

# LOGSTOR A/S

Danmarksvej 11, DK-9670 Løgstør

CVR no. 21 33 02 48



## Annual report 2016

Approved at the annual general meeting of shareholders on 17/5-17

Chairman:



Building a better  
working world



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### Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of LOGSTOR A/S for the financial year 1 January - 31 December 2016.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Løgstør, 17 May 2017  
Executive Board:

Rafal Zdzislaw Wyszomirski  
CEO

Board of Directors:

Henning Bejer Beck  
Chairman

Line Dissing Mønster

Kristian Haldrup Overgaard

Christian Svanhede

Jøhn Nielsen



## Independent auditor's report

To the shareholders of LOGSTOR A/S

### Opinion

We have audited the financial statements of LOGSTOR A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including 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 financial position of the Company at 31 December 2016 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 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 financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

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

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

## Independent auditor's report

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

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

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

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

### Statement on Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 17 May 2017

ERNST & YOUNG

Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Steen Skorstengaard  
State Authorised Public Accountant



Hans Peter Roug  
State Authorised Public Accountant



## Management's review

### Company details

Name	LOGSTOR A/S
Address, Postal code, City	Danmarksvej 11, DK-9670 Løgstør
CVR no.	21 33 02 48
Established	1 December 1998
Registered office	Vesthimmerlands Kommune
Financial year	1 January - 31 December
Website	<a href="http://www.logstor.com">www.logstor.com</a>
E-mail	<a href="mailto:logstor@logstor.com">logstor@logstor.com</a>
Telephone	+45 99 66 10 00
Board of Directors	Henning Bejer Beck, Chairman Line Dissing Mønster Kristian Haldrup Overgaard Christian Svanhede John Nielsen
Executive Board	Rafal Zdislaw Wyszomirski, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark



## Management's review

### Financial highlights

DKK'000	2016	2015	2014	2013	2012
<b>Key figures</b>					
Revenue	725,582	939,338	932,805	772,996	1,052,707
Gross margin	168,402	252,637	203,956	165,593	188,659
Operating profit/loss	-7,947	53,521	19,614	-22,605	-59,724
Profit/loss for the year	-15,130	29,835	5,760	-23,909	-47,141
<b>Balance sheet</b>					
Fixed assets	190,881	206,536	219,889	225,292	233,894
Non-fixed assets	299,111	294,678	246,146	238,006	262,859
Total assets	489,992	501,214	466,035	463,298	496,753
Share capital	41,000	41,000	41,000	41,000	41,000
Equity	101,532	157,525	127,866	133,634	157,582
Provisions	36,185	57,327	71,931	80,200	70,547
Non-current liabilities other than provisions	47,288	52,628	58,172	63,468	71,785
Current liabilities other than provisions	304,987	233,734	294,433	280,698	275,665
<b>Financial ratios</b>					
EBITDA-margin	3.6%	9.3%	5.1%	0.5%	-1.6%
Return on assets	-1.6%	11.1%	4.2%	-4.7%	-10.9%
Current ratio	98.1%	126.1%	83.6%	84.8%	95.4%
Return on equity	-11.7%	20.9%	4.4%	-16.4%	-25.9%
<b>Employees</b>					
Average number of employees	294	329	352	342	423

Financial ratios are calculated in accordance with the Danish Finance Society's recommendations on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.



## Management's review

### Management commentary

#### Business review

The Group's primary activity is to develop, manufacture and sell high-quality pre-insulated pipe systems for transportation of liquids and gases. LOGSTOR is the world's leading supplier of pre-insulated pipe systems, not only for district heating, but also for district cooling, the chemical industry, the oil and gas sector, and the marine industry.

LOGSTOR is an international enterprise with sales and production companies in Denmark, Sweden, Finland, Poland and Romania as well as sales to more than 50 markets through resellers and own sales companies in Germany, the Netherlands, Switzerland, Austria, France, Lithuania and Italy.

#### Financial review

Revenue for the year amounted to DKK 725,6 million against DKK 939,3 million prior year.

Operating totalled DKK -7,9 million compared to 53,5 million the year before.

The profit for the year after tax amounted to DKK -15,1 million compared to DKK 29,8 million last year. The result for 2016 is disappointing and lower as expected due to the sluggish DE market in 2016 and very low activity in the Oil/Gas business.

#### Cash flows

The Company's cash flows from operating activities amounted to DKK -15,1 million, cash flows from investing activities amounted to DKK -17,7 million, and cash flows from financing activities amounted to DKK -47,1 million.

The total net change in cash and cash equivalents as well as short-term bank debt is DKK -58,5 million.

#### Non-financial matters

In 2016, LOGSTOR successfully introduced the Flextra® product to Germany via the distribution centre in Augsburg. The Company maintained its research and developments efforts within District Energy. For the Oil and Gas market we continued to develop the product range further to meet market demands in all segments. We successfully secured the order for the pipe bends for the Husky Project in Canada and prepared a mobile site for the production 2016/2017. LOGSTOR finished the design manual and launched online design tools to ease the static design of buried district heating pipe lines.

#### Special risks

The results, cash flows and equity are affected by the exchange rate development of several currencies as a consequence of the Company's international activities.

The Parent manages the financial risks of the Company and coordinates the cash management of the Group, including funding and investment of surplus liquidity.

The Company's currency policy aims at hedging against commercial currency risks.

#### Foreign branches

LOGSTOR Group has production on mobile plants in Indonesia and Canada to ensure delivery on major projects and both Indonesia and Canada are established as branches.



## Management's review

### Management commentary

#### Statutory CSR report

LOGSTOR recognises the UN and ILO declarations regarding human rights, labour rights, environment and anti-corruption. LOGSTOR has therefore chosen to structure the CSR work, including the policies, in accordance with the UN Global Compact guidelines. LOGSTOR works systematically with CSR, and operate plants, which are certified in accordance with ISO 9001 (Quality Management), ISO 14.001 (Environmental Management) and compliant with OHSAS 18.001 (Occupational Health and Safety Standard). The management systems use a risk based approach to ensure that the efforts are concentrated in the areas with the greatest risk.

The CSR policy is supported by LOGSTOR's Code of Conduct, which contains the company's demands to suppliers within the CSR area. Through the Code of Conduct LOGSTOR require suppliers to comply with the CSR demands in their own Supply Chain. External audits of the suppliers, as well as their sub suppliers, are carried out when there is a concrete suspicion of breach of the Code of Conduct. No audits have been carried out in 2016. LOGSTOR procurement department has prepared a set of guidelines: "Code of Conduct for suppliers", which includes internal anti-corruption guidelines for e.g. gift exchange, negotiation principles and handling of conflicts of interest. The internal anti-corruption guidelines have been extended to include the sales organisation, which is especially relevant for new markets where LOGSTOR is currently expanding the business. To support the guidelines, LOGSTOR sat up a whistle-blower function in 2016, which is an externally administered hotline where the employees can report unethical behaviour anonymously.

Our corporate social responsibility policies currently comprise human rights, social and environmental issues, anti-bribery and gender representation.

Management continuously follows up on compliance with these policies in practice.

#### *Human rights*

In our code of conduct, which has been circulated to our suppliers, we have published our zero-tolerance regarding forced labour, child labour, discrimination, freedom of association, workplace health and safety and conditions of employment.

Since 2015, we started to obtain direct compliance confirmations from our suppliers and/or perform independent compliance reviews, if there is a concrete suspicion of breach of the Code of Conduct.

#### *Social and working conditions*

With expanding government regulations and increasing societal expectations, the Management team continued their increased focus on health, safety and environmental issues in 2016. This included an update of the HSE Policy, which reaffirmed the organizations commitment to an Incident and Injury Free (IIF) workplace.

In 2016 significant HSEQ organizational changes were implemented. This included transforming the HSEQ function into a true business partner in support of operations versus a separate silo function. The changes more closely integrated the site based HSEQ resources through reporting and accountability relationships with the respective Plant Management, from which they receive their day-to-day direction. Functional direction is provided by Group HSEQ with a dotted line reporting relationships.

A Group Safety Leadership Team (GSLT) was initiated in 2016. The GSLT meets monthly and membership includes the CEO and other key members of the management team. The GSLT is chartered to provide the leadership and commitment necessary for the organization's IIF journey.

A key initiative in 2016 was Hazardous Awareness Training. All Blue Collar employees were trained. Training consisted of both classroom instruction and a practical application.

#### Environment and climate

We produce pre-insulated pipes which are energy-efficient solutions and therefore reduce the world's emission of greenhouse gases and work as a company on being as energy-efficient as possible in what we do every day.

## Management's review

### Management commentary

Inside our organisation, we wish to document and reduce emissions by optimising our own production and logistics as well as demanding that our suppliers do their best to reduce the emission of greenhouse gases in cooperation with LOGSTOR. Outside our organisation, we want to contribute to efficiency improvements of the world's energy supply, and reduce the global energy loss by using pre-insulated pipes and thereby help reducing the world's emission of greenhouse gases.

As part of the EU Energy Efficiency Directive (EED), LOGSTOR A/S were audited in 2016 with recommendations to improve energy management. In conjunction with the EU efforts, LOGSTOR A/S achieved ISO 50001 (Energy Management) certification in 2016.

It is important for LOGSTOR to:

- Contribute to the limitation and reduction of our environmental impact, encourage cooperation with authorities, and communicate openly about our environmental conditions

- Observe the requirements of the international Business Charter for Sustainable Development (ICC)

- Minimise the consumption of resources and waste during production

- Prioritise both optimization of production and the use of cleaner technology during product development

Every year, we prepare CO<sub>2</sub> accounts in which we present our resource- and energy consumption as well as our direct environmental impact. We map our consumption of electricity, district heating, fuels, and process emissions. Since 2004, LOGSTOR's total energy consumption has been decreasing.

### *Anti-bribery*

A zero-tolerance policy regarding any kind of bribery has been adopted and implemented. All relevant staff with market-orientated activities has been trained in our new policies.

- Management has no knowledge of any actual bribery including facility payments or other irregularities.

- It is Management's intention to update the policy as adequate and to add more detailed policies and instructions as required by external as well as internal development.

During 2016, a training program, which included basic knowledge and understanding of the Group's "Anti-Corruption Policy" has been completed. Similar sessions will be conducted in 2017.

### Account of the gender composition of Management

On a current basis, the LOGSTOR Group board of directors assess the composition of its members as well as how their internal processes work, including an appraisal of the cooperation between board and CEO. Further, a part of this assessment is a consideration of multitude and the need for specific competencies. The boards are generally composed by business people, possessing a combination of professional competencies and practical experience, deemed to match the needs of LOGSTOR Group.

A gender representation policy was implemented in 2015 and going forward. It is the intention to include at least one female candidate in the selection process for recruitment of managers and members of the LOGSTOR Group board of directors. Currently, it is the target that by the end of 2020, 20% of the managers and board members shall be female. In comparison, the realized ratio was 15% female managers, whereas no shareholder elected board members are female.

### Events after the balance sheet date

LOGSTOR's Board of Directors has appointed Søren Eskildsen as new President and Chief Executive Officer of LOGSTOR effective as of 16 January 2017. Søren Eskildsen succeeds Yves Paletta who will remain an investor in LOGSTOR and an advisor to the Board and Management.

Besides the events mentioned above, no events have occurred after year-end, which would influence the evaluation of this annual report.



## Management's review

### Management commentary

#### Outlook

2017 has started well, and results develop as expected. Due to the macro-economic situation prevailing in our main markets in Europe it is not possible to give an accurate forecast of the financial performance for 2017. However, as a result of performance enhancements in 2016, profitability is expected to improve in 2017 compared to 2016.



## Financial statements for the period 1 January - 31 December

### Income statement

Note	DKK'000	2016	2015
	Revenue	725,582	939,338
	Cost of sales	-507,948	-628,987
	Change in inventories of finished goods and work in progress	-1,520	-7,064
2	Profit/loss from sale of intangible assets and property, plant and equipment	456	103
	Other external expenses	-48,168	-50,753
	Gross margin	168,402	252,637
3	Staff costs	-142,462	-165,087
4	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-33,887	-34,029
	Profit/loss before net financials	-7,947	53,521
	Other financial income from group enterprises	1,106	1,523
	Financial income	5	26
	Financial expenses	-11,264	-15,451
	Profit/loss before tax	-18,100	39,619
5	Tax for the year	2,970	-9,784
	Profit/loss for the year	-15,130	29,835



Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Completed development projects	20,027	15,892
	Acquired intangible assets	4,394	5,746
	Goodwill	24,257	28,448
	Development projects in progress and prepayments for intangible assets	3,842	4,082
		<u>52,520</u>	<u>54,168</u>
7	Property, plant and equipment		
	Land and buildings	71,329	75,822
	Plant and machinery	62,700	71,589
	Property, plant and equipment under construction	4,332	4,957
		<u>138,361</u>	<u>152,368</u>
	Total fixed assets	<u>190,881</u>	<u>206,536</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	35,676	37,783
	Work in progress	5,828	7,830
	Finished goods and goods for resale	38,093	37,611
		<u>79,597</u>	<u>83,224</u>
	Receivables		
	Trade receivables	55,020	39,914
8	Construction contracts	7,712	25,988
	Receivables from group enterprises	135,347	125,817
12	Deferred tax assets	8,436	5,104
	Corporation tax receivable	5,272	3,581
	Other receivables	4,816	7,222
9	Prepayments	2,880	2,965
		<u>219,483</u>	<u>210,591</u>
	Cash	31	863
	Total non-fixed assets	<u>299,111</u>	<u>294,678</u>
	TOTAL ASSETS	<u>489,992</u>	<u>501,214</u>



## Financial statements for the period 1 January - 31 December

### Balance sheet

Note	DKK'000	2016	2015
	<b>EQUITY AND LIABILITIES</b>		
	Equity		
10	Share capital	41,000	41,000
	Reserve for development costs	7,124	0
	Retained earnings	53,408	76,525
	Dividend proposed	0	40,000
	<b>Total equity</b>	<b>101,532</b>	<b>157,525</b>
	Provisions		
12	Deferred tax	19,335	19,957
	Other provisions	16,850	37,370
13	<b>Total provisions</b>	<b>36,185</b>	<b>57,327</b>
	Liabilities		
11	Non-current liabilities other than provisions		
	Bank debt	47,288	52,628
		<b>47,288</b>	<b>52,628</b>
	Current liabilities		
11	Short-term part of long-term liabilities other than provisions	5,434	5,505
	Bank debt	120,751	63,104
	Trade payables	57,244	63,631
	Payables to group enterprises	88,168	65,902
	Other payables	33,390	35,592
		<b>304,987</b>	<b>233,734</b>
	<b>Total liabilities other than provisions</b>	<b>352,275</b>	<b>286,362</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>489,992</b>	<b>501,214</b>

- 1 Accounting policies
- 14 Contractual obligations and contingencies, etc.
- 15 Collateral
- 16 Related parties
- 17 Fee to the auditors appointed by the Company in general meeting



Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Dividend proposed	Total
Equity at 1 January 2016	41,000	0	76,525	40,000	157,525
18 Transfer, see "Appropriation of loss"	0	7,124	-22,144	0	-15,020
Adjustment of hedging instruments at fair value	0	0	-1,248	0	-1,248
Tax on items recognised directly in equity	0	0	275	0	275
Dividend distributed	0	0	0	-40,000	-40,000
Equity at 31 December 2016	41,000	7,124	53,408	0	101,532



## Financial statements for the period 1 January - 31 December

### Cash flow statement

Note	DKK'000	2016	2015
	Profit/loss for the year	-15,130	29,835
19	Adjustments	9,941	20,108
	Cash generated from operations (operating activities)	-5,189	49,943
20	Changes in working capital	15,141	-5,853
	Cash generated from operations (operating activities)	9,952	44,090
	Income taxes paid	-1,691	-8,350
	Other cash flows from operating activities	-1,928	0
	Cash flows from operating activities	6,333	35,740
	Additions of intangible assets	-7,693	-6,088
	Additions of property, plant and equipment	-12,176	-16,638
	Disposals of property, plant and equipment	2,174	2,152
	Cash flows to investing activities	-17,695	-20,574
	Dividends paid	-40,000	0
	Repayments, long-term liabilities	-5,411	-5,393
	Repayments, borrowings from group enterprises	-1,706	4,815
	Cash flows from financing activities	-47,117	-578
	Net cash flow	-58,479	14,588
	Cash and cash equivalents at 1 January	-62,241	-76,829
	Cash and cash equivalents at 31 December	-120,720	-62,241



## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of LOGSTOR A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

##### Changes to presentation and disclosures only

Effective 1 January 2016, the Company has implemented act no. 738 of 1 June 2015 with amendments to the Danish Financial Statements Act. As the implementation of the amendment act has no impact in terms of value on the income statement or the balance sheet in the financial year, nor on the comparative figures, the financial statements have been prepared based on the same accounting policies as last year.

The amendment act has solely implied new or changed presentation and disclosure requirements, which have been incorporated in the financial statements.

##### Basis of 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.

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

##### 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 rate 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.

##### 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 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 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 costs of the relevant financial statement items.

## Financial statements for the period 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

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.

## 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.

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).

## Raw materials and consumables, etc.

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.

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.

## 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 write-downs of receivables recognised in current assets.

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 entire staff.

## Amortisation/depreciation

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.

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	7 years
Acquired intangible assets	15 years
Goodwill	10-20 years
Land and buildings	25 years
Operating equipment	5-10 years
Transport vehicles	5 years
IT equipment	3 years

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

#### Financial income and expenses

Financial Income comprises interest income, including interest income on receivables from group enterprises, net capital gains on financial statement items in foreign currencies as well as tax relief under the Danish Tax Prepayment Scheme etc.

Financial expenses comprise interest expenses, net capital loss on financial statement items in foreign currencies as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

#### Tax

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 in equity.

The Entity is jointly taxed with LOGSTOR Denmark Holding ApS and all its Danish 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). Tax for the year relates to income in the Danish company as well as in foreign permanent establishments.

#### Balance sheet

##### Intangible assets

Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. In certain cases, the amortization period is up to 10-20 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 sources.

Goodwill is amortised over 10-20 years.

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

## Financial statements for the period 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

Intellectual property rights etc comprise acquired licenses and patent and development projects relating to products intended to be produced and sold.

Acquired licenses and patents are measured at cost less accumulated amortisation.

Acquired licenses and patent rights are amortised over 15 years as the investments made are expected to contribute to earnings during this period.

Development projects relating to products intended to be produced and sold are recognised as intangible assets.

Other development costs are recognised as costs in the income statement as incurred.

Development costs comprise costs that are directly or indirectly attributable to the development projects.

Straight-line amortisation is provided on the basis of the useful life of the product, up to 7 years as the development costs are expected to contribute to earnings during this period.

Development costs comprise expenses, salaries and amortisation charges directly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and where the technical feasibility, sufficient resources and a potential future market or development potential are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5-7 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

## Property, plant and equipment

Land and buildings are measured at cost and less accumulated depreciation.

Plant and machinery as well as operating equipment are measured at cost and less accumulated depreciation.

Cost comprises the acquisition cost and costs related to the preparation of the asset. For company-manufactured assets, cost comprises direct and indirect costs.

## Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

## Financial statements for the period 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

## Inventories

Inventories are measured in the lower of the acquisition costs or cost using the FIFO method and net realisable value.

Cost of raw materials, consumables and goods for resale comprises the invoiced price plus landing costs.

Cost of manufactured goods and work in progress consists of acquisition costs of materials and direct labour costs plus indirect production costs.

Obsolete and slow-moving items are written down to expected net realisable value.

## Receivables

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

## Construction contracts

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 state of completion is determined as the ratio of actual to total budgeted consumption of resources.

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

## Prepayments

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

## Cash

Cash comprises cash in hand and bank deposits.

## Financial statements for the period 1 January - 31 December

## Notes to the financial statements

## 1 Accounting policies (continued)

## Equity

*Proposed dividends*

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.

## Provisions

Provisions comprise anticipated costs of non-recourse guarantee commitments and restructuring provisions.

Provisions for guarantee commitments are provided on the basis of the Company's sales conditions and delivery terms and the Company's experience.

Restructuring provisions comprise expected costs relating to decided and published restructuring.

Restructuring provisions are measured as the best estimate of the costs necessary to settle the liabilities at the balance sheet date. Restructuring provisions with an expected time of maturity of more than one year from the balance sheet date are measured at the discounted value.

## Income taxes &amp; Deferred Taxes

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account in the Danish company and the foreign branches.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

## Payables to credit institutions

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.

## Other payables

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

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise purchases and sale of fixed assets.

Cash flows from financing activities comprise incurrence and repayments of long-term debt and distributed dividends.

Cash and cash equivalents comprise cash and securities with an insignificant price risk less short-term bank debt.

##### Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated under "Financial highlights" have been calculated as follows:

EBITDA-margin	$\frac{\text{EBITDA}}{\text{Revenue}} \times 100$
Return on assets	$\frac{\text{Profit/loss from operating activities}}{\text{Average assets}} \times 100$
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}} \times 100$
Return on equity	$\frac{\text{Profit/loss for the year after tax}}{\text{Average equity}} \times 100$

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	2016	2015
2 Profit/loss from sale of intangible assets and property, plant and equipment		
Gain/loss on the sale of property	0	-83
Gain on the sale of property, plant and equipment	456	186
	<u>456</u>	<u>103</u>
3 Staff costs		
Wages/salaries	129,244	149,645
Pensions	10,057	11,986
Other social security costs	2,283	2,594
Other staff costs	878	862
	<u>142,462</u>	<u>165,087</u>
Average number of full-time employees	<u>294</u>	<u>329</u>
Remuneration to members of management:		
Executive board	2,579	4,985
Board of Directors	186	150
	<u>2,765</u>	<u>5,135</u>
4 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	9,244	10,550
Depreciation of property, plant and equipment	24,643	23,479
	<u>33,887</u>	<u>34,029</u>
5 Tax for the year		
Estimated tax charge for the year	-4,618	6,203
Deferred tax adjustments in the year	1,757	3,719
Tax adjustments, prior years	-109	-138
	<u>-2,970</u>	<u>9,784</u>



Financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets	Goodwill	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2016	41,974	21,821	66,858	4,793	135,446
Additions	0	0	0	7,693	7,693
Disposals	0	0	0	-97	-97
Transferred	8,547	0	0	-8,547	0
Cost at 31 December 2016	50,521	21,821	66,858	3,842	143,042
Impairment losses and amortisation at 1 January 2016	26,082	16,075	38,410	711	81,278
Amortisation for the year	3,701	1,352	4,191	0	9,244
Transferred	711	0	0	-711	0
Impairment losses and amortisation at 31 December 2016	30,494	17,427	42,601	0	90,522
Carrying amount at 31 December 2016	20,027	4,394	24,257	3,842	52,520

7 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Property, plant and equipment under construction	Total
Cost at 1 January 2016	134,368	235,305	4,957	374,630
Additions	818	7,588	3,770	12,176
Disposals	0	-9,428	0	-9,428
Transferred	358	4,037	-4,395	0
Cost at 31 December 2016	135,544	237,502	4,332	377,378
Value adjustments at 1 January 2016	0	0	0	0
Value adjustments at 31 December 2016	0	0	0	0
Impairment losses and depreciation at 1 January 2016	58,546	163,716	0	222,262
Depreciation	5,669	18,974	0	24,643
Depreciation and impairment of disposals	0	-7,888	0	-7,888
Impairment losses and depreciation at 31 December 2016	64,215	174,802	0	239,017
Carrying amount at 31 December 2016	71,329	62,700	4,332	138,361

## Financial statements for the period 1 January - 31 December

### Notes to the financial statements

DKK'000	2016	2015
8 Construction contracts		
Selling price of work performed	255,499	252,286
Progress billings	-247,787	-226,298
	<u>7,712</u>	<u>25,988</u>
recognised as follows:		
Construction contracts (assets)	<u>7,712</u>	<u>25,988</u>
	<u>7,712</u>	<u>25,988</u>

### 9 Prepayments

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

### 10 Share capital

The share capital consists of shares of DKK 100 or multiples thereof. The shares are not divided into classes.

The Company's share capital has remained DKK 41,000 thousand over the past 5 years.

### 11 Long-term liabilities

DKK'000	Total debt at 31/12 2016	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	52,722	5,434	47,288	26,024
	<u>52,722</u>	<u>5,434</u>	<u>47,288</u>	<u>26,024</u>

### 12 Deferred tax

Deferred tax relates to:

DKK'000	2016	2015
Intangible assets	11,492	11,834
Property, plant and equipment	7,226	7,220
Inventories	617	903
Provisions	-2,051	-3,969
Liabilities	-33	-36
Tax loss	-6,352	-1,099
	<u>10,899</u>	<u>14,853</u>

Analyses of the deferred tax

Deferred tax assets	-8,436	-5,104
Deferred tax liabilities	<u>19,335</u>	<u>19,957</u>
	<u>10,899</u>	<u>14,853</u>

## Financial statements for the period 1 January - 31 December

## Notes to the financial statements

## 13 Provisions

Other provisions are DKK 16,850 thousand at 31 December 2016 (2015: DKK 37,370 thousand) and comprise anticipated costs of non-recourse guarantee commitments and restructuring provisions.

The carrying amount of non-recourse guarantees is DKK 7,525 thousand at 31 December 2016 and DKK 19,329 thousand at 31 December 2015.

The carrying amount of restructuring provisions is DKK 9,325 thousand at 31 December 2016 and DKK 18,041 thousand at 31 December 2015.

## 14 Contractual obligations and contingencies, etc.

## Contingent liabilities

LOGSTOR Group has through its subsidiary, LOGSTOR Deutschland GmbH been claimed for EUR 2.6 million in a lawsuit from a customer for losses in a project where the customer was responsible for construction of a steam pipeline. Based on facts and circumstances in the case Management in LOGSTOR Group expects to win the case and no provisions have been made.

The Company is jointly and severally liable with LOGSTOR Holding A/S for the total VAT liability in the companies.

The Company participates in a Danish joint taxation arrangement in which LOGSTOR Denmark Holding A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 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.

## 15 Collateral

The mortgage debt is secured by way of a deposited mortgage deed of a nominal value of DKK 131,497 thousand at 31 December 2016 (2015: 131,497k) over real property and plant, machinery, etc. The carrying amount of real property is DKK 71,329 thousand at 31 December 2016 (2015: DKK 75,822 thousand). The carrying amount of plant, machinery, etc. is DKK 67,032 thousand at 31 December 2016 (2015: DKK 76,546 thousand).

Guarantee for fulfilment of any obligation incurred by the Group towards banks, a maximum of DKK 726.1m at 31 December 2016 (2015: DKK 726.1m). Of this amount debt in the other companies which have signed this guarantee amounts to DKK 549,117 thousand at 31 December 2016 (2015: DKK 517,603 thousand).

Guarantee provided to third party for subsidiaries's guarantees is DKK 25,195 thousand at 31 December 2016 (2015: DKK 38,263 thousand).

Guarantee provided to affiliated company's financing sources. Mortgage deed of DKK 131,497 thousand (2015: 131,497 thousand) nominal on properties also constitutes security.



Financial statements for the period 1 January - 31 December

Notes to the financial statements

16 Related parties

LOGSTOR A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
LOGSTOR Holding A/S	Danmarksvej 11, DK-9670 Løgstør	Capital possession

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
LOGSTOR International Holding S.à.r.l	Luxembourg	www.cvr.dk

Related party transactions

LOGSTOR A/S was engaged in the below related party transactions:

DKK'000	2016	2015
Sales of goods to group enterprises	246,089	240,339
Sales of goods to associated enterprises	8,104	1,896
Interest income from group enterprises	2,095	1,707
Interest expenses to group enterprises	5,520	6,255
Intercompany fee from group enterprises	28,424	29,114
Intercompany fee to group enterprises	19,193	14,995
Receivables at group enterprises	124,187	125,497
Receivables at associated enterprises	5,299	320
Payables to group enterprises	88,168	65,902

Ownership

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

Name	Domicile
LOGSTOR Holding A/S	Danmarksvej 11, DK-9670 Løgstør

DKK'000	2016	2015
17 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	260	400
Assurance engagements	0	8
Tax assistance	0	1,299
Other assistance	50	368
	310	2,075



Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	<u>2016</u>	<u>2015</u>
18 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Other reserves	7,014	0
Retained earnings/accumulated loss	<u>-22,144</u>	<u>29,835</u>
	<u>-15,130</u>	<u>29,835</u>
19 Adjustments		
Amortisation/depreciation and impairment losses	33,887	34,029
Gain/loss on the sale of non-current assets	-456	-103
Provisions	-20,520	-23,602
Tax for the year	-2,970	9,784
	<u>9,941</u>	<u>20,108</u>
20 Changes in working capital		
Change in inventories	3,627	3,143
Change in receivables	21,199	16,506
Change in trade and other payables	-9,685	-25,502
	<u>15,141</u>	<u>-5,853</u>