
Corning Optical Communications ApS

Industriparken 10, DK-4760 Vordingborg

Annual Report for 1 January - 31 December 2019

CVR No 17 37 66 32

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
25/6 2020

Ralf Heinz
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 Corning Optical Communications ApS for the financial year 1 January - 31 December 2019.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2019 of the Company and of the results of the Company operations for 2019.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Vordingborg, 25 June 2020

Executive Board

Peter Spangaard Rasmussen

Board of Directors

Ralf Heinz
Chairman

Stefan Trebels

Peter Spangaard Rasmussen

Timothy Daniel Leonard

Independent Auditor's Report

To the Shareholder of Corning Optical Communications ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Corning Optical Communications ApS for the financial year 1 January - 31 December 2019, 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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Independent Auditor's Report

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent Auditor's Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 25 June 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Kaare von Cappeln
State Authorised Public Accountant
mne11629

Thomas Lauritsen
State Authorised Public Accountant
mne34342

Company Information

The Company

Corning Optical Communications ApS
Industriparken 10
DK-4760 Vordingborg

CVR No: 17 37 66 32

Financial period: 1 January - 31 December

Municipality of reg. office: Vordingborg

Board of Directors

Ralf Heinz, Chairman
Stefan Trebels
Peter Spangaard Rasmussen
Timothy Daniel Leonard

Executive Board

Peter Spangaard Rasmussen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Lawyers

Kromann Reumert

Financial Highlights

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

| | 2019 TDKK | 2018 TDKK | 2017 TDKK | 2016 TDKK | 2015 TDKK |
|--|--------------|--------------|--------------|--------------|--------------|
| Key figures | | | | | |
| Profit/loss | | | | | |
| Gross profit/loss | 35.602 | 44.977 | 40.803 | 37.788 | 57.890 |
| Profit/loss before financial income and expenses | 3.834 | 10.814 | 7.611 | 5.958 | 27.783 |
| Net financials | 475 | -619 | -411 | -1.224 | -52 |
| Net profit/loss for the year | 3.349 | 7.787 | 5.823 | 3.831 | 20.890 |
| Balance sheet | | | | | |
| Balance sheet total | 124.481 | 136.377 | 136.573 | 118.873 | 134.331 |
| Equity | 58.297 | 54.948 | 47.161 | 76.338 | 72.507 |
| Investment in property, plant and equipment | 2.287 | 4.560 | 4.311 | 3.821 | 7.742 |
| Number of employees | 89 | 87 | 86 | 86 | 86 |
| Ratios | | | | | |
| Return on assets | 3,1 % | 7,9 % | 5,6 % | 5,0 % | 20,7 % |
| Solvency ratio | 46,8 % | 40,3 % | 34,5 % | 64,2 % | 54,0 % |
| Return on equity | 5,9 % | 15,3 % | 9,4 % | 5,1 % | 33,7 % |

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

The Financial Statements of Corning Optical Communications ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

Market overview

The Company is engaged in the development, manufacturing and sale of connectors for the cable television and telecommunications industries. The Company's products are primarily sold within the European market.

Earnings for the year

The income statement of the Company for 2019 shows a profit of TDKK 3,349, and at 31 December 2019 the balance sheet of the Company shows equity of TDKK 58,297.

In 2019 the Company experienced much the same situation as in 2018 with high revenues in two first quarters, but declining demand for second half of the year.

Due to this lower activity level in the market in the last two quarters total revenue for 2019 ended up at lower level than 2018. Earnings were negatively impacted by change of product mix and foreign currency impacts from purchase and sale in USD and GBP currencies.

The Company is still impacted by continued consolidation amongst distributors and operators but has been able to remediate some of the impact of the declining revenues by various optimization programs in the plant and supply chain which have improved efficiencies.

Distribution and administration expenses show decrease compared to 2018 which is according to expectations of decreasing admin load in the plant.

The cash flow situation of The Company was slightly positive in spite of increasing inventory levels.

Management considers the result to be in the low end.

Expectations for the coming year

The outlook for 2020 is very uncertain at this point. Generally demand is showing significant fluctuation and volatility so current expectations do not indicate stabilization for the remaining of 2020. In thread with 2019 the company will continue to focus on optimization of the service levels to existing and potential new customer bases at the same time maintaining continued high delivery performance. Cost optimizations and complexity reduction will continue to be focus points. Operating profit expected to be in the range of +/- 10% compared to 2019.

The current situation with Covid-19 will have a negative impact for 2020, depending on how fast recovery of the different markets happen. As at May 2020 we have only seen few delivery interruptions.

Management's Review

Research and development

The Company has maintained its level of development in order to penetrate new markets, partly as current product customization, which is normal for the industry, partly through the optimization of products, both in terms of technology and complexity.

Environment, Health and Safety

Since 2002 the Company has been certified according to the ISO 14001 standard. In addition, the Company complies with all established Corning standards which in many areas are beyond local law. The Company is dedicated to improving the health and safety standards within the company and our outstanding level of excellence was maintained again during 2019.

Knowledge resources

The strong segment position of the Company is a result of the total knowledge resources in the organisation. It is a management objective that knowledge about products, manufacturing and market conditions are shared across the organisation. An additional management objective is to continuously ensure a high degree of quality awareness in all processes.

Subsequent events

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have a great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company. See note 1 for further information.

No other events have occurred after year-end that materially affects the financial position of the Company at December 31, 2019.

Income Statement 1 January - 31 December

| | <u>Note</u> | <u>2019</u> TDKK | <u>2018</u> TDKK |
|---|-------------|---------------------|---------------------|
| Gross profit/loss | | 35.602 | 44.977 |
| Distribution expenses | 2 | -15.342 | -16.285 |
| Administrative expenses | 2 | <u>-16.426</u> | <u>-17.878</u> |
| Operating profit/loss | | 3.834 | 10.814 |
| | | | |
| Profit/loss before financial income and expenses | | 3.834 | 10.814 |
| | | | |
| Financial income | 3 | 607 | 271 |
| Financial expenses | 4 | <u>-132</u> | <u>-890</u> |
| Profit/loss before tax | | 4.309 | 10.195 |
| | | | |
| Tax on profit/loss for the year | 5 | <u>-960</u> | <u>-2.408</u> |
| Net profit/loss for the year | | <u>3.349</u> | <u>7.787</u> |

Balance Sheet 31 December

Assets

| | Note | 2019 TDKK | 2018 TDKK |
|--|------|----------------|----------------|
| Software | | 88 | 10 |
| Intangible assets | 6 | 88 | 10 |
| Land and buildings | | 8.584 | 7.959 |
| Plant and machinery | | 8.520 | 9.926 |
| Other fixtures and fittings, tools and equipment | | 1.124 | 1.954 |
| Property, plant and equipment in progress | | 1.497 | 802 |
| Property, plant and equipment | 7 | 19.725 | 20.641 |
| Fixed assets | | 19.813 | 20.651 |
| Inventories | 8 | 39.879 | 36.875 |
| Trade receivables | | 37.562 | 50.894 |
| Receivables from group enterprises | | 22.403 | 14.902 |
| Other receivables | | 958 | 2.268 |
| Corporation tax | | 832 | 751 |
| Prepayments | 9 | 574 | 495 |
| Receivables | | 62.329 | 69.310 |
| Cash at bank and in hand | | 2.460 | 9.541 |
| Currents assets | | 104.668 | 115.726 |
| Assets | | 124.481 | 136.377 |

Balance Sheet 31 December

Liabilities and equity

| | Note | 2019 TDKK | 2018 TDKK |
|--|------|----------------|----------------|
| Share capital | | 500 | 500 |
| Retained earnings | | 57.797 | 54.448 |
| Equity | | 58.297 | 54.948 |
| Provision for deferred tax | 11 | 516 | 331 |
| Other provisions | 12 | 1.053 | 363 |
| Provisions | | 1.569 | 694 |
| Payables to group enterprises | | 36.614 | 36.592 |
| Other payables | | 810 | 0 |
| Long-term debt | 13 | 37.424 | 36.592 |
| Trade payables | | 16.726 | 22.034 |
| Payables to group enterprises | 13 | 2.763 | 12.844 |
| Other payables | 13 | 7.702 | 9.265 |
| Short-term debt | | 27.191 | 44.143 |
| Debt | | 64.615 | 80.735 |
| Liabilities and equity | | 124.481 | 136.377 |
| Subsequent events | 1 | | |
| Distribution of profit | 10 | | |
| Contingent assets, liabilities and other financial obligations | 14 | | |
| Related parties | 15 | | |
| Accounting Policies | 17 | | |
| Transactions with related parties | | | |

Statement of Changes in Equity

| | Share capital | Retained earnings | Total |
|------------------------------|---------------|-------------------|---------------|
| | TDKK | TDKK | TDKK |
| Equity at 1 January | 500 | 54.448 | 54.948 |
| Net profit/loss for the year | 0 | 3.349 | 3.349 |
| Equity at 31 December | 500 | 57.797 | 58.297 |

Notes to the Financial Statements

1 Subsequent events

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have a great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

To date, the impact of Covid-19 has been minor as the Company has been able to continue its production activities and only few delivery interruptions. However, it is not possible to estimate the full negative impact for the whole year, as it depends on how fast recovery of the different markets happen.

| | <u>2019</u> TDKK | <u>2018</u> TDKK |
|--|----------------------|----------------------|
| 2 Staff | | |
| Wages and Salaries | 40.485 | 42.749 |
| Pensions | 3.230 | 2.958 |
| Other social security expenses | <u>2.430</u> | <u>2.120</u> |
| | <u>46.145</u> | <u>47.827</u> |
| Wages and Salaries, pensions and other social security expenses are recognised in the following items: | | |
| Cost of sales | 37.028 | 37.219 |
| Distribution expenses | 5.660 | 7.588 |
| Administrative expenses | <u>3.457</u> | <u>3.020</u> |
| | <u>46.145</u> | <u>47.827</u> |
| Average number of employees | <u>89</u> | <u>87</u> |

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

3 Financial income

| | | |
|--|-------------------|-------------------|
| Interest received from group enterprises | 41 | 5 |
| Other financial income | 1 | 2 |
| Exchange gains | <u>565</u> | <u>264</u> |
| | <u>607</u> | <u>271</u> |

Notes to the Financial Statements

| | 2019 <u>TDKK</u> | 2018 <u>TDKK</u> |
|--|---------------------|-------------------------|
| 4 Financial expenses | | |
| Interest paid to group enterprises | 68 | 68 |
| Other financial expenses | 40 | 50 |
| Exchange adjustments, expenses | 24 | 772 |
| | <u>132</u> | <u>890</u> |
| 5 Tax on profit/loss for the year | | |
| Current tax for the year | 775 | 2.943 |
| Deferred tax for the year | 185 | -683 |
| Adjustment of tax concerning previous years | 0 | 7 |
| Adjustment of deferred tax concerning previous years | 0 | 141 |
| | <u>960</u> | <u>2.408</u> |
| 6 Intangible assets | | |
| | | <u>Software</u> TDKK |
| Cost at 1 January | | 3.236 |
| Additions for the year | | <u>87</u> |
| Cost at 31 December | | <u>3.323</u> |
| Impairment losses and amortisation at 1 January | | 3.226 |
| Amortisation for the year | | <u>9</u> |
| Impairment losses and amortisation at 31 December | | <u>3.235</u> |
| Carrying amount at 31 December | | <u>88</u> |

Notes to the Financial Statements

7 Property, plant and equipment

| | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Property, plant and equipment in progress |
|--|-----------------------|------------------------|---|---|
| | TDKK | TDKK | TDKK | TDKK |
| Cost at 1 January | 33.371 | 64.713 | 13.496 | 802 |
| Additions for the year | 0 | 0 | 0 | 2.867 |
| Disposals for the year | -181 | 0 | -2.295 | 0 |
| Transfers for the year | 1.674 | 346 | 180 | -2.172 |
| Cost at 31 December | <u>34.864</u> | <u>65.059</u> | <u>11.381</u> | <u>1.497</u> |
| Impairment losses and depreciation at 1 January | 25.410 | 54.787 | 11.542 | 0 |
| Depreciation for the year | 1.051 | 1.752 | 1.010 | 0 |
| Transfers for the year | -181 | 0 | -2.295 | 0 |
| Impairment losses and depreciation at 31 December | <u>26.280</u> | <u>56.539</u> | <u>10.257</u> | <u>0</u> |
| Carrying amount at 31 December | <u>8.584</u> | <u>8.520</u> | <u>1.124</u> | <u>1.497</u> |

8 Inventories

| | 2019 TDKK | 2018 TDKK |
|-------------------------------------|----------------------|----------------------|
| Raw materials and consumables | 4.748 | 5.442 |
| Work in progress | 13.442 | 11.460 |
| Finished goods and goods for resale | 21.689 | 19.973 |
| | <u>39.879</u> | <u>36.875</u> |

9 Prepayments

Prepayments consist of prepaid expenses concerning insurance premiums, edb service and exhibitions etc.

10 Distribution of profit

| | | |
|-------------------|---------------------|---------------------|
| Retained earnings | <u>3.349</u> | <u>7.787</u> |
| | <u>3.349</u> | <u>7.787</u> |

Notes to the Financial Statements

| | 2019 | 2018 |
|---|------------|------------|
| | TDKK | TDKK |
| 11 Provision for deferred tax | | |
| Provision for deferred tax at 1 January | 331 | 874 |
| Amounts recognised in the income statement for the year | 185 | -683 |
| Amounts recognised in equity for the year | 0 | 140 |
| Provision for deferred tax at 31 December | 516 | 331 |
| Intangible assets | 19 | 2 |
| Property, plant and equipment | 514 | 663 |
| Inventories | 76 | -329 |
| Trade receivables | -5 | -5 |
| Provisions | -88 | 0 |
| | 516 | 331 |

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

12 Other provisions

The Company provides warranties on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions have been recognised for expected warranty claims.

| | | |
|------------------|--------------|------------|
| Warrant claims | 653 | 363 |
| Other provisions | 400 | 0 |
| | 1.053 | 363 |

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:

| | 2019 <u>TDKK</u> | 2018 <u>TDKK</u> |
|--|---------------------|---------------------|
| Payables to group enterprises | | |
| Between 1 and 5 years | 36.614 | 36.592 |
| Long-term part | 36.614 | 36.592 |
| Other short-term debt to group enterprises | 2.763 | 12.844 |
| | 39.377 | 49.436 |
| Other payables | | |
| Between 1 and 5 years | 810 | 0 |
| Long-term part | 810 | 0 |
| Other short-term payables | 7.702 | 9.265 |
| | 8.512 | 9.265 |

14 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

| | | |
|-----------------------|------------|------------|
| Within 1 year | 325 | 322 |
| Between 1 and 5 years | 646 | 461 |
| After 5 years | 0 | 0 |
| | 971 | 783 |

Notes to the Financial Statements

15 Related parties

Consolidated Financial Statements

The Company is a wholly owned subsidiary of Corning Finance BV, The Netherlands.

The Company and the parent company are part of the consolidated accounts of the ultimate parent company Corning Inc. The consolidated accounts for this company can be obtained by written application to Corning Inc., One Riverfront Plaza, Corning, New York 14831, USA or www.corning.com

| <u>Name</u> | <u>Place of registered office</u> |
|--------------|--|
| Corning Inc. | One Riverfront Plaza, New York 14831, USA |

16 Transactions with related parties

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| | TDKK | TDKK |
| Purchase of services from parent | 5.274 | 4.985 |
| Sale of services to parent | 978 | 912 |
| Interest received from parent | 50 | 25 |
| Interest paid to parent | 76 | 21 |
| Purchase of goods from other related parties | 43.525 | 35.076 |
| Sale of goods to other related parties | 1.060 | 246 |
| Purchase of services from other related parties | 602 | 349 |
| Cost of management fee to other related parties | 6.804 | 7.706 |
| Salaries and remuneration to other related parties | 7.433 | 7.327 |

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of Corning Optical Communications ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2019 are presented in TDKK.

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 Corning Inc., 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.

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.

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

17 Accounting Policies (continued)

Income Statement

Revenue

Revenue from sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk has been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Cost of sales also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue and cost of sales.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

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.

Notes to the Financial Statements

17 Accounting Policies (continued)

Balance Sheet

Intangible assets

Intangible assets is measured at cost less accumulated amortisation. Intangible assets is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

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:

| | |
|---|-------------|
| Production buildings | 10-25 years |
| Other fixtures and fittings, tools and equipment | 3-8 years |
| Plant and machinery | 3-12 years |

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

Notes to the Financial Statements

17 Accounting Policies (continued)

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. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

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.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

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

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 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

Notes to the Financial Statements

17 Accounting Policies (continued)

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

Debts are measured at amortised cost, substantially corresponding to nominal value.

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