

Gertsen & Olufsen A/S

Solvang 22
3450 Allerød
Business Registration No
16314897

Annual report 01.07.2017 - 30.06.2018

The Annual General Meeting adopted the annual report on 14.11.2018

Chairman of the General Meeting

Name: Karsten Lindved

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Entity details

Entity

Gertsen & Olufsen A/S
Solvang 22
3450 Allerød

Central Business Registration No (CVR): 16314897
Registered in: Allerød
Financial year: 01.07.2017 - 30.06.2018

Website: www.g-o.dk
E-mail: info@g-o.dk

Board of Directors

Søren Klarskov Vilby, Chairman
Thomas Marstrand, Vice-chairman
Kristian la Cour
Bo Kristensen
Liselotte Grønborg Lundberg

Executive Board

Bo Kristensen, Chief Executive Officer
Karsten Lindved
Oscar William Gunnar

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Dokken 8
Postbox 200
6701 Esbjerg

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Gertsen & Olufsen A/S for the financial year 01.07.2017 - 30.06.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.06.2018 and of the results of its operations for the financial year 01.07.2017 - 30.06.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Allerrød, 31.10.2018

Executive Board

Bo Kristensen
Chief Executive Officer

Karsten Lindved

Oscar William Gunnar

Board of Directors

Søren Klarskov Vilby
Chairman

Thomas Marstrand
Vice-chairman

Kristian la Cour

Bo Kristensen

Liselotte Grønborg Lundberg

Independent auditor's report

To the shareholders of Gertsen & Olufsen A/S

Opinion

We have audited the financial statements of Gertsen & Olufsen A/S for the financial year 01.07.2017 - 30.06.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 30.06.2018 and of the results of its operations for the financial year 01.07.2017 - 30.06.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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.

Independent auditor's report

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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary 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 of the management commentary.

Esbjerg, 31.10.2018

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556

Jørn Jepsen

State Authorised Public Accountant

Identification No (MNE) mne24824

Kim Ladegaard

State Authorised Public Accountant

Identification No (MNE) mne32799

Management commentary

	2017/18	2016/17	2015/16	2014/15	2013/14
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Gross profit	37.227	42.452	36.027	35.288	29.294
Operating profit/loss	13.532	20.029	21.246	7.935	12.490
Net financials	8.477	2.309	11.725	12.571	(16)
Profit/loss for the year	19.380	18.413	28.749	18.364	9.067
Total assets	218.216	203.065	199.901	118.436	31.128
Investments in property, plant and equipment	86	166	556	127	515
Equity	88.213	68.749	51.477	23.887	12.467
Average numbers of employees	34	32	26	28	28
Ratios					
Return on equity (%)	24,7	30,6	76,3	101,0	40,4
Equity ratio (%)	40,4	33,9	25,8	20,2	40,1

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The Company's primary activities comprise production and development of vibration compensators and bio-reactors.

Development in activities and finances

Profit for the year amounts to DKK 19.380k compared to a profit of DKK 18.413k in 2016/17. Management considers the performance for the year not satisfactory.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Profit/loss for the year in relation to expected developments

In the period 01.07.2017 – 30.06.2018, the Company has experienced lower earnings growth than expected.

Outlook

The expectations for 2018/19 are positive. Management expects positive growth in revenue and profits.

Particular risks

Business risks

The Company's most important business risk is linked to its ability to be strongly positioned on the markets in which the Company sells its products. During the financial year, the Company strengthened its position on these markets through group establishment with companies having a similar customer base.

Currency risks

The Company does most of its trade abroad, and a significant part of its revenue is invoiced in foreign currencies.

The Company evaluates on a current basis the need for use of financial instruments to hedge net positions and future transactions.

Liquidity

Management assesses that Gertsen & Olufsen A/S has the necessary funds available to meet the continued development of its activities.

Intellectual capital resources

Compared to the Company's operating risk, it is important to maintain a market leadership. This is done by attraction and continuous training and education of intellectual capital resources in accordance with market requirements as well as focused sale and marketing.

Environmental performance

The Company is eco-conscious and works on a current basis to improve the environmental impact of both its own operating activities as well as its customers.

Management commentary

Research and development activities

It is important to the Company to remain a market-leading manufacturer. This is done by current product development taking the market requirements into consideration.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2017/18

	<u>Notes</u>	<u>2017/18 DKK'000</u>	<u>2016/17 DKK'000</u>
Gross profit		37.227	42.452
Staff costs	1	(21.005)	(20.395)
Depreciation, amortisation and impairment losses	2	<u>(2.690)</u>	<u>(2.028)</u>
Operating profit/loss		13.532	20.029
Income from investments in group enterprises		10.085	4.647
Other financial income from group enterprises		767	600
Other financial income		1.101	505
Financial expenses from group enterprises		(2.005)	(1.750)
Other financial expenses		<u>(1.471)</u>	<u>(1.693)</u>
Profit/loss before tax		22.009	22.338
Tax on profit/loss for the year	3	<u>(2.629)</u>	<u>(3.925)</u>
Profit/loss for the year	4	<u>19.380</u>	<u>18.413</u>

Balance sheet at 30.06.2018

	<u>Notes</u>	<u>2017/18 DKK'000</u>	<u>2016/17 DKK'000</u>
Completed development projects		1.676	2.255
Acquired licences		3.572	3.819
Development projects in progress		2.488	1.441
Intangible assets	5	7.736	7.515
Plant and machinery		302	352
Other fixtures and fittings, tools and equipment		199	186
Leasehold improvements		40	52
Property, plant and equipment	6	541	590
Investments in group enterprises		137.259	137.090
Fixed asset investments	7	137.259	137.090
Fixed assets		145.536	145.195
Raw materials and consumables		7.862	6.787
Manufactured goods and goods for resale		612	1.290
Inventories		8.474	8.077
Trade receivables		15.859	8.480
Contract work in progress		0	425
Receivables from group enterprises		45.112	37.029
Other receivables		1.872	3.327
Prepayments	8	1.009	475
Receivables		63.852	49.736
Cash		354	57
Current assets		72.680	57.870
Assets		218.216	203.065

Balance sheet at 30.06.2018

	Notes	2017/18 DKK'000	2016/17 DKK'000
Contributed capital	9	6.000	6.000
Reserve for net revaluation according to the equity method		0	7.904
Reserve for development expenditure		1.937	1.506
Retained earnings		70.276	53.339
Proposed dividend		10.000	0
Equity		88.213	68.749
Deferred tax	10	1.127	980
Other provisions	11	2.125	2.378
Provisions		3.252	3.358
Current portion of long-term liabilities other than provisions		0	12.057
Bank loans		1.862	8.054
Prepayments received from customers		1.552	898
Trade payables		7.741	3.718
Payables to group enterprises		105.439	94.682
Income tax payable		5.769	6.490
Other payables		4.388	5.059
Current liabilities other than provisions		126.751	130.958
Liabilities other than provisions		126.751	130.958
Equity and liabilities		218.216	203.065
Contingent liabilities	12		
Assets charged and collateral	13		
Related parties with controlling interest	14		
Transactions with related parties	15		
Group relations	16		

Statement of changes in equity for 2017/18

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000
Equity beginning of year	6.000	7.904	1.506	53.339
Exchange rate adjustments	0	84	0	0
Transfer to reserves	0	0	431	(431)
Profit/loss for the year	0	(7.988)	0	17.368
Equity end of year	6.000	0	1.937	70.276

	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	0	68.749
Exchange rate adjustments	0	84
Transfer to reserves	0	0
Profit/loss for the year	10.000	19.380
Equity end of year	10.000	88.213

Notes

	2017/18	2016/17
	DKK'000	DKK'000
1. Staff costs		
Wages and salaries	19.757	18.557
Pension costs	1.548	1.388
Other social security costs	176	266
Other staff costs	1.008	1.439
Staff costs classified as assets	(1.484)	(1.255)
	21.005	20.395
 Average number of employees	 34	 32

	Remunera- tion of manage- ment 2017/18 DKK'000	Remunera- tion of manage- ment 2016/17 DKK'000
Executive Board	1.625	2.655
Board of Directors	281	0
	1.906	2.655

	2017/18	2016/17
	DKK'000	DKK'000
2. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	2.555	1.911
Depreciation of property, plant and equipment	135	117
	2.690	2.028

	2017/18	2016/17
	DKK'000	DKK'000
3. Tax on profit/loss for the year		
Current tax	2.482	3.306
Change in deferred tax	147	619
	2.629	3.925

Notes

	2017/18	2016/17
	DKK'000	DKK'000
4. Proposed distribution of profit/loss		
Transferred to reserve for net revaluation according to the equity method	0	(2.353)
Retained earnings	19.380	20.766
	19.380	18.413

Dividend distributed after the balance sheet date

Extraordinary dividend	10.000	0
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	Completed develop- ment projects DKK'000	Acquired licences DKK'000	Develop- ment projects in progress DKK'000
5. Intangible assets			
Cost beginning of year	9.075	5.212	1.441
Additions	0	1.729	1.047
Disposals	(6.176)	0	0
Cost end of year	2.899	6.941	2.488
Amortisation and impairment losses beginning of year	(6.820)	(1.393)	0
Amortisation for the year	(579)	(1.976)	0
Reversal regarding disposals	6.176	0	0
Amortisation and impairment losses end of year	(1.223)	(3.369)	0
Carrying amount end of year	1.676	3.572	2.488

Development projects

New bioreactor:

The capitalised development costs relate to the development of a new bioreactor. The development project was completed in H1 2017, and the new product has been placed on the market. The aim of the development project was to launch a more competitive product and to comply with tightened regulatory requirements for waste water discharges from ships.

We expect that the launch of the new bioreactor will help ensure that Gertsen & Olufsen's products remain among the leading in the market.

Notes

New compensator:

The capitalised development costs relate to the development of a new generation of vibration compensators. The new portfolio holds improved design and automation of the products to the effect that our products can remedy vibration problems in ships even further. Expectations are also that the new design will lead to reduced production costs.

The aim of the development project is to ensure that Gertsen & Olufsen's vibration compensators remain leading in the market and that the market share remains high.

We expect the development project to be completed in Q3 2019.

	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve- ments DKK'000
6. Property, plant and equipment			
Cost beginning of year	400	278	59
Additions	0	86	0
Cost end of year	400	364	59
Depreciation and impairment losses beginning of year	(48)	(92)	(7)
Depreciation for the year	(50)	(73)	(12)
Depreciation and impairment losses end of year	(98)	(165)	(19)
Carrying amount end of year	302	199	40

Notes

	Invest- ments in group enterprises DKK'000
7. Fixed asset investments	
Cost beginning of year	129.186
Cost end of year	129.186
Revaluations beginning of year	7.904
Exchange rate adjustments	84
Amortisation of goodwill	(786)
Share of profit/loss for the year	10.871
Dividend	(10.000)
Revaluations end of year	8.073
Carrying amount end of year	137.259

	Registered in	Corpo- rate form	Equity inte- rest %
Investments in group enterprises comprise:			
Atlas Incinerators A/S	Vordingborg	A/S	100,0
Pres-Vac Engineering ApS	Allerød	ApS	100,0
Heco International A/S	Hedensted	A/S	100,0
Heco China A/S	Hedensted	A/S	100,0

8. Prepayments

Prepayments comprise sundry prepaid expenses, including insurance etc.

	Number	Par value DKK'000	Nominal value DKK'000
9. Contributed capital			
Shares	6.000	1	6.000
	6.000		6.000

Notes

	2017/18
	<u>DKK'000</u>
10. Deferred tax	
Changes during the year	
Beginning of year	980
Recognised in the income statement	<u>147</u>
End of year	<u>1.127</u>

11. Other provisions

Other provisions comprise warranty obligations to remedy any defects in the Company's products under the guarantee.

	2017/18	2016/17
	<u>DKK'000</u>	<u>DKK'000</u>
12. Contingent liabilities		
Recourse and non-recourse guarantee commitments	<u>28.226</u>	<u>28.653</u>
Contingent liabilities in total	<u>28.226</u>	<u>28.653</u>
Recourse and non-recourse guarantee commitments	<u>28.200</u>	<u>28.483</u>
Contingent liabilities to group enterprises	<u>28.200</u>	<u>28.483</u>

The Entity participates in a Danish joint taxation arrangement in which G&O Investment A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The total known net liability of the jointly taxed entities under the joint taxation arrangement is evident from the administration company's financial statements.

13. Assets charged and collateral

Bank debt is secured by way of mortgage on shares in the group enterprises.

The carrying amount of mortgaged shares amounts to DKK 137.859k.

The amount owed to Nordea is secured by way of a deposited letter of indemnity (company charge) of DKK 10.000k nominal.

The company charge comprises operating equipment, inventories of raw materials and semi-manufactured products, unsecured claims arising from trade receivables as well as goodwill, domain names and rights according to the Danish legislation on patents, trademarks, designs, utility models, copyright and protection of the design of semiconductor products.

Notes

The carrying amount of assets covered by the company charge amounts to DKK 32.611k and is attributable to property, plant and equipment of DKK 542k, intangible assets of DKK 7.736k, inventories of DKK 8.474k and trade receivables of DKK 15.859k.

14. Related parties with controlling interest

The Company has registered the following shareholders to hold 100% of the voting share capital of the nominal value of the share capital:

G&O Investment A/S, Charlottenlund, Denmark.

Erhvervsinvest III K/S hold the majority of share capital in G&O Investment A/S, Gentofte, Denmark.

15. Transactions with related parties

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report. No such transactions have been conducted in the financial year.

16. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
G&O Investment A/S, Charlottenlund, Denmark.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these financial statements are consistent with those applied last year.

Consolidated financial statements

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, cost of raw materials and consumables and external expenses.

Accounting policies

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income from group enterprises

Other financial income from group enterprises comprises interest income etc on receivables from group enterprises.

Accounting policies

Other financial income

Other financial income comprises interest income, including interest income, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Financial expenses from group enterprises

Financial expenses from group enterprises comprise interest expenses etc from payables to group enterprises.

Other financial expenses

Other financial expenses comprise interest expenses, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish TaxPrepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with the parent company and all its Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation of property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Accounting policies

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

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

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits or losses. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in group enterprises.

Goodwill is calculated as the difference between cost of the investments and fair value of the pro rata share of assets and liabilities acquired. Goodwill is amortised straight-line over its estimated useful life, which is 20 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Accounting policies

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Contract work in progress

Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as finance costs are recognised in the income statement as incurred.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly in equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

Accounting policies

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructuring, etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

On acquisition of enterprises and investments in group enterprises, provisions are made for costs relating to restructuring in the acquired enterprise that were decided and published at the acquisition date at the latest.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Income tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The annual report does not include a cash flow statement, as this statement has been included in the consolidated cash flow statement of the Parent.