the most significant uncertainty to the operating profit of 2023.

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	2022 DKK	2021 DKK
Gross profit/loss		31,955,906	32,956,300
Staff expenses	1	-29,675,918	-24,292,409
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-353,270	-611,163
Other operating expenses		0	-10,003
Profit/loss before financial income and expenses		1,926,718	8,042,725
Income from investments in subsidiaries		-144,316	1,298,050
Income from investments in associates		894,505	-833,798
Financial income		1,160,565	720,837
Financial expenses		-505,327	-577,031
Profit/loss before tax		3,332,145	8,650,783
Tax on profit/loss for the year	3	-512,420	-1,832,098
Net profit/loss for the year		2,819,725	6,818,685

Balance Sheet 31 December

Assets

	Note	2022 DKK	2021 DKK
Completed development projects		1,754,008	0
Acquired other similar rights		2,420,995	355,205
Development projects in progress		879,417	1,458,745
Intangible assets	4	5,054,420	1,813,950
Other fixtures and fittings, tools and equipment		742,369	875,129
Leasehold improvements		35,881	83,718
Property, plant and equipment	5	778,250	958,847
Investments in subsidiaries	6	4,066,755	4,171,071
Investments in associates	7	1,001,232	591,602
Other receivables	8	894,703	926,146
Fixed asset investments		5,962,690	5,688,819
Fixed assets		11,795,360	8,461,616
Raw materials and consumables		19,787,641	13,844,508
Finished goods and goods for resale		3,901,800	2,541,230
Inventories		23,689,441	16,385,738
Trade receivables		21,071,665	9,887,426
Contract work in progress		4,288,462	265,632
Receivables from group enterprises		2,377,547	4,051,274
Receivables from associates		1,087,135	1,227,215
Other receivables		4,287,527	4,309,398
Prepayments	9	484,250	494,983
Receivables		33,596,586	20,235,928
Cash at bank and in hand		3,954,132	5,590,313
Currents assets		61,240,159	42,211,979
Assets		73,035,519	50,673,595

Balance Sheet 31 December

Liabilities and equity

	Note	2022 DKK	2021 DKK
Share capital	10	1,325,000	1,325,000
Reserve for net revaluation under the equity method		2,570,208	2,714,524
Reserve for development costs		1,417,639	501,388
Retained earnings		14,419,684	12,088,463
Proposed dividend for the year		0	2,600,000
Equity		19,732,531	19,229,375
Provision for deferred tax	12	895,750	383,322
Provisions		895,750	383,322
Credit institutions		3,827,893	3,832,684
Corporation tax		0	3,141,709
Other payables		2,268,251	2,269,151
Long-term debt	13	6,096,144	9,243,544
Credit institutions	13	12,293,082	1,456,889
Prepayments received from customers		11,772,119	0
Trade payables		10,414,714	9,593,699
Payables to group enterprises		2,054,163	910,103
Payables to associates		0	119,108
Corporation tax	13	1,926,430	5,108,577
Other payables	13	7,850,586	4,628,978
Short-term debt		46,311,094	21,817,354
Debt		52,407,238	31,060,898
Liabilities and equity		73,035,519	50,673,595
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	14		
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Statement of Changes in Equity

	Share capital	Reserve for net revalua- tion under the equity method	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	1,325,000	2,714,524	501,388	12,088,463	2,600,000	19,229,375
Ordinary dividend paid	0	0	0	0	-2,316,569	-2,316,569
Ordinary dividend on treasury shares	0	0	0	283,431	-283,431	0
Revaluation for the year	0	-144,316	0	0	0	-144,316
Transfers, reserves	0	0	916,251	-916,251	0	0
Net profit/loss for the year	0	0	0	2,964,041	0	2,964,041
Equity at 31 December	1,325,000	2,570,208	1,417,639	14,419,684	0	19,732,531

Notes to the Financial Statements

	2022	2021
	DKK	DKK
1 Staff expenses		
Wages and salaries	26,624,794	21,109,323
Pensions	1,649,111	1,560,525
Other social security expenses	368,700	388,947
Other staff expenses	1,033,313	1,233,614
	29,675,918	24,292,409
Including remuneration to the Executive Board and Board of Directors	1,740,914	1,742,790
Average number of employees	33	33
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	18,221	147,093
Depreciation of property, plant and equipment	335,049	440,900
Impairment of property, plant and equipment	0	23,046
Gain and loss on disposal	0	124
	353,270	611,163
3 Tax on profit/loss for the year		
Current tax for the year	0	1,871,738
Deferred tax for the year	512,428	-35,408
Adjustment of deferred tax concerning previous years	-8	-4,232
	512,420	1,832,098

Notes to the Financial Statements

4 Intangible assets

	Completed development projects	Acquired other similar rights	Development projects in progress
	DKK	DKK	DKK
Cost at 1 January	3,384,023	465,325	2,724,479
Adjustment	3,881,114	0	0
Additions for the year	0	2,084,012	1,174,681
Disposals for the year	0	0	-1,265,735
Transfers for the year	1,754,008	0	-1,754,008
Cost at 31 December	<u>9,019,145</u>	<u>2,549,337</u>	<u>879,417</u>
Impairment losses and amortisation at 1 January	3,384,023	110,121	1,265,735
Adjustment	3,881,114	0	0
Amortisation for the year	0	18,221	0
Reversal of amortisation of disposals for the year	0	0	-1,265,735
Impairment losses and amortisation at 31 December	<u>7,265,137</u>	<u>128,342</u>	<u>0</u>
Carrying amount at 31 December	<u>1,754,008</u>	<u>2,420,995</u>	<u>879,417</u>

Development projects relate to the development of new versions of the Company's existing products. The projects are expected to be completed in 2023. 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

5 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK	Leasehold improvements DKK
Cost at 1 January	3,373,131	1,703,840
Additions for the year	95,041	0
Disposals for the year	<u>-2,039,522</u>	<u>-182,817</u>
Cost at 31 December	<u>1,428,650</u>	<u>1,521,023</u>
Impairment losses and depreciation at 1 January	2,498,002	1,620,122
Adjustments	-59,411	0
Impairment losses for the year	0	0
Depreciation for the year	287,212	47,837
Reversal of impairment and depreciation of sold assets	<u>-2,039,522</u>	<u>-182,817</u>
Impairment losses and depreciation at 31 December	<u>686,281</u>	<u>1,485,142</u>
Carrying amount at 31 December	<u>742,369</u>	<u>35,881</u>

6 Investments in subsidiaries

	2022 DKK	2021 DKK
Cost at 1 January	1,456,547	1,456,547
Additions for the year	<u>40,000</u>	<u>0</u>
Cost at 31 December	<u>1,496,547</u>	<u>1,456,547</u>
Value adjustments at 1 January	2,714,524	0
Net effect from change of accounting policy	0	1,910,274
Net profit/loss for the year	<u>-144,316</u>	<u>804,250</u>
Value adjustments at 31 December	<u>2,570,208</u>	<u>2,714,524</u>
Carrying amount at 31 December	<u>4,066,755</u>	<u>4,171,071</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Cotes Polska z.o.o.	Polen/Poland	PLN 280,000	100%
Cotes Dehumidification Shanghai co. ltd.	Shanghai	RMD 1,000,000	100%

Notes to the Financial Statements

6 Investments in subsidiaries (continued)

Name	Place of registered office	Share capital	Votes and ownership
Fugtkontrol ApS	Slagelse	DKK 40,000	100%

7 Investments in associates

	2022 DKK	2021 DKK
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	-1,399,261	-452,663
Net profit/loss for the year	409,630	0
Revaluations for the year, net	0	-946,598
Value adjustments at 31 December	-989,631	-1,399,261
Carrying amount at 31 December	1,001,232	591,602

8 Other fixed asset investments

	Other receiv- ables DKK
Cost at 1 January	926,146
Additions for the year	23,484
Disposals for the year	-54,927
Cost at 31 December	894,703
Carrying amount at 31 December	894,703

9 Prepayments

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

Notes to the Financial Statements

10 Share capital

The share capital is broken down as follow:

	<u>Number</u>	<u>Nominal value</u> DKK
A-shares	500,000	500,000
B-shares	500,000	500,000
C-shares	325,000	325,000
		<u>1,325,000</u>

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.

11 Distribution of profit

	<u>2022</u> DKK	<u>2021</u> DKK
Reserve for net revaluation under the equity method	-144,316	2,714,524
Proposed dividend for the year	0	2,600,000
Retained earnings	2,964,041	1,504,161
	<u>2,819,725</u>	<u>6,818,685</u>

12 Provision for deferred tax

Intangible assets	1,111,973	399,069
Property, plant and equipment	11,579	2,919
Amortization	-13,736	-18,666
Tax loss carry-forward	-214,066	0
	<u>895,750</u>	<u>383,322</u>

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

Notes to the Financial Statements

13 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>2022</u> DKK	<u>2021</u> DKK
Credit institutions		
Between 1 and 5 years	<u>3,827,893</u>	<u>3,832,684</u>
Long-term part	<u>3,827,893</u>	<u>3,832,684</u>
Within 1 year	12,132,888	1,322,719
Other short-term debt to credit institutions	<u>160,194</u>	<u>134,170</u>
Short-term part	<u>12,293,082</u>	<u>1,456,889</u>
	<u>16,120,975</u>	<u>5,289,573</u>
Corporation tax		
Between 1 and 5 years	<u>0</u>	<u>3,141,709</u>
Long-term part	<u>0</u>	<u>3,141,709</u>
Within 1 year	<u>1,926,430</u>	<u>5,108,577</u>
	<u>1,926,430</u>	<u>8,250,286</u>
Other payables		
Between 1 and 5 years	<u>2,268,251</u>	<u>2,269,151</u>
Long-term part	<u>2,268,251</u>	<u>2,269,151</u>
Other short-term payables	<u>7,850,586</u>	<u>4,628,978</u>
	<u>10,118,837</u>	<u>6,898,129</u>

Notes to the Financial Statements

	2022 DKK	2021 DKK
14 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	50,593,776	28,936,980
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	550,980	316,597
Between 1 and 5 years	0	233,380
	550,980	549,977
Lease obligations, period of non-terminability 3-35 months	757,211	2,640,146

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes 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

15 Accounting Policies

The Annual Report of Cotes A/S for 2022 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 2022 are presented in DKK.

Changes in accounting policies

Cotes A/S has changed its accounting policies for investment in subsidiaries to be recognised and measured under the equity method. The effect of the change is an increase of net profit at TDKK 265 (2021: TDKK 806). Further the balance sheet total is charged with TDKK 265 (2021: TDKK 2,715). The effect on equity is total TDKK 265 (2021: TDKK 2,715).

The change has no effect on the cash flow.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements 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

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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

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

15 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

15 Accounting Policies (continued)

Assets costing less than DKK 31,000 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 recognised and measured under the equity method.

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.

Notes to the Financial Statements

15 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

15 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$