Svend Hoyer A/S

Over Hadstenvej 42, DK-8370 Hadsten

Annual Report for 1 January - 31 December 2019

CVR No 17 63 06 95

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 14/4 2020

Henrik Petersen
Chairman of the General Meeting

Contents

pwc

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Svend Hoyer A/S 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.

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

Hadsten, 3 April 2020

Executive Board

Henrik Thomassen Ulrich Sørensen
CEO

Henrik Petersen
CFO

Board of Directors

Søren Østergaard Sørensen
Chairman

Denis Viet-Jacobsen
Deputy Chairman

Michael Pontoppidan Frost

Independent Auditor's Report

To the Shareholder of Svend Hoyer A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 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 Svend Hoyer A/S 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.

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.

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

Aarhus, 3 April 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Henrik Kragh	Claus Lyngsø Sørensen
State Authorised Public Accountant	State Authorised Public Accountant
mne26783	mne34539

Company Information

The Company	Svend Hoyer A/S Over Hadstenvej 42 DK-8370 Hadsten CVR No: 17 63 06 95 Financial period: 1 January - 31 December Municipality of reg. office: Favrskov
Board of Directors	Søren Østergaard Sørensen, Chairman Denis Viet-Jacobsen, Deputy Chairman Michael Pontoppidan Frost
Executive Board	Henrik Thomassen Ulrich Sørensen Henrik Petersen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Financial Highlights

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

	2019	2018	2017	2016	2015
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	627,631	457,242	380,217	237,386	388,817
Operating profit/loss	64,082	28,053	9,949	9,806	43,499
Net financials	357	-4,055	-4,433	-6,338	-564
Net profit/loss for the year	45,897	16,196	4,647	2,279	33,953
Balance sheet					
Balance sheet total	315,089	290,497	254,971	262,175	304,314
Equity	112,543	66,395	56,265	73,204	131,599
Investment in property, plant and equipment	2,437	4,534	-2,283	1,626	852
Number of employees	115	96	84	86	90
Ratios					
Solvency ratio	35.7%	22.9%	22.1%	27.9%	43.2%
Return on equity	51.3%	26.4%	7.2%	2.2%	29.3%

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.

The financial year was changed in 2016 so that the balance sheet day is 31 December. The financial year 2016 was therefore a shortened period of 8 months.

Management's Review

Financial Statements of Svend Hoyer A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

Hoyer is a leading supplier of customized electric motors and transmission products to the Marine and Industrial sectors, primarily in Europe and Asia. Hoyer sells own-branded as well as customer specific products and offers key value-added services to its customers, such as logistics, technical customization, quality assurance and technical documentation.

Development in the year

The income statement of the Company for 2019 shows a profit of kDKK 45,897, and at 31 December 2019 the balance sheet of the Company shows equity of kDKK 112,543.

Operating risks

The Company's main operating risks are related to the ability to be strongly positioned on the markets where the Company's products are sold and the ability to provide quick delivery.

Market risks

As a result of its operations, investments and financing, the Company is exposed to changes in currency exchange rates and interest rates. The Company applies a finance policy that operates with a low risk profile, so that currency, interest and credit risks only materialize on the basis of commercial circumstances.

The Company's use of derivative financial instruments has been regulated through internal procedures approved by the Board of Directors, which among others include maximum amounts and a specification of which derivative financial instruments may be used.

Foreign exchange risks

The Company is affected by changes in currency exchange rates, as goods purchased and the main part of the turnover is invoiced in a foreign currency, while the main part of the costs, including wages and salaries, are mainly paid in Danish Kroner.

Interest rate risks

The Company hedges the interest rate risk by means of the interest policy approved by the Board of Directors.

Management's Review

Credit risks

The Company's policy for assuming credit risks means that all customers and other business partners are credit rated on an ongoing basis.

Liquidity risks

The Company has credit facilities available exceeding the expected requirements of the Company.

Targets and expectations for the year ahead

The Company's outlook for the future will be positively affected by the disinvestment of the business unit Hoyer Transmissions in March 2020. The sale of Hoyer Transmissions will impact the Annual report for 2020 positively with a net impact in the level of DKK 70.0 - 80.0 million.

However, the Company's outlook for the future will be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak, see also subsequent events disclosures in note 18.

Before the COVID-19 outbreak, Management expected a decline in revenue and profit at the level and run rate comparable to the divested Hoyer Transmissions' business performance in 2019 as shown on page 14 in this report. Just as, Management expected remaining business Hoyer Motors to continue on a positive trend, based on Management's assumption of growth potential in some Marine niches as well as growth in some European industrial niche prospects where the Company is selling its products. However, the COVID-19 outbreak hit both the Asian Marine markets as well as the European industrial market in general, and Management expects this to have a negative impact on both revenue and net profit for 2020. The scope of the impact is, however, unknown at this time as it is uncertain to what extent the Company will be able to recapture lost revenue later in the year. Despite the global COVID-19 outbreak the Company has been able to keep its operations open throughout the outbreak in both Asia and Europe.

Statement of corporate social responsibility

No separate statement has been made for Svend Hoyer A/S. Please refer to the statement for Hoyer Group A/S.

In accordance with the Danish Financial Statements Act, section 99 a and 99 b Hoyer Group A/S publishes its report on Corporate Social Responsibility on the company website. Please refer to our statutory report here: https://hoyermotors.com/wp-content/uploads/2020/04/2019-Hoyer-Group-CSR-Report.pdf

Uncertainty relating to recognition and measurement

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

No extraordinary circumstances have taken place during the period, which have affected the profit for the period significantly.

Unusual events

The financial position at 31 December 2019 of the Company and the results of the activities of the Company for the financial year for 2019 have not been affected by any unusual events.

Income Statement 1 January - 31 December

	Note	2019	2018
		kDKK	kDKK
Revenue	1	**627,631**	**457,242**
Change in inventories of finished goods, work in progress and goods for resale		-21,454	20,612
Other operating income		1,646	161
Expenses for raw materials and consumables		-436,266	-362,282
Other external expenses		-43,168	-37,722
Gross profit/loss		**128,389**	**78,011**
Staff expenses	2	-60,134	-47,503
Depreciation and impairment of property, plant and equipment		-2,527	-2,294
Other operating expenses		0	-149
Profit/loss before financial income and expenses		**65,728**	**28,065**
Income from investments in subsidiaries		5,495	482
Financial income	3	1,066	438
Financial expenses	4	-6,204	-4,975
Profit/loss before tax		**66,085**	**24,010**
Tax on profit/loss for the year	5	-20,188	-7,814
Net profit/loss for the year		**45,897**	**16,196**

Balance Sheet 31 December

Assets

	Note	2019	2018
		kDKK	kDKK
Other fixtures and fittings, tools and equipment		7,120	7,365
Property, plant and equipment	6	**7,120**	**7,365**
Investments in subsidiaries	7	31,276	25,632
Receivables from group enterprises	8	1,936	1,696
Deposits	8	72	153
Fixed asset investments		**33,284**	**27,481**
Fixed assets		**40,404**	**34,846**
Finished goods and goods for resale		148,720	170,221
Inventories		**148,720**	**170,221**
Trade receivables		87,861	61,684
Receivables from group enterprises		22,911	17,261
Other receivables		634	697
Deferred tax asset	12	314	494
Prepayments	9	306	425
Receivables		**112,026**	**80,561**
Cash at bank and in hand		**13,939**	**4,869**
Currents assets		**274,685**	**255,651**
Assets		**315,089**	**290,497**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		kDKK	kDKK
Share capital		1,000	1,000
Reserve for net revaluation under the equity method		27,669	22,024
Retained earnings		83,874	43,371
Equity	10	**112,543**	**66,395**
Other provisions	13	1,800	1,751
Provisions		**1,800**	**1,751**
Other payables		1,515	0
Long-term debt	14	**1,515**	**0**
Credit institutions		87,220	111,443
Trade payables		52,862	49,058
Payables to group enterprises		38,755	45,956
Corporation tax		6,582	6,265
Payables to group enterprises relating to corporation tax		3,764	0
Other payables	14,15	10,048	9,629
Short-term debt		**199,231**	**222,351**
Debt		**200,746**	**222,351**
Liabilities and equity		**315,089**	**290,497**
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	16		
Related parties	17		
Subsequent events	18		
Accounting Policies	19		

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	1,000	22,025	43,371	66,396
Exchange adjustments	0	149	0	149
Fair value adjustment of hedging instruments	0	0	130	130
Tax on adjustment of hedging instruments for the year	0	0	-29	-29
Net profit/loss for the year	0	5,495	40,402	45,897
Equity at 31 December	**1,000**	**27,669**	**83,874**	**112,543**

Notes to the Financial Statements

		2019	2018
		kDKK	kDKK
1	**Revenue**		
	Geographical segments		
	Europe	418,126	359,271
	Asia	189,289	80,219
	Other	20,216	17,752
		627,631	**457,242**
	Business segments		
	Motors	539,835	370,816
	Transmissions	87,796	86,426
		627,631	**457,242**
2	**Staff expenses**		
	Wages and salaries	55,221	43,717
	Pensions	3,962	3,227
	Other social security expenses	951	559
		60,134	**47,503**
	Including remuneration to the Executive Board and Board of Directors of:		
	Executive Board	2,200	1,512
	Supervisory Board	338	338
		2,538	**1,850**
	Average number of employees	**115**	**96**

Notes to the Financial Statements

		2019	2018
		kDKK	kDKK
3	**Financial income**		
	Interest received from group enterprises	527	290
	Other financial income	539	148
		1,066	**438**
4	**Financial expenses**		
	Interest paid to group enterprises	1,819	1,763
	Other financial expenses	3,747	3,204
	Exchange loss	638	8
		6,204	**4,975**
5	**Tax on profit/loss for the year**		
	Current tax for the year	13,764	5,250
	Deferred tax for the year	10	92
	Adjustment of tax concerning previous years	6,274	2,500
	Adjustment of deferred tax concerning previous years	169	0
		20,217	**7,842**
	which breaks down as follows:		
	Tax on profit/loss for the year	20,188	7,814
	Tax on changes in equity	29	28
		20,217	**7,842**

Notes to the Financial Statements

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	kDKK
Cost at 1 January	24,509
Additions for the year	2,437
Disposals for the year	-2,355
Cost at 31 December	24,591
Impairment losses and depreciation at 1 January	17,142
Depreciation for the year	2,527
Reversal of impairment and depreciation of sold assets	-2,198
Impairment losses and depreciation at 31 December	17,471
Carrying amount at 31 December	**7,120**
Including assets under finance leases amounting to	447

7 Investments in subsidiaries

	2019	2018
	kDKK	kDKK
Cost at 1 January	3,607	3,607
Cost at 31 December	3,607	3,607
Value adjustments at 1 January	22,025	21,706
Exchange adjustment	149	-163
Net profit/loss for the year	5,495	482
Value adjustments at 31 December	27,669	22,025
Carrying amount at 31 December	**31,276**	**25,632**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
Svend Hoyer Power Transmission (Ningbo) Co., Ltd (sub-group)	Ningbo, China	100%	31,276	5,358

8 Other fixed asset investments

	Receivables from group enterprises	Deposits
	kDKK	kDKK
Cost at 1 January	1,696	152
Additions for the year	240	0
Disposals for the year	0	-80
Cost at 31 December	1,936	72
Carrying amount at 31 December	**1,936**	**72**

9 Prepayments

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

10 Equity

The share capital consists of 10,000 shares of a nominal value of kDKK 100. No shares carry any special rights.

11 Distribution of profit

	2019	2018
	kDKK	kDKK
Extraordinary dividend paid	0	6,000
Reserve for net revaluation under the equity method	5,495	475
Retained earnings	40,402	9,721
	45,897	**16,196**

Notes to the Financial Statements

	2019	2018
	kDKK	kDKK

12 Deferred tax asset

	2019	2018
Deferred tax asset at 1 January	494	586
Amounts recognised in the income statement for the year	-180	-92
Deferred tax asset at 31 December	**314**	**494**
Property, plant and equipment	25	-155
Amortization	-339	-339
Transferred to deferred tax asset	314	494
	0	**0**

Deferred tax asset

	2019	2018
Calculated tax asset	314	494
Carrying amount	**314**	**494**

13 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.

	2019	2018
Other provisions	1,800	1,751
	1,800	**1,751**

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:

Other payables

	2019	2018
Between 1 and 5 years	1,515	0
Long-term part	1,515	0
Other short-term payables	10,048	9,629
	11,563	**9,629**

Notes to the Financial Statements

15 Derivative financial instruments

Derivative financial instruments contracts in the form of interest caps have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	2019	2018
	kDKK	kDKK
Liabilities	65	195

Interest cap contracts have been concluded to hedge future interest payments on floating rate loans. The contracts have a term of 0,5 years. Under the contracts, floating interest rates can not exceed a fixed rate of interest of 3,25 % on loans with a principal amount of DKK 66 million. The interest cap contract has been concluded for the entire remaining maturity period.

16 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2019	2018
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	9,519	8,543
Between 1 and 5 years	32,882	28,970
After 5 years	34,540	35,271
	76,941	**72,784**
Including to group enterprises		
Rental and lease obligations	73,255	69,191

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Hoyer Group A/S, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

17 Related parties

	Basis

Controlling interest

Xilos Co-Investment No. 1 Separate Limited Partnership Jersey United Kingdom	100% shareholder of Hoyer Group A/S
Hoyer Group A/S Hadsten Denmark	Majority shareholder of Svend Hoyer A/S

Transactions

During the year, the Company had the following transactions with its ultimate Parent Company and its subsidiaries:

	2019 kDKK	2018 kDKK
Revenue	105,434	95,108
Goods purchased	-151,183	-74,657
Rent, buildings	-7,324	-67,478
Administration fee	-586	-2,091
Management fee	-4,130	-3,852
Interest income	527	290
Interest expenses	-18,189	-1,764

Consolidated Financial Statements

The company is included in the Group Annual Report of

Name	Place of registered office
Hoyer Group A/S	Hadsten

Notes to the Financial Statements

18 Subsequent events

The company has sold the business unit Hoyer Transmissions in March 2020 to support the strategy with full focus on the business unit Hoyer Motors. The sale of Hoyer Transmissions will impact the Annual Report for 2020 positively with a net impact in the level of DKK 70 - 80 million.

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have 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 Company has been limited negatively impacted by the effects of COVID-19 as the Company has been able to keep the operations going, throughout the outbreak in Asia and Europe, just as only few customers have posted the delivery on a number of existing and new projects. Moreover, the Company has been negatively impacted by the shut down of Chinese companies and travel ban as enforced by the Chinese Government and administrative employees having to work from home as urged by several European governments.

However, many of the Company’s customers have indicated that they will continue projects in progress, but there is still a risk that COVID-19 will have negative impacts on the Company’s revenue and earnings in 2020. Management is monitoring developments closely. It is, however, too early yet to give an opinion as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020. Naturally, Management will make an effort to recapture any lost revenue later in the year.

At this time, it is not possible to calculate the size of the negative COVID-19 impact.

Notes to the Financial Statements

19 Accounting Policies

The Annual Report of Svend Hoyer A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 are presented in kDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Hoyer Group A/S, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Hoyer Group A/S, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

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

Notes to the Financial Statements

19 Accounting Policies (continued)

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.

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

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Revenue

Information on business segments and geographical segments based on the Companys risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Notes to the Financial Statements

19 Accounting Policies (continued)

Expenses for raw materials and consumables

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

Other external expenses

Other external expenses comprise 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.

Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation and impairment of property, plant and equipment.

Other operating income and expenses

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

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

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 and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

19 Accounting Policies (continued)

Balance Sheet

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-10	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,800 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by 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 item“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 the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

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 the 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.

Notes to the Financial Statements

19 Accounting Policies (continued)

Other fixed asset investments

Other fixed asset investments consist of deposits and other investments.

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 equals landed cost.

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.

Prepayments

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

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 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 legisla-

Notes to the Financial Statements

19 Accounting Policies (continued)

tion at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

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

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Notes to the Financial Statements

19 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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