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Sondex Holding A/S

Marsvej 5
6000 Kolding
Central Business Registration
No 20311495

Annual report 2016

The Annual General Meeting adopted the annual report on 10.05.2017

Chairman of the General Meeting

Name: Anders Stahlschmidt

Contents

Entity details

Entity
Sondex Holding A/S
Marsvej 5
6000 Kolding

Central Business Registration No: 20311495
Registered in: Kolding, Denmark
Financial year: 01.01.2016 - 31.12.2016

Phone: +4576306100
Fax: +4575542168
Website: www.sondex.dk
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Board of Directors
Niels Bjørn Christiansen, chairman
Kim Fausing
Jesper Vaagelund Christensen

Executive Board
Jacob Madsen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Egtved Allé 4
6000 Kolding

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Sondex Holding A/S for the financial year 01.01.2016 - 31.12.2016.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016 and of their financial performance for the financial year 01.01.2016 - 31.12.2016.

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.

Kolding, 10.05.2017

Executive Board

Jacob Madsen

Board of Directors

Niels Bjørn Christiansen chairman	Kim Fausing	Jesper Vaagelund Christensen

Independent auditor's report

To the shareholders of Sondex Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Sondex Holding A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016, and of the results of their operations for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group 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 consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and 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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

Independent auditor's report

reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent 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 consolidated financial statements and the parent 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 Group’s and 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 consolidated financial statements and the parent 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 Group's and 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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

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

Our opinion on the consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent 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 consolidated financial statements and the parent 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.

Kolding, 10.05.2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Anders Rosendahl Poulsen
State Authorised Public Accountant

Management commentary

	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000	2012 DKK'000
Financial highlights					
Key figures					
Revenue	984.646	960.688	965.984	791.767	863.849
Gross profit/loss	412.876	385.612	361.407	314.841	317.101
Operating profit/loss	122.782	128.219	114.317	98.369	109.625
Net financials	(1.514)	4.086	(6.799)	1.738	(2.986)
Profit/loss for the year	92.362	100.768	77.764	71.533	77.483
Total assets	1.114.018	994.142	916.878	841.359	812.655
Investments in property, plant and equipment	75.869	76.386	75.420	94.962	81.983
Equity incl minority interests	780.806	768.514	693.658	647.275	613.466
Average invested capital incl goodwill	771.274	709.266	633.422	594.984	549.519
Interest bearing debt, net	(13.736)	(35.438)	(24.978)	(62.472)	166
Ratios					
Return on invested capital incl goodwill (%)	16,1	18,1	18,3	16,7	20,0
Revenue invested capital incl goodwill	1,3	1,4	1,5	1,3	1,6
Return on equity (%)	11,9	13,8	11,6	11,3	13,8
Equity ratio (%)	70,1	77,3	75,7	76,9	75,5
EBITA margin	12,5	13,3	11,8	12,4	12,7

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Return on invested capital incl goodwill (%)	$\frac{\text{EBITA x 100}}{\text{Average invested capital incl goodwill}}$	The return generated by the entity on the investors' funds.
Revenue/Invested capital incl goodwill	$\frac{\text{Revenue}}{\text{Average invested capital incl goodwill}}$	Turnover rate of capital employed by the entity.
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity incl minority interests}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity incl minority interests x 100}}{\text{Total assets}}$	The financial strength of the entity.
EBITA margin	$\frac{\text{EBITA*100}}{\text{Revenue}}$	The Entity's operating profitability

EBITA (Earnings Before Interest, Tax and Amortisation) is defined as operating profit plus the year's amortisation of and impairment losses relating to intangible assets including goodwill.

Invested capital including goodwill is defined as net working capital plus the carrying amount of property, plant and equipment and intangible assets as well as accumulated amortisation of intangible assets including goodwill, and less other provisions and long-term operating liabilities. Accumulated impairment losses relating to goodwill are not added.

Management commentary

Net working capital is defined as inventories, receivables and other operating current assets net of trade payables and other short-term operating liabilities. Income taxes receivable and payable as well as cash are not included in net working capital.

Net interest-bearing debt is defined as interest-bearing liabilities, including income tax payable, net of interest-bearing assets, including cash and income tax receivable.

Management commentary

Management commentary

Primary activities
The Group's primary activity is production of plate heat exchangers sold on the home market and export markets.

Change in ownership and management
Early September 2016, Danfoss A/S, Nordborg, Denmark acquired 100% of the shares in Sondex Holding A/S. Sondex Holding A/S is thus consolidated into the Danfoss Group as of September 1, 2016.

Due to this acquisition, there has been a change in the management of the Company. At the same time the Company began to acquire all minority interests in the Company' subsidiaries.

Development in activities and finances
The profit for 2016 amounted to DKK 92m, which is considered very satisfactory.

Our primary activity is still sale/production and development of plate heat exchangers. An increasing part of our production has gradually been moved to growth areas, especially China and the US as well as to low cost areas such as Romania and India.

The increasing price competition, which is a result of the present crisis, has required a focus on a reduced product price. In this connection, it has resulted in relatively enhanced competitiveness in relation to specifically small and medium-sized plates that we have moved part of this production to low cost areas, where also the biggest growth is taking place.

Further relocation of the plate production to other growth areas and improved profitability has been planned and under implementation.

The primary development continues to be concentrated on new types of plate heat exchangers. Moreover, we have started to develop new complementary products for our present product program. The new products are expected further to contribute positively to our earnings during 2017.

Outlook
For 2017 an increase in revenue and EBIT is expected.

Particular risks
Currency risks

The activities abroad entail that the Group is influenced by changes in exchange rates. Based on actual risk assessments hedging transactions are made by the Group to cover these risks. As of September 2016, this is carried out in cooperation with the Danfoss Group.

Environmental performance
The Group's activities have environmental impact by way of production and transport. The Group complies with the current environmental legislation and is currently working on minimizing the environmental impact.

Management commentary

Research and development activities

The Group is currently working on the development of new products and optimization of well-known products.

Statutory report on corporate social responsibility

The Company's parent entity, Danfoss A/S, each year issues a sustainability report, which i.a. includes the policy and how the policy is transformed into actions within this area. The report also includes an assessment of what has been achieved because of actions by the Danfoss Group within sustainability over the past year.

The report can be downloaded on www.danfoss.com/sustainability/Sustainability-reporting

Diversification

The Company's parent entity, Danfoss A/S, has a policy for diversification. The company is following the policy on this area.

The policy for the Danfoss Group is included in the Annual Report for 2016 of Danfoss A/S. This report can be downloaded on www.danfoss.com/about/financial-information/financial-reports

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.

Consolidated income statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue	1	984.646	960.688
Changes in inventories of finished goods and work in progress		2.747	13.291
Own work capitalised	2	7.405	0
Other operating income		17.334	12.460
Costs of raw materials and consumables		(514.007)	(520.004)
Other external expenses	3	(85.249)	(80.823)
Gross profit/loss		**412.876**	**385.612**
Staff costs	4	(259.143)	(230.050)
Depreciation, amortisation and impairment losses	5	(30.951)	(27.343)
Operating profit/loss		**122.782**	**128.219**
Other financial income		19.737	12.976
Other financial expenses		(21.251)	(8.890)
Profit/loss before tax		**121.268**	**132.305**
Tax on profit/loss for the year	6	(28.906)	(31.537)
Profit/loss for the year	7	**92.362**	**100.768**

Consolidated balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Completed development projects		230	100
Acquired rights		307	551
Goodwill		42.580	0
Intangible assets	8	**43.117**	**651**
Land and buildings		214.859	207.300
Plant and machinery		106.659	87.925
Property, plant and equipment in progress		1.806	7.973
Property, plant and equipment	9	**323.324**	**303.198**
Deposits		4.265	3.627
Other receivables		2.831	3.941
Fixed asset investments	10	**7.096**	**7.568**
Fixed assets		**373.537**	**311.417**
Raw materials and consumables		186.426	200.597
Work in progress		67.401	44.709
Manufactured goods and goods for resale		52.588	72.533
Inventories		**306.415**	**317.839**
Trade receivables		237.506	213.735
Receivables from group enterprises	11	8.190	14.493
Deferred tax		9.322	6.165
Other receivables		25.784	14.230
Prepayments		6.322	4.849
Receivables		**287.124**	**253.472**
Other investments		1.796	3
Other investments		**1.796**	**3**
Cash		**145.146**	**111.411**
Current assets		**740.481**	**682.725**
Assets		**1.114.018**	**994.142**

Consolidated balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital		15.000	15.000
Retained earnings		658.183	681.398
Proposed dividend		100.000	40.000
Equity attributable to the Parent's owners		**773.183**	**736.398**
Share of equity attributable to minority interests		**7.623**	**32.116**
Equity		**780.806**	**768.514**
Other provisions	12	23.426	22.556
Provisions		**23.426**	**22.556**
Mortgage debts		26.810	28.857
Bank loans		5.274	5.240
Finance lease liabilities		1.366	295
Non-current liabilities other than provisions	13	**33.450**	**34.392**
Current portion of long-term liabilities other than provisions	13	4.559	4.441
Bank loans		115.368	33.709
Trade payables		52.394	57.342
Income tax payable		8.735	17.927
Other payables		94.170	54.064
Deferred income		1.110	1.197
Current liabilities other than provisions		**276.336**	**168.680**
Liabilities other than provisions		**309.786**	**203.072**
Equity and liabilities		**1.114.018**	**994.142**
Contingent liabilities	14		
Mortgages and securities	15		
Group relations	16		

Consolidated statement of changes in equity for 2016

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Share of equity attributable to minority interests DKK'000
Equity beginning of year	15.000	681.398	40.000	32.116
Effect of divestments of entities etc	0	0	0	(29.884)
Ordinary dividend paid	0	0	(40.000)	0
Exchange rate adjustments	0	(9.289)	0	(12)
Fair value adjustments of hedging instruments	0	(24)	0	0
Other equity postings	0	0	0	(80)
Dividends from group enterprises	0	0	0	(781)
Profit/loss for the year	0	(13.902)	100.000	6.264
Equity end of year	**15.000**	**658.183**	**100.000**	**7.623**

	Total DKK'000
Equity beginning of year	768.514
Effect of divestments of entities etc	(29.884)
Ordinary dividend paid	(40.000)
Exchange rate adjustments	(9.301)
Fair value adjustments of hedging instruments	(24)
Other equity postings	(80)
Dividends from group enterprises	(781)
Profit/loss for the year	92.362
Equity end of year	**780.806**

Notes to consolidated financial statements

1. Revenue

	2016 DKK'000	2015 DKK'000
Sale domestic	65.113	69.614
Sale abroad	919.533	891.074
	984.646	**960.688**

The Group's primary segment – the business segment – only comprises production and sale of plate heat exchangers. Secondary segment is geographical sales areas.

2. Own work capitalised

Own work capitalised comprises staff costs and other in-house costs incurred in the financial year and recognised in cost for property, plant and equipment.

	2016 DKK'000	2015 DKK'000
3. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	838	764
Tax services	106	246
Other services	530	400
	1.474	**1.410**

	2016 DKK'000	2015 DKK'000
4. Staff costs		
Wages and salaries	225.203	198.454
Pension costs	18.418	18.925
Other social security costs	15.522	12.671
	259.143	**230.050**
Average number of employees	**1.265**	**1.186**

	Remuneration of management 2016 DKK'000	Remuneration of management 2015 DKK'000
Total amount for management categories	1.486	1.444
	1.486	**1.444**

Notes to consolidated financial statements

	2016 DKK'000	2015 DKK'000
5. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	1.530	489
Depreciation of property, plant and equipment	29.421	26.854
	30.951	**27.343**

	2016 DKK'000	2015 DKK'000
6. Tax on profit/loss for the year		
Tax on current year taxable income	24.991	34.947
Change in deferred tax for the year	3.842	(2.679)
Adjustment concerning previous years	73	(731)
	28.906	**31.537**

	2016 DKK'000	2015 DKK'000
7. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	100.000	40.000
Retained earnings	(13.902)	55.243
Minority interests' share of profit/loss	6.264	5.525
	92.362	**100.768**

	Completed develop-ment projects DKK'000	Acquired rights DKK'000	Goodwill DKK'000
8. Intangible assets			
Cost beginning of year	1.105	2.700	0
Addition through business combinations etc	0	0	43.269
Exchange rate adjustments	(4)	(124)	0
Additions	724	170	0
Disposals	(97)	(109)	0
Cost end of year	**1.728**	**2.637**	**43.269**
Amortisation and impairment losses beginning of year	(1.005)	(2.149)	0
Exchange rate adjustments	84	83	0
Amortisation for the year	(577)	(264)	(689)
Amortisation and impairment losses end of year	**(1.498)**	**(2.330)**	**(689)**
Carrying amount end of year	**230**	**307**	**42.580**

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Property, plant and equipment in progress DKK'000
9. Property, plant and equipment			
Cost beginning of year	243.876	228.694	7.973
Exchange rate adjustments	(4.212)	(3.206)	(90)
Transfers	1.425	(1.425)	0
Additions	16.485	49.515	9.869
Disposals	(1.900)	(15.951)	(15.946)
Cost end of year	**255.674**	**257.627**	**1.806**
Depreciation and impairment losses beginning of the year	(36.576)	(140.769)	0
Exchange rate adjustments	1.717	1.685	0
Transfers	21	(21)	0
Depreciation for the year	(7.314)	(22.107)	0
Reversal regarding disposals	1.337	10.244	0
Depreciation and impairment losses end of the year	**(40.815)**	**(150.968)**	**0**
Carrying amount end of year	**214.859**	**106.659**	**1.806**

	Deposits DKK'000	Other receivables DKK'000
10. Fixed asset investments		
Cost beginning of year	3.627	3.941
Exchange rate adjustments	60	57
Additions	679	3
Disposals	(101)	(1.170)
Cost end of year	**4.265**	**2.831**
Carrying amount end of year	**4.265**	**2.831**

11. Short-term receivables from group enterprises

Comprise receivables from the Danfoss Group.

12. Other provisions

Other provisions comprise guarantee provisions.

Notes to consolidated financial statements

13. Liabilities other than provisions	Instalments within 12 months 2016 DKK'000	Instalments within 12 months 2015 DKK'000	Instalments beyond 12 months 2016 DKK'000	Outstanding after 5 years DKK'000
Mortgage debts	2.053	2.067	26.810	18.413
Bank loans	2.114	2.092	5.274	0
Finance lease liabilities	392	282	1.366	0
	4.559	**4.441**	**33.450**	**18.413**

14. Contingent liabilities

	2016 DKK'000	2015 DKK'000
Contractual liabilities		
The Group has concluded lease contracts concerning lease of premises (the lease contracts may be cancelled with 1-2 years' notice) and operating lease contracts on cars and xerox copiers etc.		
Annual rent and lease payments	**8.606**	**7.233**
Contingent liabilities		
The Group has guaranteed for bank debt. The maximum limit of the guarantee is DKK 6.000k.		
Bank debt amounts to	**0**	**0**
The Group has given collateral and submitted joint surety for bank debt.		
Bank debt amounts to	**0**	**1.947**

An interest swap for hedging the interest risk on mortgages has been concluded for expiry 30.06.2026.

The Group has provided a bank guarantee of totally DKK 13.941k concerning concluded work contracts.

Other contingent liabilities

The Group participates in a Danish joint taxation. As a result of the change of ownership the Group is liable for any income taxes etc in the former joint taxation circle till August 2016 and subsequently in the new joint taxation circle. According to the joint taxation provisions of the Danish Corporation Tax Act, the Group is therefore liable from the financial year 2012 for income taxes etc for the jointly taxed companies and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

Notes to consolidated financial statements

Tax case

In Management's opinion, intra-group transactions have been conducted on an arm's length basis. However, the Danish tax authorities have adopted another view and made a proposal for an increase of the Group's tax assessments in previous years. The Group fully disagrees with the Danish tax authorites and have completely rejected the proposal from the Danish tax authorities. Should the court instances decide in favour of the Danish tax authorities, the matter will result in considerable tax payments for a subsidiary. On group level it will, however, not result in any major financial burden as, if so, a corresponding reduction will have to be made in other group companies.

15. Mortgages and securities

	2016 DKK'000	2015 DKK'000
Mortgage debt is secured by way of mortgage on properties.		
Carrying amount of mortgaged properties	**79.762**	**81.785**
Bank debt is secured by way of a deposited letter of indemnity of DKK 3,000k nominal.		
Carrying amount of mortgaged properties	**6.792**	**7.087**

16. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group: Danfoss A/S, 6340 Nordborg, Denmark (Central business Registration No 20 16 57 15)

Parent income statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue		(115)	497
Other operating income		6.350	2.972
Other external expenses		(355)	1.714
Gross profit/loss		**5.880**	**5.183**
Depreciation, amortisation and impairment losses		0	(99)
Operating profit/loss		**5.880**	**5.084**
Income from investments in group enterprises		80.894	89.311
Other financial income	1	1.145	2.244
Other financial expenses	2	(321)	(1.201)
Profit/loss before tax		**87.598**	**95.438**
Tax on profit/loss for the year	3	(1.500)	(195)
Profit/loss for the year	4	**86.098**	**95.243**

Parent balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Investments in group enterprises		763.670	622.127
Receivables from group enterprises		39.049	66.014
Fixed asset investments	5	**802.719**	**688.141**
Fixed assets		**802.719**	**688.141**
Receivables from group enterprises		2.370	0
Dividends receivable from group enterprises		11.745	51.119
Other receivables		7.929	797
Receivables		**22.044**	**51.916**
Cash		**32.223**	**9.126**
Current assets		**54.267**	**61.042**
Assets		**856.986**	**749.183**

Parent balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital	6	15.000	15.000
Reserve for net revaluation according to the equity method		381.190	327.945
Retained earnings		276.993	353.453
Proposed dividend		100.000	40.000
Equity		**773.183**	**736.398**
Deferred tax		1.397	0
Non-current liabilities other than provisions		**1.397**	**0**
Bank loans		39.495	11.589
Payables to group enterprises		11.562	24
Income tax payable		103	187
Other payables		31.246	985
Current liabilities other than provisions		**82.406**	**12.785**
Liabilities other than provisions		**83.803**	**12.785**
Equity and liabilities		**856.986**	**749.183**
Contingent liabilities	7		
Related parties with controlling interest	8		

Parent statement of changes in equity for 2016

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000
Equity beginning of year	15.000	327.945	353.453	40.000
Effect of divestments of entities etc	0	772	(772)	0
Ordinary dividend paid	0	0	0	(40.000)
Exchange rate adjustments	0	(9.289)	0	0
Other equity postings	0	(24)	0	0
Dividends from group enterprises	0	(19.156)	19.156	0
Profit/loss for the year	0	80.942	(94.844)	100.000
Equity end of year	**15.000**	**381.190**	**276.993**	**100.000**

	Total DKK'000
Equity beginning of year	736.398
Effect of divestments of entities etc	0
Ordinary dividend paid	(40.000)
Exchange rate adjustments	(9.289)
Other equity postings	(24)
Dividends from group enterprises	0
Profit/loss for the year	86.098
Equity end of year	**773.183**

Notes to parent financial statements

	2016 DKK'000	2015 DKK'000
1. Other financial income		
Financial income arising from group enterprises	885	1.019
Other financial income	260	1.225
	1.145	**2.244**

	2016 DKK'000	2015 DKK'000
2. Other financial expenses		
Other financial expenses	321	1.201
	321	**1.201**

	2016 DKK'000	2015 DKK'000
3. Tax on profit/loss for the year		
Tax on current year taxable income	103	187
Change in deferred tax for the year	1.397	0
Adjustment concerning previous years	0	8
	1.500	**195**

	2016 DKK'000	2015 DKK'000
4. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	100.000	40.000
Transferred to reserve for net revaluation according to the equity method	80.942	89.311
Retained earnings	(94.844)	(34.068)
	86.098	**95.243**

Notes to parent financial statements

	Investments in group enterprises DKK'000	Receivables from group enterprises DKK'000
5. Fixed asset investments		
Cost beginning of year	294.182	66.014
Additions	90.118	0
Disposals	(1.820)	(26.965)
Cost end of year	**382.480**	**39.049**
Revaluations beginning of year	327.945	0
Exchange rate adjustments	(9.289)	0
Adjustments on equity	(24)	0
Share of profit/loss for the year	80.942	0
Dividend	(19.156)	0
Reversal regarding disposals	772	0
Revaluations end of year	**381.190**	**0**
Carrying amount end of year	**763.670**	**39.049**

	Number	Par value DKK'000	Nominal value DKK'000
6. Contributed capital			
A-shares	1.500	1000	1.500
B-shares	13.500	1000	13.500
	15.000		**15.000**

There has been no changes in the share capital in the past five financial years.

7. Contingent liabilities

	2016 DKK'000	2015 DKK'000
The Company has given collateral and submitted joint surety for bank debt.		
Bank debt amounts to	**44.062**	**5.765**

The Company has provided bank guarantees with a maximum limit of totally DKK 7.320k regarding subsidiaries.

The Company has provided a guarantee to Sondex A/S regarding payment of receivables from other Group companies.

Notes to parent financial statements

Other contingent liabilities

The Company participates in a Danish joint taxation. As a result of the change of ownership the Company is liable for any income taxes etc in the former joint taxation circle till August 2016 and subsequently in the new joint taxation circle. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2012 for income taxes etc for the jointly taxed companies and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

Tax case

In Management’s opinion, intra-group transactions have been conducted on an arm’s length basis. However, the Danish tax authorities have adopted another view and made a proposal for an increase of the Group’s tax assessments in previous years. The Group fully disagrees with the Danish tax authorites and have completely rejected the proposal from the Danish tax authorities. Should the court instances decide in favour of the Danish tax authorities, the matter will result in considerable tax payments for a subsidiary. On group level it will, however, not result in any major financial burden as, if so, a corresponding reduction will have to be made in other group companies.

8. Related parties with controlling interest

The following related parties have a controlling interest in the Sondex Holding A/S Group:

Name	Registered office	Basis of influence
Danfoss A/S (Central Business Registration No. 20 16 57 15)	Nordborgvej 81, Nordborg, Denmark	Possession of shares

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 (large).

Changes in accounting policies
Due to changes in the Danish Financial Statements Act the following changes in accounting policies have been adopted:

Minority interests
Minority interests are presented as part of the equity and minority interests' share of profit is disclosed in the allocation of profit. Previously minority interests were presented as a separate main item between equity and provisions. Moreover, minority interests' share of profit was presented as a separate item in the income statement.

Dividend
Dividend is recognised as a liability at the time of adoption at the general meeting. Dividend is presented as a separate item under equity. Previously dividend was presented as a separate item under current liabilities.

Impact of changes of practice
The total impact of the changes of practice described above amounts to an increase of the equity in the consolidated financial statements at 31.12.2015 of DKK 72,116k and of the equity in the parent financial statements of DKK 40,000k. The impact of the changes of practice at 01.01.2015 have been recognised directly in equity, cf. statements of changes in equity on page 14 and 23.

The accounting policies applied for these consolidated financial statements and parent financial statements are apart from the changes listed above consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Accounting policies

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise Sondex Holding A/S (Parent) and the group enterprises (subsidiaries) that are controlled by the Parent, see group chart on page 8. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements. Minority interests' pro rata shares of the profit/loss and the net assets are disclosed as separate items in the income statement and the balance sheet, respectively.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the takeover date, with net assets having been calculated at fair value.

Business combinations

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

The purchase method is applied at the acquisition of new enterprises, under which identifiable assets and liabilities of these enterprises are measured at fair value at the acquisition date. On acquisition of enterprises, provisions are made for costs relating to decided and published restructurings in the acquired enterprise. Allowance is made for the tax effect of restatements.

Positive differences in amount (goodwill) between cost of the acquired share and fair value of the assets and liabilities taken over are recognised under intangible assets, and they are amortised systematically over the income statement based on an individual assessment of their useful life, however, no more than 20 years. Negative differences in amount (negative goodwill), corresponding to an estimated adverse development in the relevant enterprises, are recognised in the balance sheet under deferred income, and they are recognised in the income statement when such adverse development is realised.

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.

Accounting policies

Exchange differences that arise between the rate at the transaction date and the one 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.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign subsidiaries or associates are classified directly as equity.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. 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 write-downs of such inventories. Changes in inventories of raw materials are included in costs of raw materials and consumables.

Own work capitalised
Own work capitalised comprises staff costs and other in-house costs incurred in the financial year and recognised in cost for property, plant and equipment.

Other operating income
Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities, including government grants, rental income and licensing income etc.

Accounting policies

Costs of raw materials and consumables
Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary write-downs of the relevant inventories.

Other external expenses
Other external expenses comprise expenses for distribution, sale, marketing, administration, premises, bad debts, etc.

Other external expenses also include research costs and costs of development projects that do not meet the criteria for recognition in the balance sheet.

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

Depreciation, amortisation and impairment losses
Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation 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.

Other financial income
Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme 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 current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

The Parent is jointly taxed with all of its Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Accounting policies

Balance sheet

Goodwill

Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. The amortisation period is usually may be up to 20 years for strategically acquired enterprises with a strong market position and a long-term earnings profile if the longer amortisation period is considered to give a better reflection of the benefit from the relevant resources.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

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.

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 indirect attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is three to five years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights.

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, but over no more than 20 years.

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

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 self-manufactured assets, cost comprises direct and indirect costs of materials, components and subsuppliers.

Accounting policies

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	10-40 years
Plant and machinery	3-7 years

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

Profits and losses from the sale of property, plant and equipment are calculated as the difference between selling price minus selling costs and carrying amount at the time of sale. Profits or losses are recognised in the income statement under other operating income or under operating expenses.

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 plus or minus unamortised positive, or negative, goodwill and minus or plus unrealised intra-group profits or losses.

Group enterprises with negative equity are measured at DKK 0, and any receivables from these enterprises are written down by the Parent's share of such negative equity value if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

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.

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

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

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

Cost of goods for resale, raw materials and consumables 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 on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

Accounting policies

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

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

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

Other investments
Securities recognised under current assets comprise listed bonds and investments measured at fair value (market price) at the balance sheet date.

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. The proposed dividend for the financial year is disclosed as a separate item in equity.

Minority interests
Minority interests consist of non-controlling interests share of equity in subsidiaries not 100% owned by the parent company.

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

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.

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

Accounting policies

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.

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

Deferred income
Deferred income comprises received income for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement
Referring to section 86 of the Danish Financial Statements Act, Sondex Holding A/S has not prepared any cash flow statement.