DAFA A/S

Holmstrupgårdvej 12, DK-8220 Brabrand

Annual Report for 1 January - 31 December 2015

CVR No 17 63 01 80

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 18/5 2016

Steen Bødtker
Chairman

pwc

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of DAFA A/S for the financial year 1 January - 31 December 2015.

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

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2015 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2015.

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.

Århus, 10 March 2016

Executive Board

Bo Ankerfelt
Executive Officer

Board of Directors

Steen Bødtker Chairman	Charlotte Norby	Jacob Norby

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

To the Shareholders of DAFA A/S

Report on the Financial Statements and the Consolidated Financial Statements

We have audited the Financial Statements and the Consolidated Financial Statements of DAFA A/S for the financial year 1 January - 31 December 2015, which comprise income statement, balance sheet, cash flow statement, notes and summary of significant accounting policies. The Financial Statements and the Consolidated Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements and the Consolidated Financial Statements

Management is responsible for the preparation of Financial Statements and the Consolidated 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 and Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements and the Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements and the Consolidated Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements and the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements and the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements and Consolidated Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements and the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

Opinion

In our opinion, the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position of the Company and the Group at 31 December 2015 and of the results of the Company and the Group operations and of consolidated cash flows for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements and the Consolidated Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements and the Consolidated Financial Statements.

Holstebro, 10 March 2016
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Poul Spencer Poulsen
State Authorised Public Accountant

Company Information

The Company	DAFA A/S Holmstrupgårdvej 12 DK-8220 Brabrand Telephone: + 45 +45 87 47 66 66 Facsimile: + 45 +45 87 47 66 00 E-mail: dafa@dafa.dk Website: www.dafa.dk CVR No: 17 63 01 80 Financial period: 1 January - 31 December Municipality of reg. office: Århus
Branches abroad	DAFA Vertriebsbüro Deutschland Westfälische Str. 88 DE-57462 Olpe
Board of Directors	Steen Bødtker, Chairman Charlotte Norby Jacob Norby
Executive Board	Bo Ankerfelt
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Hjaltesvej 16 Postboks 1443 DK-7500 Holstebro
Lawyers	Kromann Reumert Rådhuspladsen 3 8000 Århus C
Bankers	Danske Bank Åboulevarden 69 8000 Århus C

Financial Highlights

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

	Group				
	2015	2014	2013	2012	2011
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	111.238	101.290	97.001	100.227	89.005
Operating profit/loss	28.665	22.495	16.463	18.717	17.147
Profit/loss before financial income and expenses	28.522	22.267	16.307	18.867	16.934
Net financials	841	1.341	-187	-433	-148
Net profit/loss for the year	23.238	17.717	11.818	13.360	12.370
Balance sheet					
Balance sheet total	129.259	110.368	114.527	117.351	114.357
Equity	90.314	77.125	84.630	82.904	69.545
Cash flows					
Cash flows from:					
- operating activities	10.840	33.885	21.913	20.818	14.384
- investing activities	-9.570	-8.478	-7.229	-11.586	-8.272
including investment in property, plant and equipment	-9.123	-9.183	-6.525	-11.736	-7.989
- financing activities	-10.479	-25.351	-10.402	2.845	-12.007
Change in cash and cash equivalents for the year	-9.209	56	4.282	12.077	-5.895
Number of employees	152	152	151	159	127
Ratios					
Return on assets	22,1%	20,2%	14,2%	16,1%	14,8%
Solvency ratio	69,9%	69,9%	73,9%	70,6%	60,8%
Return on equity	27,8%	21,9%	14,1%	17,5%	18,4%

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.

Review

Main activity

The Group develops, manufactures and markets foam and rubber products that seal, absorb and protect, and which are sold through divisions in Denmark, Sweden, Germany, China and the USA.

Development in the year

The income statement of the Group for for 2015 shows a profit of TDKK 23,238, and at 31 December 2015 the balance sheet of the Group shows equity of TDKK 90,314.

Profit growth of 5-10% is expected for 2016.

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

Profit showed an increase of 31% from last year due to an increased level of activity as well as productivity improvements. A focused marketing strategy with a clear segmentation has contributed to the increased sales.

Special risks - operating risks and financial risks

Operating risks

DAFA A/S's key operating risks relate to the ability to maintain and develop its position in the domestic market while increasing exports.

Market risks

Due to a high equity ratio, DAFA A/S is exposed to major periodic fluctuations in sales only to a limited extent.

Foreign exchange risks

Due to foreign activities, profit, cash flows and equity are affected by the exchange and interest rate developments for a number of currencies. It is the Company's currency policy not to hedge the currency risks as most transactions are naturally hedged through purchases and sales in the same currencies.

Interest rate risks

Due to its high equity ratio and financial resources, the Company is exposed to interest rate changes only to a limited extent.

Review

Credit risks

According to DAFA A/S's credit policy, all major customers are rated on a current basis. Moreover, receivables from customers are covered by credit insurance to the highest possible extent.

Basis of earnings

Research and development

DAFA A/S continuously develops and improves its products in cooperation with customers. The related costs are charged to the income statement as they are incurred.

Resources spent on own development of new products, implementation of new technology as well as certain IT projects are capitalised under the item completed development projects. During the year, there has been an addition of DKK 318k to this item.

Corporate social responsibility (CSR)

The family ownership supports DAFA A/S's aspiration for and interest in a sustainable and responsible business.

In practice, sustainability to us means that we will, by attitude, word and deed, respect and balance environmental, financial and social aspects in order to continuously improve DAFA A/S's surroundings, business and organisation.

In 2010, DAFA A/S acceded to the UN Global Compact, which provides ten principles concerning respect for human rights, labour, environment and anti-corruption. A set of guidelines to ensure that DAFA A/S employees, in cooperation with customers, suppliers, authorities and other stakeholders, create a responsible development of DAFA A/S's business and surroundings. Therefore, in 2015 DAFA A/S submitted its fifth Communication of Progress for publication on the website:

www.unglobalcompact.org

Parts of DAFA A/S's CSR efforts are focused on limiting DAFA A/S's impact on the surrounding environment. In this connection, and as part of DAFA A/S's ISO 14001 environmental certification, efforts were directed in 2015 at reducing power consumption as one of the identified key environmental impacts.

DAFA's key consumption is converted into CO_2 equivalents and is used to define DAFA's environmental target.

Review

Intellectual capital resources

It is essential for DAFA A/S's continued growth to retain and develop employees; therefore, significant resources are allocated to these efforts.

To ensure competitiveness and efficiency, new technology investments are made continuously alongside continued competence development.

Intellectual capital resources are of great importance to DAFA A/S. In the construction segment, continuous product development is carried out based on knowledge of the market and our customers. In the industry segment, customised quality solutions are developed, in connection with which our employees' know-how of materials and possible solutions is a key factor.

Uncertainty relating to recognition and measurement

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

Unusual events

The financial position at 31 December 2015 of the Group and the results of the activities and cash flows of the Group for the financial year for 2015 have not been affected by any unusual events.

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	Group 2015 TDKK	Group 2014 TDKK	Parent Company 2015 TDKK	Parent Company 2014 TDKK
Gross profit/loss		**111.238**	**101.290**	**99.820**	**95.562**
Staff expenses	1	-74.372	-70.652	-66.773	-65.602
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-8.201	-8.143	-7.752	-7.707
Other operating expenses		-143	-228	-143	-228
Profit/loss before financial income and expenses		**28.522**	**22.267**	**25.152**	**22.025**
Income from investments in subsidiaries	3	0	0	2.416	-290
Financial income	4	1.775	1.655	1.919	1.795
Financial expenses	5	-934	-314	-94	-124
Profit/loss before tax		**29.363**	**23.608**	**29.393**	**23.406**
Tax on profit/loss for the year	6	-6.125	-5.891	-6.155	-5.689
Net profit/loss for the year		**23.238**	**17.717**	**23.238**	**17.717**

Distribution of profit

	Parent Company 2015 TDKK	Parent Company 2014 TDKK
Proposed distribution of profit		
Extraordinary dividend paid	0	15.000
Proposed dividend for the year	10.000	10.000
Retained earnings	13.238	-7.283
	23.238	**17.717**

Balance Sheet 31 December

Assets

		Group		Parent Company	
	Note	2015	2014	2015	2014
		TDKK	TDKK	TDKK	TDKK
Completed development projects		159	663	159	663
Rights		0	0	0	0
Acquired other similar rights		146	0	146	0
Development projects in progress		172	0	172	0
Intangible assets	7	**477**	**663**	**477**	**663**
Land and buildings		1.369	1.397	1.369	1.397
Plant and machinery		24.296	23.055	24.296	23.055
Other fixtures and fittings, tools and equipment		7.641	7.466	4.065	4.086
Leasehold improvements		1.220	1.234	1.220	1.234
Prepayments for property, plant and equipment		583	469	583	469
Property, plant and equipment	8	**35.109**	**33.621**	**31.533**	**30.241**
Investments in subsidiaries	9	0	0	449	1.878
Other receivables	10	1.456	1.469	1.456	1.469
Fixed asset investments		**1.456**	**1.469**	**1.905**	**3.347**
Fixed assets		**37.042**	**35.753**	**33.915**	**34.251**
Inventories	11	**34.660**	**28.414**	**30.868**	**26.135**
Trade receivables		46.077	30.872	41.580	28.817
Receivables from group enterprises		0	1.172	18.641	11.828
Other receivables		1.731	635	333	342
Corporation tax		346	36	310	0
Prepayments		771	974	249	728
Receivables		**48.925**	**33.689**	**61.113**	**41.715**
Cash at bank and in hand		**8.632**	**12.512**	**10**	**5.417**
Currents assets		**92.217**	**74.615**	**91.991**	**73.267**
Assets		**129.259**	**110.368**	**125.906**	**107.518**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent Company	
	Note	2015	2014	2015	2014
		TDKK	TDKK	TDKK	TDKK
Share capital		5.000	5.000	5.000	5.000
Retained earnings		75.314	62.125	75.314	62.125
Proposed dividend for the year		10.000	10.000	10.000	10.000
Equity	12	**90.314**	**77.125**	**90.314**	**77.125**
Provision for deferred tax	13	2.331	2.757	2.325	2.439
Provisions		**2.331**	**2.757**	**2.325**	**2.439**
Lease obligations		1.024	1.692	0	0
Long-term debt	14	**1.024**	**1.692**	**0**	**0**
Credit institutions		8.529	3.200	8.529	3.200
Lease obligations	14	500	400	0	0
Trade payables		13.311	13.347	13.124	13.278
Payables to group enterprises		90	0	90	275
Corporation tax		943	126	0	126
Other payables		12.217	11.721	11.524	11.075
Short-term debt		**35.590**	**28.794**	**33.267**	**27.954**
Debt		**36.614**	**30.486**	**33.267**	**27.954**
Liabilities and equity		**129.259**	**110.368**	**125.906**	**107.518**
Contingent assets, liabilities and other financial obligations	15				
Related parties and ownership	16				

Cash Flow Statement 1 January - 31 December

	Note	Group 2015	Group 2014
		TDKK	TDKK
Net profit/loss for the year		23.238	17.717
Adjustments	17	13.628	12.720
Change in working capital	18	-20.821	8.740
Cash flows from operating activities before financial income and expenses		**16.045**	**39.177**
Financial income		1.775	1.655
Financial expenses		-936	-314
Cash flows from ordinary activities		**16.884**	**40.518**
Corporation tax paid		-6.044	-6.633
Cash flows from operating activities		**10.840**	**33.885**
Purchase of intangible assets		-317	-300
Purchase of property, plant and equipment		-9.123	-9.183
Fixed asset investments made etc		-130	0
Sale of property, plant and equipment		0	1.005
Cash flows from investing activities		**-9.570**	**-8.478**
Reduction of lease obligations		-568	-351
Repayment of payables to group enterprises		89	0
Dividend paid		-10.000	-25.000
Cash flows from financing activities		**-10.479**	**-25.351**
Change in cash and cash equivalents		**-9.209**	**56**
Cash and cash equivalents at 1 January		9.312	9.256
Cash and cash equivalents at 31 December		**103**	**9.312**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		8.632	12.512
Overdraft facility		-8.529	-3.200
Cash and cash equivalents at 31 December		**103**	**9.312**

Notes to the Financial Statements

		Group		Parent Company	
		2015	2014	2015	2014
		TDKK	TDKK	TDKK	TDKK
1	**Staff expenses**				
	Wages and salaries	65.594	61.663	58.705	57.243
	Pensions	4.138	4.385	4.003	4.194
	Other social security expenses	1.927	1.970	1.367	1.531
	Other staff expenses	2.713	2.634	2.698	2.634
		74.372	**70.652**	**66.773**	**65.602**
	Including remuneration to the Executive and Supervisory Boards	**2.863**	**1.860**	**2.863**	**1.860**
	Average number of employees	**152**	**152**	**123**	**124**
2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**				
	Amortisation of intangible assets	504	446	504	446
	Depreciation of property, plant and equipment	7.697	7.697	7.248	7.261
		8.201	**8.143**	**7.752**	**7.707**

		Parent Company	
		2015	2014
		TDKK	TDKK
3	**Income from investments in subsidiaries**		
	Share of profit/loss of DAFA Sverige AB	-31	822
	Share of profit/loss of DAFA China Holding ApS	2.542	-1.112
	Change in intercompany profit on inventories purchased within the Group	-95	0
		2.416	**-290**

		Group		Parent Company	
		2015	2014	2015	2014
		TDKK	TDKK	TDKK	TDKK
4	**Financial income**				
	Interest received from group enterprises	0	0	144	140
	Other financial income	7	10	7	10
	Exchange adjustments, income	1.768	1.645	1.768	1.645
		1.775	**1.655**	**1.919**	**1.795**
5	**Financial expenses**				
	Other financial expenses	934	314	94	124
		934	**314**	**94**	**124**
6	**Tax on profit/loss for the year**				
	Current tax for the year	6.233	6.142	6.269	5.998
	Deferred tax for the year	-108	-251	-114	-309
		6.125	**5.891**	**6.155**	**5.689**

Notes to the Financial Statements

7 Intangible assets

Group

	Completed development projects	Rights	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1.282	1.200	0	0	2.482
Additions for the year	0	0	146	172	318
Cost at 31 December	1.282	1.200	146	172	2.800
Impairment losses and amortisation at 1 January	619	1.200	0	0	1.819
Amortisation for the year	504	0	0	0	504
Impairment losses and amortisation at 31 December	1.123	1.200	0	0	2.323
Carrying amount at 31 December	**159**	**0**	**146**	**172**	**477**

Parent Company

	Completed development projects	Rights	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1.282	1.200	0	0	2.482
Additions for the year	0	0	146	172	318
Cost at 31 December	1.282	1.200	146	172	2.800
Impairment losses and amortisation at 1 January	619	1.200	0	0	1.819
Amortisation for the year	504	0	0	0	504
Impairment losses and amortisation at 31 December	1.123	1.200	0	0	2.323
Carrying amount at 31 December	**159**	**0**	**146**	**172**	**477**

Notes to the Financial Statements

8 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvement s	Prepayments for property, plant and equipment	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1.397	68.936	43.845	1.582	469	116.229
Exchange adjustment	0	0	279	0	0	279
Additions for the year	0	6.091	2.305	146	583	9.125
Disposals for the year	0	-231	-173	0	0	-404
Transfers for the year	0	469	0	0	-469	0
Cost at 31 December	1.397	75.265	46.256	1.728	583	125.229
Impairment losses and depreciation at 1 January	0	45.881	36.378	348	0	82.607
Exchange adjustment	0	0	77	0	0	77
Depreciation for the year	28	5.221	2.288	160	0	7.697
Reversal of impairment and depreciation of sold assets	0	-133	-128	0	0	-261
Impairment losses and depreciation at 31 December	28	50.969	38.615	508	0	90.120
Carrying amount at 31 December	**1.369**	**24.296**	**7.641**	**1.220**	**583**	**35.109**
Including assets under finance leases amounting to	0	0	2.345	0	0	

Notes to the Financial Statements

8 Property, plant and equipment (continued)

Parent Company

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Prepayments for property, plant and equipment	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1.397	68.936	39.448	1.582	469	111.832
Additions for the year	0	6.091	1.863	146	583	8.683
Disposals for the year	0	-231	-173	0	0	-404
Transfers for the year	0	469	0	0	-469	0
Kostpris at 31 December	1.397	75.265	41.138	1.728	583	120.111
Impairment losses and depreciation at 1 January	0	45.881	35.362	348	0	81.591
Depreciation for the year	28	5.221	1.839	160	0	7.248
Reversal of impairment and depreciation of sold assets	0	-133	-128	0	0	-261
Impairment losses and depreciation at 31 December	28	50.969	37.073	508	0	88.578
Carrying amount at 31 December	**1.369**	**24.296**	**4.065**	**1.220**	**583**	**31.533**

Notes to the Financial Statements

	Parent Company 2015 TDKK	Parent Company 2014 TDKK
9 Investments in subsidiaries		
Cost at 1 January	205	205
Cost at 31 December	205	205
Value adjustments at 1 January	-4.931	-2.932
Exchange adjustment	-58	-222
Net profit/loss for the year	2.511	-290
Dividend to the Parent Company	-1.432	-1.487
Change in intercompany profit on inventories	-95	0
Value adjustments at 31 December	-4.005	-4.931
Equity investments with negative net asset value amortised over receivables	4.249	6.604
Carrying amount at 31 December	**449**	**1.878**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
DAFA China Holding ApS	Danmark	125.000 (DKK)	100%
DAFA Sverige AB	Sverige	100.000 (SEK)	100%

10 Other fixed asset investments

	Group Other receivables TDKK	Parent Company Other receivables TDKK
Cost at 1 January	1.469	1.469
Disposals for the year	-13	-13
Cost at 31 December	1.456	1.456
Carrying amount at 31 December	**1.456**	**1.456**

Notes to the Financial Statements

	Group		Parent Company	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
11 Inventories				
Raw materials and consumables	17.317	11.940	15.315	9.661
Work in progress	1.418	2.123	1.418	2.123
Finished goods and goods for resale	15.318	13.790	13.528	13.790
Prepayments for goods	607	561	607	561
	34.660	**28.414**	**30.868**	**26.135**

12 Equity

Group

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	5.000	62.125	10.000	77.125
Ordinary dividend paid	0	0	-10.000	-10.000
Exchange adjustments relating to foreign entities	0	-49	0	-49
Net profit/loss for the year	0	13.238	10.000	23.238
Equity at 31 December	**5.000**	**75.314**	**10.000**	**90.314**

Parent Company

	Share capital	Retained earnings	Proposed dividend for the year	Total
Equity at 1 January	5.000	62.125	10.000	77.125
Ordinary dividend paid	0	0	-10.000	-10.000
Exchange adjustments relating to foreign entities	0	-49	0	-49
Net profit/loss for the year	0	13.238	10.000	23.238
Equity at 31 December	**5.000**	**75.314**	**10.000**	**90.314**

The share capital consists of shares of a nominal value of TDKK 1 or multiples thereof. No shares carry any special rights.

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

	Group		Parent Company	
	2015	2014	2015	2014
	TDKK	TDKK	TDKK	TDKK
13 Provision for deferred tax				
Intangible assets	42	49	42	49
Propert, plant and equipment	1.952	1.940	1.946	1.940
Inventories	359	417	359	417
Other provisions	-22	489	-22	171
Tax loss carry-forward	0	-138	0	-138
	2.331	**2.757**	**2.325**	**2.439**

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Lease obligations

	Group 2015	Group 2014	Parent Company 2015	Parent Company 2014
Between 1 and 5 years	1.024	1.692	0	0
Long-term part	1.024	1.692	0	0
Within 1 year	500	400	0	0
	1.524	**2.092**	**0**	**0**

15 Contingent assets, liabilities and other financial obligations

Rental agreements and leases

	Group 2015	Group 2014	Parent Company 2015	Parent Company 2014
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	5.248	4.350	4.516	4.340
Between 1 and 5 years	2.221	1.474	1.331	1.474
	7.469	**5.824**	**5.847**	**5.814**

Notes to the Financial Statements

15 Contingent assets, liabilities and other financial obligations (continued)

Contingent liabilities

The Danish group companies are jointly and severally liable for tax on the Group's jointly taxed income.

DAFA A/S is liable for all bank balances in DAFA Sverige AB. The bank debt per December 31, 2015 amounts to DKK 0.

DAFA A/S has guaranteed DKK 25k towards owners association.

16 Related parties and ownership

	Basis
Controlling interest	
J. Norby Holding ApS	Parent Company
Jacob Norby	Majority shareholder in Parent Company

Ownership

The following shareholders are recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

C. Norby Holding ApS, Aarhus C, Denmark
J. Norby Holding ApS, Højbjerg, Denmark

Notes to the Financial Statements

	Group	
	2015	2014
	TDKK	TDKK
17 Cash flow statement - adjustments		
Financial income	-1.775	-1.655
Financial expenses	934	314
Depreciation, amortisation and impairment losses, including losses and gains on sales	8.344	8.170
Tax on profit/loss for the year	6.125	5.891
	13.628	**12.720**

18 Cash flow statement - change in working capital

	2015	2014
Change in inventories	-6.097	4.432
Change in receivables	-15.183	805
Change in trade payables, etc	459	3.503
	-20.821	**8.740**

Accounting Policies

Basis of Preparation

Consolidated and Parent Company Financial Statements of DAFA A/S for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Consolidated and Parent Company Financial Statements for 2015 are presented in TDKK.

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.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, DAFA A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Accounting Policies

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method). This includes allowing for any restructuring provisions determined in relation to the enterprise acquired. Any remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straightline basis over its estimated useful life, but not exceeding 20 years. Any remaining negative differences are recognised in deferred income in the balance sheet as negative goodwill. Amounts attributable to expected losses or expenses are recognised as income in the income statement as the affairs and conditions to which the amounts relate materialise. Negative goodwill not related to expected losses or expenses is recognised at an amount equal to the fair value of non-monetary assets in the income statement over the average useful life of the non-monetary assets.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill or negative goodwill, including in amortisation already made.

Amortisation of goodwill is allocated in the Consolidated Financial Statements to the operations to which goodwill is related.

Amortisation of goodwill is recognised in “Amortisation, depreciation and impairment losses”.

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

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

Accounting Policies

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 transaction date rates are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

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

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

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

Accounting Policies

Other operating income and expenses

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

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement include the proportionate share of the profit for the year less goodwill amortisation.

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 wholly owned Danish subsidiaries. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount and is amortised over 3-5 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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Accounting Policies

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:

Buildings	50	years
Plant and machinery	5-10	years
Other fixtures and fittings, tools and equipment	3-10	years
Leasehold improvements	10	years

Assets costing less than DKK 12,800 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

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

The items “Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

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 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 sales sum.

Accounting Policies

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 including trade receivables.

Prepayments

Prepayments comprise prepaid expenses concerning consumption taxes, licenses, insurance etc.

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 Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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 in deferred tax due to changes to tax rates are recognised in the income statement.

Accounting Policies

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 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.

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

Cash Flow Statement

The cash flow statement shows the Group´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand” and ”Credit institutions”.

The cash flow statement cannot be immediately derived from the published financial records.

Accounting Policies

Financial Highlights

Explanation of financial ratios

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