



Vestas Aircoil A/S

Smed Hansens Vej 13
6940 Lem St
CVR No. 18388545

Annual report 2022

The Annual General Meeting adopted the
annual report on 28.06.2023

Ib Sand Nykjær

Chairman of the General Meeting

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Entity details

Entity

Vestas Aircoil A/S

Smed Hansens Vej 13

6940 Lem St

Business Registration No.: 18388545

Registered office: Ringkøbing-Skjern

Financial year: 01.01.2022 - 31.12.2022

Phone number: 97341800

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URL: www.vestas-aircoil.com

E-mail: info@vestas-aircoil.com

Board of Directors

Ib Sand Nykjær, chairman

Allan Larsen

Mette Grunnet

Executive Board

Michael Døj

Bank

Sydbank

Kongensgade 62

6700 Esbjerg

Attorney

Elmann Advokatpartnerskab

Stockholmgade 41

2100 København Ø

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Dokken 8

6700 Esbjerg

Statement by Management

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 01.01.2022 - 31.12.2022.

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 31.12.2022 and of the results of its operations for the financial year 01.01.2022 - 31.12.2022.

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., 13.06.2023

Executive Board

Michael Døj

Board of Directors

Ib Sand Nykjær
chairman

Allan Larsen

Mette Grunnet

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 01.01.2022 - 31.12.2022, 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 31.12.2022 and of the results of its operations for the financial year 01.01.2022 - 31.12.2022 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:

- 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.

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, 13.06.2023

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Lasse Lynggaard Wolff

State Authorised Public Accountant
Identification No (MNE) mne35802

Management commentary

Financial highlights

	2022 DKK'000	2021 DKK'000	2020 DKK'000	2019 DKK'000	2018 DKK'000
Key figures					
Gross profit/loss	26,384	11,088	33,498	57,923	62,048
Operating profit/loss	5,420	(7,311)	(8,393)	2,387	5,119
Net financials	168	(700)	(1,774)	(856)	(607)
Profit/loss for the year	50,205	31,293	(2,941)	10,210	34,999
Total assets	190,410	176,905	158,729	188,720	197,319
Investments in property, plant and equipment	215	230	580	5,237	5,513
Equity	116,277	88,294	61,258	80,365	99,728
Average number of employees	17	13	61	85	90
Ratios					
Return on equity (%)	49.08	41.85	(4.15)	11.34	40.06
Equity ratio (%)	61.07	49.91	38.59	42.58	50.54
Return on assets (%)	2.83	(4.13)	(5.29)	1.26	2.59

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

Return on equity (%):

Profit/loss for the year * 100

Average equity

Equity ratio (%):

Equity * 100

Total assets

Return on assets (%):

Operating profit/loss * 100

Total assets

Primary activities

The Company's activities have been focused on development and sales of heat exchangers.

Development in activities and finances

As of mid-2022 Applied Cooling Technology LLC was bought and Vestas aircoil Holdings U.S, LLC, and Vestas aircoil U.S, LLC was created. The impact on 2022 numbers are not material.

The 2022 income statement for the Company shows a profit of DKK 50,205,313 and at December 31st 2022 the balance sheet of the Company shows equity of DKK 116,276,964. The result of the year is considered satisfying.

Profit/loss for the year in relation to expected developments

The operating profit in 2022 was slightly higher than expected and shows a profit of DKK 5,419,776 mainly due to activities in our subsidiaries.

Outlook

Operating profit in the parent company is expected to be at 2022 level.

Use of financial instruments

The Company does not use derivative financial instruments. Financial risks consist of changes in exchange rates and changes in prices of raw materials. These risks are covered commercially.

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 2022

	Notes	2022 DKK	2021 DKK
Gross profit/loss		26,384,294	11,087,558
Staff costs	2	(15,944,471)	(13,036,070)
Depreciation, amortisation and impairment losses	3	(5,020,047)	(5,362,105)
Operating profit/loss		5,419,776	(7,310,617)
Income from investments in group enterprises		49,626,357	31,701,204
Other financial income	4	2,001,583	1,159,515
Other financial expenses	5	(1,833,889)	(1,859,757)
Profit/loss before tax		55,213,827	23,690,345
Tax on profit/loss for the year	6	(2,342,162)	7,602,965
Other taxes		(2,666,352)	0
Profit/loss for the year	7	50,205,313	31,293,310

Balance sheet at 31.12.2022

Assets

	Notes	2022 DKK	2021 DKK
Completed development projects	9	5,051,762	6,509,673
Acquired intangible assets		34,844	57,037
Development projects in progress	9	1,019,561	1,529,721
Intangible assets	8	6,106,167	8,096,431
Land and buildings		17,638,935	17,818,088
Plant and machinery		8,588,722	10,897,264
Other fixtures and fittings, tools and equipment		291,807	368,888
Property, plant and equipment	10	26,519,464	29,084,240
Investments in group enterprises		84,672,199	79,581,029
Receivables from group enterprises		25,018,938	0
Other investments		100,000	100,000
Financial assets	11	109,791,137	79,681,029
Fixed assets		142,416,768	116,861,700
Trade receivables		138,796	188,137
Receivables from group enterprises		38,638,679	41,573,912
Deferred tax	12	4,526,000	4,245,000
Other receivables		715,893	1,738,428
Joint taxation contribution receivable		0	6,503,370
Prepayments	13	832,650	776,730
Receivables		44,852,018	55,025,577
Cash		3,140,831	5,017,941
Current assets		47,992,849	60,043,518
Assets		190,409,617	176,905,218

Equity and liabilities

	Notes	2022 DKK	2021 DKK
Contributed capital	14	3,000,000	3,000,000
Reserve for net revaluation according to the equity method		55,596,855	57,505,685
Reserve for development expenditure		4,735,631	6,274,221
Retained earnings		31,444,478	14,156
Proposed dividend		21,500,000	21,500,000
Equity		116,276,964	88,294,062
Mortgage debt		13,672,497	17,771,110
Lease liabilities		117,530	1,207,222
Other payables		4,704,780	4,127,326
Non-current liabilities other than provisions	15	18,494,807	23,105,658
Current portion of non-current liabilities other than provisions	15	5,298,275	6,233,192
Bank loans		42,263,433	50,675,414
Prepayments received from customers		0	1,461,309
Trade payables		752,160	1,272,946
Payables to group enterprises		2,953,763	2,881,322
Joint taxation contribution payable		1,430,815	0
Other payables		2,939,400	2,981,315
Current liabilities other than provisions		55,637,846	65,505,498
Liabilities other than provisions		74,132,653	88,611,156
Equity and liabilities		190,409,617	176,905,218
Events after the balance sheet date	1		
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Statement of changes in equity for 2022

	Contributed capital DKK	Reserve for net revaluation according to the equity method DKK	Reserve for development expenditure DKK	Retained earnings DKK	Proposed dividend DKK
Equity beginning of year	3,000,000	57,505,685	6,274,221	14,156	21,500,000
Ordinary dividend paid	0	0	0	0	(21,500,000)
Exchange rate adjustments	0	(722,411)	0	0	0
Transfer to reserves	0	(1,186,419)	(1,538,590)	2,725,009	0
Profit/loss for the year	0	0	0	28,705,313	21,500,000
Equity end of year	3,000,000	55,596,855	4,735,631	31,444,478	21,500,000

	Total DKK
Equity beginning of year	88,294,062
Ordinary dividend paid	(21,500,000)
Exchange rate adjustments	(722,411)
Transfer to reserves	0
Profit/loss for the year	50,205,313
Equity end of year	116,276,964

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.

2 Staff costs

	2022	2021
	DKK	DKK
Wages and salaries	14,593,902	11,816,540
Pension costs	1,030,070	882,988
Other social security costs	320,499	336,542
	15,944,471	13,036,070
Average number of full-time employees	17	13

	Remuneration of Management 2022 DKK	Remuneration of Management 2021 DKK
Executive Board	0	1,676,344
Board of Directors	0	1,328,306
Total amount for management categories	1,432,243	0
	1,432,243	3,004,650

3 Depreciation, amortisation and impairment losses

	2022	2021
	DKK	DKK
Amortisation of intangible assets	1,282,578	1,398,938
Impairment losses on intangible assets	1,151,875	1,573,826
Depreciation of property, plant and equipment	2,736,163	3,182,785
Profit/loss from sale of intangible assets and property, plant and equipment	(150,569)	(793,444)
	5,020,047	5,362,105

4 Other financial income

	2022	2021
	DKK	DKK
Financial income from group enterprises	1,093,018	575,607
Exchange rate adjustments	908,565	583,908
	2,001,583	1,159,515

5 Other financial expenses

	2022	2021
	DKK	DKK
Financial expenses from group enterprises	18,240	24,495
Other interest expenses	1,739,780	1,729,039
Other financial expenses	75,869	106,223
	1,833,889	1,859,757

6 Tax on profit/loss for the year

	2022	2021
	DKK	DKK
Current tax	2,623,162	(1,543,739)
Change in deferred tax	(281,000)	667,000
Adjustment concerning previous years	0	(2,828,330)
Refund in joint taxation arrangement	0	(3,897,896)
	2,342,162	(7,602,965)

7 Proposed distribution of profit and loss

	2022	2021
	DKK	DKK
Ordinary dividend for the financial year	21,500,000	21,500,000
Retained earnings	28,705,313	9,793,310
	50,205,313	31,293,310

8 Intangible assets

	Completed development projects DKK	Acquired intangible assets DKK	Development projects in progress DKK
Cost beginning of year	11,035,774	7,710,069	1,529,721
Transfers	391,424	0	(391,424)
Additions	0	0	444,189
Disposals	(1,137,628)	0	(562,925)
Cost end of year	10,289,570	7,710,069	1,019,561
Amortisation and impairment losses beginning of year	(4,526,101)	(7,653,032)	0
Impairment losses for the year	(1,151,875)	0	0
Amortisation for the year	(1,260,385)	(22,193)	0
Reversal regarding disposals	1,700,553	0	0
Amortisation and impairment losses end of year	(5,237,808)	(7,675,225)	0
Carrying amount end of year	5,051,762	34,844	1,019,561

9 Development projects

Development projects in progress

Development projects in progress comprise of development and test of air coolers 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 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.

10 Property, plant and equipment

	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK
Cost beginning of year	50,821,983	54,576,071	2,243,058
Additions	28,978	28,969	156,683
Disposals	0	(3,281,894)	0
Cost end of year	50,850,961	51,323,146	2,399,741
Depreciation and impairment losses beginning of year	(33,003,895)	(43,678,807)	(1,874,170)
Depreciation for the year	(208,131)	(2,294,268)	(233,764)
Reversal regarding disposals	0	3,238,651	0
Depreciation and impairment losses end of year	(33,212,026)	(42,734,424)	(2,107,934)
Carrying amount end of year	17,638,935	8,588,722	291,807
Recognised assets not owned by entity	0	4,514,909	0

11 Financial assets

	Investments in group enterprises DKK	Receivables from group enterprises DKK	Other investments DKK
Cost beginning of year	22,075,344	0	100,000
Transfers	0	21,113,879	0
Additions	12,615,183	3,905,059	0
Disposals	(5,615,183)	0	0
Cost end of year	29,075,344	25,018,938	100,000
Revaluations beginning of year	57,505,685	0	0
Exchange rate adjustments	(722,411)	0	0
Share of profit/loss for the year	49,440,328	0	0
Adjustment of intra-group profits	186,029	0	0
Dividend	(53,327,035)	0	0
Investments with negative equity value depreciated over receivables	2,514,259	0	0
Revaluations end of year	55,596,855	0	0
Carrying amount end of year	84,672,199	25,018,938	100,000

Investments in subsidiaries	Registered in	Corporate form	Equity interest %
Vestas Aircoil Cooling Technology (Suzhou) Co., Ltd.	Suzhou, China	Co. Ltd.	100.00
Suzhou VP Industries Machining Co., Ltd.	Suzhou, China	Co. Ltd.	100.00
Vestas Aircoil Romania S.R.L.	Brasov, Rumania	S.R.L.	100.00
Vestas Aircoil UK Ltd.	Sutton Coldfield, England	Ltd.	100.00
Vestas Industrial Cooling ApS	Lem St, Denmark	ApS	100.00
Vestas Aircoil Holdings U.S., LLC	Delaware, USA	LLC	100.00
Applied Cooling Technology, LLC	Florida, USA	LLC	100.00
Vestas Aircoil US LLC	Delaware, USA	LLC	100.00

12 Deferred tax

	2022 DKK	2021 DKK
Intangible assets	2,493,000	2,330,000
Property, plant and equipment	2,019,000	1,897,000
Liabilities other than provisions	14,000	18,000
Tax losses carried forward	1,517,000	525,000
Other deductible temporary differences	(1,517,000)	(525,000)
Deferred tax	4,526,000	4,245,000

	2022 DKK	2021 DKK
Changes during the year		
Beginning of year	4,245,000	4,912,000
Recognised in the income statement	281,000	(667,000)
End of year	4,526,000	4,245,000

Deferred tax assets

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

The company has a deferred tax asset of DKK 1,517k which has not been recognised as a deferred tax asset in the balance sheet, as it is uncertain whether or when the tax asset can be utilized.

13 Prepayments

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

14 Share capital

	Number	Par value DKK	Nominal value DKK	Recorded par value DKK
Share capital	3,000	1,000	3,000,000	3,000,000
	3,000		3,000,000	3,000,000

15 Non-current liabilities other than provisions

	Due within 12 months 2022 DKK	Due within 12 months 2021 DKK	Due after more than 12 months 2022 DKK	Outstanding after 5 years 2022 DKK
Mortgage debt	4,157,038	4,078,473	13,672,497	3,909,207
Lease liabilities	1,090,950	2,154,719	117,530	0
Other payables	50,287	0	4,704,780	3,030,037
	5,298,275	6,233,192	18,494,807	6,939,244

16 Unrecognised rental and lease commitments

	2022 DKK	2021 DKK
Liabilities under rental or lease agreements until maturity in total	520,604	156,010

Unrecognised rental and lease for the period 2023-27.

17 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where M. Grunnet Holding 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 7,450 k nominal.

The carrying amount of mortgaged properties is DKK 17,639 k.

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 4,515 k.

Collateral provided for group enterprises

The Entity has issued a "letter of support" up to and including 31st of December 2023, respectively, to Vestas Industrial Cooling ApS.

19 Related parties with controlling interest

The direct parent, Genua A/S, Copenhagen holds all of the shares and has controlling interest. The ultimate parent, M. Grunnet Holding A/S, Copenhagen holds all of the shares of Genua A/S and has controlling interest. Mette Grunnet, Copenhagen is the ultimate owner, and holds all of the shares of M. Grunnet Holding A/S.

20 Non-arm's length related party transactions

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

21 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
M. Grunnet Holding A/S, Copenhagen

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
M. Grunnet Holding A/S, Copenhagen

Accounting policies

Reporting class

This annual report has been prepared 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.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate at the time of acquisition or the time of any subsequent revaluation or writedown. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary

assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

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.

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.

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, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

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

Income from investments in group enterprises

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

Other financial income

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 M. Grunnet Holding 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).

Other taxes

The item includes tax amounts calculated on a basis other than income for the year, which are not refunded to the Entity.

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.

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 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, and 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:

	Useful life
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.

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.

The accounting policies applied to material financial statement items of group enterprises are:

Addition to revenue: 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 of raw materials and consumables.

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 in 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, and finance costs are recognised in the income statement as incurred.

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, and 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.

Other provisions: Other provisions comprise anticipated costs of non-recourse guarantee commitments and loss on contract work in progress.

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.

Receivables

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

Other investments

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

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.

Joint taxation contributions receivable or payable

Current joint taxation contributions payable or joint taxation contributions receivable are recognised in the balance sheet, calculated as tax computed on the taxable income for the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Dividend

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

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.

Lease liabilities

Lease liabilities 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 liabilities 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.

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 M. Grunnet Holding A/S.