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Vestas Aircoil A/S

Smed Hansens Vej 13
6940 Lem St
Business Registration No
18388545

Annual report 2018

The Annual General Meeting adopted the annual report on 14.06.2019

Chairman of the General Meeting

Name: Ulrik Mikkelsen

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Entity details

Entity
Vestas Aircoil A/S
Smed Hansens Vej 13
6940 Lem St

Central Business Registration No (CVR): 18388545
Registered in: Ringkøbing-skjern
Financial year: 01.01.2018 - 31.12.2018

Phone: 97341800
Fax: 97341414
Website: www.vestas-aircoil.com
E-mail: info@vestas-aircoil.com

Board of Directors
Søren Mygind Eskildsen, chairman
Poul Hjulmand
Allan Larsen
Ulrik Mikkelsen

Executive Board
Steen Brinch Gildenpfennig, CEO

Bank
Handelsbanken

Lawyer
Fønix Advokater

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Dokken 8
Postbox 200
6701 Esbjerg

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Vestas Aircoil A/S for the financial year 01.01.2018 - 31.12.2018.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018.

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

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

Lem St., 30.04.2019

Executive Board

Steen Brinch Gildenpfennig
CEO

Board of Directors

Søren Mygind Eskildsen
chairman

Poul Hjulmand

Allan Larsen

Ulrik Mikkelsen

Independent auditor's report

To the shareholders of Vestas Aircoil A/S

Opinion

We have audited the financial statements of Vestas Aircoil A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Esbjerg, 30.04.2019

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Mikael Grosbøl
State Authorised Public Accountant
Identification No (MNE) mne33707

Lasse Lynggaard Wolff
State Authorised Public Accountant
Identification No (MNE) mne35802

Management commentary

	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Gross profit	62,898	57,534	50,397	32,037	22,250
Operating profit/loss	5,119	5,246	(685)	(2,561)	(15,877)
Net financials	31,298	10,820	3,847	3,220	4,158
Profit/loss for the year	34,999	14,229	2,579	1,115	(7,818)
Total assets	197,319	161,462	166,554	173,842	173,930
Investments in property, plant and equipment	5,513	13,386	584	797	1,368
Equity	99,728	75,013	63,666	72,755	68,620
Average numbers of employees	90	86	90	101	113
Ratios					
Return on equity (%)	40.1	20.5	3.8	1.6	(9.8)
Equity ratio (%)	50.5	46.5	38.2	41.9	39.5
Return on assets (%)	2.6	3.2	(0.4)	(1.5)	(9.1)

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

Ratios	**Calculation formula**	**Calculation formula reflects**
Return on equity (%)	Profit/loss for the year x 100 / Average equity	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	Equity x 100 / Total assets	The financial strength of the entity.
Return on assets (%)	Operating profit/loss / Total assets	The entity's return on total assets.

Management commentary

Primary activities

As in previous years, the Company's activities have comprised development, production and sale of cooling towers, charge air coolers, etc. The Company's activities also comprise development, production and sale of own machinery as well as subcontracting within machine and forge production to Denmark and other countries.

Development in activities and finances

The income statement of the Company for 2018 shows a profit of DKK 34,999,317, and at 31 December 2018 the balance sheet of the Company shows equity of DKK 99,727,852. The result of the year is considered satisfying.

Profit/loss for the year in relation to expected developments

Operating profit was expected at 2017-level with a smaller increase. The operating profit in 2018 was at 2017-level with a small decrease of DKK 127 k.

Outlook

Operating profit is expected at 2018-level.

Events after the balance sheet date

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

Income statement for 2018

	Notes	2018 DKK	2017 DKK
Gross profit		**62,897,915**	**57,534,185**
Staff costs	2	(52,818,779)	(49,508,651)
Depreciation, amortisation and impairment losses	3	(4,960,277)	(2,779,892)
Operating profit/loss		**5,118,859**	**5,245,642**
Income from investments in group enterprises		31,904,982	11,947,197
Income from other fixed asset investments		0	(100,000)
Other financial income	4	1,056,361	821,538
Other financial expenses	5	(1,663,415)	(1,848,882)
Profit/loss before tax		**36,416,787**	**16,065,495**
Tax on profit/loss for the year	6	(1,417,470)	(1,836,519)
Profit/loss for the year	7	**34,999,317**	**14,228,976**

Balance sheet at 31.12.2018

	Notes	2018 DKK	2017 DKK
Completed development projects		10,674,042	6,256,255
Acquired intangible assets		1,462,053	2,937,023
Development projects in progress		2,784,443	3,575,070
Intangible assets	8	**14,920,538**	**12,768,348**
Land and buildings		18,306,068	18,307,425
Plant and machinery		13,300,535	11,238,512
Other fixtures and fittings, tools and equipment		565,949	145,357
Prepayments for property, plant and equipment		1,472,925	399,044
Property, plant and equipment	9	**33,645,477**	**30,090,338**
Investments in group enterprises		65,101,835	41,831,786
Other investments		100,000	0
Fixed asset investments	10	**65,201,835**	**41,831,786**
Fixed assets		**113,767,850**	**84,690,472**
Raw materials and consumables		9,994,315	10,952,969
Work in progress		1,076,121	1,740,614
Manufactured goods and goods for resale		1,194,800	1,955,811
Inventories		**12,265,236**	**14,649,394**
Trade receivables		11,447,832	18,166,754
Contract work in progress		22,977	321,511
Receivables from group enterprises		38,509,663	28,543,636
Deferred tax	11	2,563,000	3,274,000
Other receivables		5,578,750	2,057,743
Income tax receivable		2,394,883	1,564,919
Prepayments	12	689,797	652,510
Receivables		**61,206,902**	**54,581,073**
Cash		**10,078,911**	**7,541,393**
Current assets		**83,551,049**	**76,771,860**
Assets		**197,318,899**	**161,462,332**

Balance sheet at 31.12.2018

	Notes	2018 DKK	2017 DKK
Contributed capital	13	3,000,000	3,000,000
Reserve for net revaluation according to the equity method		43,126,490	19,856,442
Reserve for development expenditure		10,529,922	7,668,432
Retained earnings		13,071,440	34,487,961
Proposed dividend		30,000,000	10,000,000
Equity		**99,727,852**	**75,012,835**
Other provisions	14	591,000	623,000
Provisions		**591,000**	**623,000**
Mortgage debt		14,828,568	13,967,490
Finance lease liabilities		6,413,552	4,105,947
Non-current liabilities other than provisions	15	**21,242,120**	**18,073,437**
Current portion of long-term liabilities other than provisions	15	3,501,481	2,459,633
Bank loans		46,639,465	42,934,304
Prepayments received from customers		2,391,103	884,218
Trade payables		11,707,764	10,417,492
Payables to group enterprises		1,013,186	3,117,447
Other payables		10,504,928	7,939,966
Current liabilities other than provisions		**75,757,927**	**67,753,060**
Liabilities other than provisions		**97,000,047**	**85,826,497**
Equity and liabilities		**197,318,899**	**161,462,332**
Events after the balance sheet date	1		
Unrecognised rental and lease commitments	16		
Contingent liabilities	17		
Assets charged and collateral	18		
Related parties with controlling interest	19		
Group relations	20		

Statement of changes in equity for 2018

	Contributed capital DKK	Reserve for net revaluation according to the equity method DKK	Reserve for development expenditure DKK	Retained earnings DKK
Equity beginning of year	3,000,000	19,856,442	7,668,432	34,487,961
Ordinary dividend paid	0	0	0	0
Exchange rate adjustments	0	(284,300)	0	0
Transfer to reserves	0	23,554,348	2,861,490	(26,415,838)
Profit/loss for the year	0	0	0	4,999,317
Equity end of year	**3,000,000**	**43,126,490**	**10,529,922**	**13,071,440**

	Proposed dividend DKK	Total DKK
Equity beginning of year	10,000,000	75,012,835
Ordinary dividend paid	(10,000,000)	(10,000,000)
Exchange rate adjustments	0	(284,300)
Transfer to reserves	0	0
Profit/loss for the year	30,000,000	34,999,317
Equity end of year	**30,000,000**	**99,727,852**

Notes

1. Events after the balance sheet date

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

	2018 DKK	2017 DKK
2. Staff costs		
Wages and salaries	47,081,214	44,021,171
Pension costs	3,497,667	3,203,170
Other social security costs	581,209	326,521
Other staff costs	1,658,689	1,957,789
	52,818,779	**49,508,651**
Average number of employees	**90**	**86**

	Remuneration of management 2018 DKK	Remuneration of management 2017 DKK
Total amount for management categories	2,588,562	2,840,890
	2,588,562	**2,840,890**

	2018 DKK	2017 DKK
3. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	2,760,704	2,060,239
Depreciation of property, plant and equipment	1,957,716	1,198,021
Profit/loss from sale of intangible assets and property, plant and equipment	241,857	(478,368)
	4,960,277	**2,779,892**

Notes

	2018 DKK	2017 DKK
4. Other financial income		
Financial income arising from group enterprises	674,561	769,348
Exchange rate adjustments	343,901	0
Other financial income	37,899	52,190
	1,056,361	**821,538**

	2018 DKK	2017 DKK
5. Other financial expenses		
Other interest expenses	1,531,007	1,512,986
Exchange rate adjustments	0	319,386
Other financial expenses	132,408	16,510
	1,663,415	**1,848,882**

	2018 DKK	2017 DKK
6. Tax on profit/loss for the year		
Current tax	417,532	620,874
Change in deferred tax	999,938	930,000
Adjustment concerning previous years	0	285,645
	1,417,470	**1,836,519**

	2018 DKK	2017 DKK
7. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	30,000,000	10,000,000
Transferred to reserve for net revaluation according to the equity method	0	(821,866)
Retained earnings	4,999,317	5,050,842
	34,999,317	**14,228,976**

Notes

	Completed develop-ment projects DKK	Acquired intangible assets DKK	Develop-ment projects in progress DKK
8. Intangible assets			
Cost beginning of year	6,802,052	7,581,929	3,575,070
Transfers	5,641,961	61,560	(5,703,522)
Additions	0	0	5,158,052
Disposals	0	0	(245,157)
Cost end of year	**12,444,013**	**7,643,489**	**2,784,443**
Amortisation and impairment losses beginning of year	(545,797)	(4,644,906)	0
Transfers	7,832	(7,832)	0
Amortisation for the year	(1,232,006)	(1,528,698)	0
Amortisation and impairment losses end of year	**(1,769,971)**	**(6,181,436)**	**0**
Carrying amount end of year	**10,674,042**	**1,462,053**	**2,784,443**

Development projects

Development projects in progress

Development projects in progress comprise of development and test of air coolers and welded parts to OEM customers. Prototypes are continually finalised and tested by our OEM customers. No sales has yet been carried through for the projects, and the management has positive expectations, that the new developed projects individually will have significant future sales potentials and have no indication for the need to adjust the current book value.

Completed development projects

Completed development projects comprise of development and test of air coolers and welded parts to OEM customers. Each product has an 8 year depreciation period starting from the date of serial production. Sales has been carried through for the projects.

Notes

	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK	Prepay-ments for property, plant and equipment DKK
9. Property, plant and equipment				
Cost beginning of year	50,509,345	60,579,329	1,457,206	399,044
Transfers	100,000	299,044	0	(399,044)
Additions	94,881	3,445,783	499,266	1,472,925
Disposals	0	(157,554)	0	0
Cost end of year	**50,704,226**	**64,166,602**	**1,956,472**	**1,472,925**
Depreciation and impairment losses beginning of year	(32,201,920)	(49,340,817)	(1,311,849)	0
Depreciation for the year	(196,238)	(1,682,804)	(78,674)	0
Reversal regarding disposals	0	157,554	0	0
Depreciation and impairment losses end of year	**(32,398,158)**	**(50,866,067)**	**(1,390,523)**	**0**
Carrying amount end of year	**18,306,068**	**13,300,535**	**565,949**	**1,472,925**
Recognised assets not owned by entity	**-**	**9,873,136**	**-**	**-**

Notes

	Invest-ments in group enterprises DKK	Other investments DKK
10. Fixed asset investments		
Cost beginning of year	21,975,344	0
Additions	0	100,000
Cost end of year	**21,975,344**	**100,000**
Revaluations beginning of year	19,856,442	0
Exchange rate adjustments	(225,419)	0
Amortisation of goodwill	(60,000)	0
Share of profit/loss for the year	31,943,922	0
Adjustment of intra-group profits	21,060	0
Dividend	(8,409,514)	0
Revaluations end of year	**43,126,491**	**0**
Carrying amount end of year	**65,101,835**	**100,000**
Goodwill or negative goodwill recognized during the financial year	**155,500**	**-**

	Registered in	Corpo-rate form	Equity inte-rest %
Investments in group enterprises comprise:			
Vestas Aircoil Cooling Technology (Suzhou) Co., Ltd.	Suzhou, China	Co. Ltd.	100.0
Suzhou VP Industries Machining Co., Ltd.	Suzhou, China	Co. Ltd.	100.0
VP Industries Romania S.R.L.	Brasov, Rumania	S.R.L.	100.0
Vestas Aircoil UK Ltd.	Sutton Coldfield, England	Ltd.	100.0

Notes

	2018 DKK	2017 DKK
11. Deferred tax		
Intangible assets	750,000	734,000
Property, plant and equipment	561,000	1,392,000
Inventories	92,000	271,000
Receivables	0	4,000
Liabilities other than provisions	5,000	6,000
Tax losses carried forward	1,155,000	867,000
	2,563,000	**3,274,000**

Changes during the year	
Beginning of year	3,274,000
Recognised in the income statement	(1,000,000)
Correction previous years due to use of tax losses	289,000
End of year	**2,563,000**

Deferred tax assets is expected to be utilised within the next 3 to 5 years.

12. Prepayments

Prepayments consist of prepaid expenses concerning insurance, subscriptions and leases.

	Number	Par value DKK	Nominal value DKK	Recorded par value DKK
13. Contributed capital				
Share capital	3,000	1000	3,000,000	3,000,000
	3,000		**3,000,000**	**3,000,000**

14. Other provisions

Other provisions consist of expected warranty obligations.

Notes

	Due within 12 months 2018 DKK	Due within 12 months 2017 DKK	Due after more than 12 months 2018 DKK	Outstanding after 5 years DKK
15. Liabilities other than provisions				
Mortgage debt	1,752,321	1,199,087	14,828,568	7,664,020
Finance lease liabilities	1,749,160	1,260,546	6,413,552	0
	3,501,481	**2,459,633**	**21,242,120**	**7,664,020**

	2018 DKK	2017 DKK
16. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**2,031,784**	**2,383,428**

Unrecognised rental and lease for the period 2019-2022.

	2018 DKK	2017 DKK
17. Contingent liabilities		
Recourse and non-recourse guarantee commitments	3,795,000	5,175,000
Contingent liabilities in total	**3,795,000**	**5,175,000**

Recourse and non-recourse guarantee commitments comprise of usual performance bonds.

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

18. Assets charged and collateral

Mortgage debt is secured by way of mortgage on properties.

Bank loans are secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 8,450 k nominal.

The carrying amount of mortgaged properties is DKK 18,306 k.

Notes

Certain items of plant and machinery as well as other fixtures etc have been financed by means of finance leases. The carrying amount of assets held under finance leases is DKK 9,873 k.

19. Related parties with controlling interest
Genua A/S, Copenhagen holds all of the shares and has controlling interest.

20. Group relations
Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Genua A/S, Copenhagen

Accounting policies

Reporting class

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

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

Consolidated financial statements

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

Business combinations

Newly acquired or newly established enterprises are recognised in the financial statements from the time of acquiring or establishing such enterprises. Divested or wound-up enterprises are recognised in the income statement up to the time of their divestment or winding-up.

The uniting-of-interests method is applied on acquisition of enterprises, mergers, demergers, contributions of assets and exchanges of shares, etc where the enterprises concerned are controlled by the Parent. Under the uniting-of-interests method, the acquiree's assets and liabilities are recognised at their carrying amounts, adjusted for any differences in accounting policies and accounting estimates. The difference between the consideration agreed and the carrying amount of the acquiree is recognised in equity. The comparative figures are restated.

Foreign currency translation

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

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Income statement

Gross profit or loss

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

Accounting policies

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of goods is recognised in the income statement when the risk 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 Entity. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract work and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Entity. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress comprise decreases or increases for the financial year in inventories of finished goods and work in progress. This item includes ordinary writedowns of such inventories. Changes in inventories of raw materials are included in costs sales.

Own work capitalised

Own work capitalised comprises staff costs and other costs incurred in the financial year and recognised in cost for proprietary intangible assets.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Cost of sales

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

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

Other external expenses

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

Staff costs

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

Accounting policies

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

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

Income from other fixed asset investments
Income from other fixed asset investments comprises gains in the form of interest, dividends, etc on fixed asset investments which are not investments in group enterprises or associates.

Other financial income
Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities etc.

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

The Entity is jointly taxed with Genua A/S and all Danish group subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet
Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights and acquired intellectual property rights.

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

Accounting policies

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

Indirect production costs in the form of indirectly attributable staff costs are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 8 years.

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

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

The amortisation periods used are 5 years.

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

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

Buildings	20-25 years
Plant and machinery	8 years
Other fixtures and fittings, tools and equipment	5 years

Estimated useful lives and residual values are reassessed annually.

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

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

Accounting policies

Investments in group enterprises

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

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. If the useful life cannot be estimated reliably, it is fixed at 10 years. Useful lives are reassessed annually. The amortisation periods used are 8 years.

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

Other investments

Other investments comprise unlisted equity investments measured at the lower of cost and net realisable value.

Inventories

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

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

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Accounting policies

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

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

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

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

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

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

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

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

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

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

Cash
Cash comprises cash in hand and bank deposits.

Accounting policies

Dividend

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

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments etc.

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

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

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

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Operating leases

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

Other financial liabilities

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

Prepayments received from customers

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

Accounting policies

Cash flow statement

Referring to section 86 (4) of the Danish Financial Statements Act, cash flow statement has not been disclosed in the Annual Report, as it is included in the group cash flow statement of Genua A/S.