LOGSTOR A/S

Danmarksvej 11, DK-9670 Løgstør

CVR no. 21 33 02 48

Annual report 2017

Approved at the Company's annual general meeting on 29 May 2018

Chairman:

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Building a better
working world

Contents

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 2017.

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 2017 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2017.

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, 29 May 2018
Executive Board:

Christian Borgstrøm Schrøder CEO	Johnny Iversen CEO

Board of Directors:

Henning Bejer Beck Chairman	Line Dissing Mønster	Kristian Haldrup Øvergaard
Christian Svanhede	John 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 2017, which comprise 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 2017 and of the results of the Company's operations as well as the cash flows for the financial year 1 January - 31 December 2017 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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 as to 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 scepticism throughout the audit. We also:

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

Independent auditor's report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the 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 the 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 the work we have performed, 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, 29 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstengaard	Søren Jensen
State Authorised Public Accountant	State Authorised Public Accountant
MNE no.: mne19709	MNE no.: mne34132

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	www.logstor.com
E-mail	logstor@logstor.com
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	Christian Borgstrøm Schrøder, CEO Johnny Iversen, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark

Management's review

Financial highlights

DKK'000	2017	2016	2015	2014	2013
Key figures					
Revenue	735,767	725,582	939,338	932,805	772,996
Gross margin	159,678	168,402	252,637	203,956	165,593
Operating profit/loss	-9,195	-7,947	53,521	19,614	-22,605
Net financials	-6,235	-10,153	-15,425	-6,207	-9,057
Profit/loss for the year	-12,185	-15,130	29,835	5,760	-23,909
Fixed assets	176,718	190,880	206,536	219,889	225,292
Non-fixed assets	295,337	299,111	294,678	246,146	238,006
Total assets	472,055	489,991	501,214	466,035	463,298
Investment in property, plant and equipment	-18,575	-12,176	-16,638	-34,304	-21,916
Share capital	41,000	41,000	41,000	41,000	41,000
Equity	90,650	101,532	157,525	127,866	133,634
Provisions	36,398	36,185	57,327	71,931	80,200
Non-current liabilities other than provisions	41,986	47,288	52,628	58,172	63,468
Current liabilities other than provisions	303,021	304,986	233,734	294,433	280,698
Financial ratios					
EBITDA-margin	3.5%	3.6%	9.3%	5.1%	0.5%
Return on assets	-1.9%	-1.6%	11.1%	4.2%	-4.7%
Current ratio	97.5%	98.1%	126.1%	83.6%	84.8%
Return on equity	-12.7%	-11.7%	20.9%	4.4%	-16.4%
Average number of employees	276	294	329	352	342

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

Management's review

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/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, Italy and United Kingdom.

Group Financing

Going into 2017 LOGSTOR's loan agreement with the main bank Nordea was only running until 31 March 2018, so the company, the owners and the bank have negotiated a new long term solution in place for the coming 5-6 years - securing LOGSTOR sufficient cash to run the business and execute on the Back to Black plan. The new finance structure is signed as of May 9, 2018 and includes element of both sufficient liquidity and a rebalance of the solidity of the group:

- Write down of existing bank loans amounting to DKK 200 millions
- New shareholder loans of DKK 160 millions
- Replacing remaining bank loans with line of credits amounting to a total DKK 661 millions
- Continuation of mortgage of DKK 47 millions (also in LOGSTOR A/S)

The loans are subject to financial covenants.

The new agreement will thereby result in an increase in funding amounting to DKK 160 millions and based on the current budgets and forecasts will provide LOGSTOR with sufficient liquidity and a solid platform for the future growth.

For LOGSTOR A/S the adjusted equity as per 31.12.2017 would have been DKK 251 (after a Tax-exempt contribution from LOGSTOR Holding A/S) and in the Group debt are reduced with DKK 360 million had the agreement been valid of 31.12.2017 everything else equal.

Financial review

Revenue for the year amounted to DKK 735.8 million against DKK 725.6 million prior year.
Loss before net financials is DKK -9.2 million compared to -7.9 million the year before.
The profit for the year after tax amounted to DKK -12.2 million compared to DKK -15.1 million last year. The result for 2017 is disappointing and lower as expected due to the low margin in the DE market in 2017 and very low activity in the Oil/Gas business.

Cash flows

The Company's cash flows from operating activities amounted to DKK 39.3 million, cash flows from investing activities amounted to DKK -20.3 million, and cash flows from financing activities amounted to DKK -67.4 million.
The total net change in cash and cash equivalents as well as short-term bank debt is DKK -48.4 million.

Management's review

Non-financial matters

2017 was another challenging year for LOGSTOR as we are still faced with low sales in the Oil/Gas business due to low oil prices and thereby lower investment levels that has postponed projects within the Oil/Gas industry. We however see a slight recovery in the market as the oil prices are back to a level around USD 50 /barrel. The District Energy market in Europe in 2017 has shown signs of recovery and moderate growth. LOGSTOR has also been growing in 2017 but it has been unprofitable growth as raw material prices in the same period has been increasing in average with 10 % and the pipe manufactures has not been able to pass this on to the customers. The whole industry has had a challenging year and have all started to increase prices going into 2018 as the outlook for raw material prices in 2018 continues to increasing. So even LOGSTOR has kept its leading position in the market for District Energy (DE) in 2017 the focus in 2018 will be on profit before growth.

In November, a new plan was announced -"Back to Black" - the plan included that 17% of all white-collar employees was dismissed to adjust the cost base going forward and bringing LOGSTOR back in profit.

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

Statutory CSR report

LOGSTOR recognises the United Nations (UN) and the International Labour Organization's (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. During 2017 no breach of Code of Conduct have been recorded. 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 2017. 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.

We have developed corporate social responsibility policies in most areas relevant to LOGSTOR's business. The policies aim to ensure proper business conduct and optimum working, health and safety conditions for our employees.

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

Management's review

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 2017. This work is carried out with reference to the Health, Safety and Environment (HSE) Policy, which reaffirmed the organizations commitment to an Incident and Injury Free (IIF) workplace.

The HSEQ function has transformed 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.

The Group Safety Leadership Team (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.

The number of accidents has developed negatively from 2016 to 2017. A number of initiatives have been stated in 2017 to improve this in 2018.

Key initiative in 2017 was high focus on HSE, by leading strong commitment on different levels of organisation. LOGSTOR have started a Safety Campaign project, as well as many technical improvements on our operational areas including various investments projects.

The Safety Campaign project was started in all production plants, and included meetings, leaders training, visual information about the status and competition "Days without incidents" using "traffic lights" symbols for current status. Having a safety topic of the month which are presented and communicated in all locations e.g. Safe work with chemicals, First Aid rules, Fire safety, Safe using of sharp tools and Black spots visualisation.

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. 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. LOGSTOR technologies are based on blowing agents all meeting the latest international requirements with regards to ODP (ozone depletion potential) and GWP (global warming potential).

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.

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

In 2017, our efforts have resulted in reduced amounts of waste and energy consumption.

Management's review

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 2017, 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 2018.

Account of the gender composition of Management

On a current basis, the LOGSTOR Group supervisory board 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.

In order to promote and facilitate an equal gender representation in management level positions at LOGSTOR, LOGSTOR will pursue the following objectives:

1. Target an equal gender representation at management level as vacancies arise, subject to identification of candidates with appropriate skills, and in this connection ensure that engaged search and selection firms are requested to identify at least one candidate of each gender for such positions. All internal and external searches for vacant positions are to include at least one candidate of each gender on a short list, subject to identification of candidates with appropriate skills.

2. Ensure appropriate level of participants from both genders at LOGSTOR programs intended to develop talent

3. Ensure that targets are set for a potential under-represented gender, to ensure a more equal gender representation in the management of the company. The target is that by the end of year 2020, each gender shall represent at least 20 % of all managers and board members.

In comparison, the realized ratio was 14% female managers and 20% shareholder elected board members are female.

Events after the balance sheet date

As described under "Group Finance" and in note 1, LOGSTOR has, as of 9 May 2018, signed a long term financing agreement with Nordea and the shareholders.

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

Outlook

The Back to Black plan was partly executed already in 2017. A fix cost reduction program was executed end November 2017 with a full year impact of DKK 25m starting from 2018 follow by price increases in all market per February 1st to recover the increases in raw material - in parallel the optimisation of the LOGSTOR production setup is ongoing.

2018 has started well with focus on execution on the plan 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 2018. However, as a result of performance enhancements in 2017, profitability is expected to improve in 2018 compared to 2017.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
	Revenue	735,767	725,582
	Cost of sales	-525,032	-507,948
	Change in inventories of finished goods and work in progress	5,735	-1,520
3	Profit/loss from sale of intangible assets and property, plant and equipment	453	456
	Other external expenses	-57,245	-48,168
	Gross margin	159,678	168,402
4	Staff costs	-133,999	-142,462
5	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-34,874	-33,887
	Profit/loss before net financials	-9,195	-7,947
6	Financial income	4,750	1,111
7	Financial expenses	-10,985	-11,264
	Profit/loss before tax	-15,430	-18,100
8	Tax for the year	3,245	2,970
	Profit/loss for the year	-12,185	-15,130

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
9	Intangible assets		
	Completed development projects	17,452	20,027
	Acquired intangible assets	3,042	4,394
	Goodwill	20,065	24,256
	Development projects in progress and prepayments for intangible assets	3,502	3,842
		44,061	52,519
10	Property, plant and equipment		
	Land and buildings	70,819	71,329
	Plant and machinery	57,721	62,700
	Property, plant and equipment under construction	4,117	4,332
		132,657	138,361
	Total fixed assets	176,718	190,880
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	29,627	35,676
	Work in progress	4,863	5,828
	Finished goods and goods for resale	44,792	38,093
		79,282	79,597
	Receivables		
	Trade receivables	47,362	55,020
11	Construction contracts	368	7,712
	Receivables from group enterprises	145,103	135,347
15	Deferred tax assets	6,649	8,436
	Corporation tax receivable	11,196	5,272
	Other receivables	1,726	4,816
12	Prepayments	3,164	2,880
		215,568	219,483
	Cash	487	31
	Total non-fixed assets	295,337	299,111
	TOTAL ASSETS	472,055	489,991

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	41,000	41,000
	Reserve for development costs	6,676	7,124
	Retained earnings	42,974	53,408
	Total equity	90,650	101,532
	Provisions		
15	Deferred tax	17,125	19,335
	Other provisions	19,273	16,850
16	Total provisions	36,398	36,185
	Liabilities other than provisions		
14	Non-current liabilities other than provisions		
	Bank debt	41,986	47,288
		41,986	47,288
	Current liabilities other than provisions		
14	Short-term part of long-term liabilities other than provisions	5,350	5,434
	Bank debt	169,647	120,751
	Trade payables	58,272	57,243
	Payables to group enterprises	37,492	88,168
	Other payables	32,260	33,390
		303,021	304,986
	Total liabilities other than provisions	345,007	352,274
	TOTAL EQUITY AND LIABILITIES	472,055	489,991

1 Accounting policies
2 Going Concern
17 Contractual obligations and contingencies, etc.
18 Collateral
19 Related parties
20 Fee to the auditors appointed by the Company in general meeting

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2017	41,000	7,124	53,408	101,532
21	Transfer, see "Appropriation of profit/loss"	0	-448	-11,737	-12,185
	Adjustment of hedging instruments at fair value	0	0	1,671	1,671
	Tax on items recognised directly in equity	0	0	-368	-368
	Equity at 31 December 2017	41,000	6,676	42,974	90,650

Financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	2017	2016
	Profit/loss for the year	-12,185	-15,130
22	Adjustments	33,598	9,941
	Cash generated from operations (operating activities)	21,413	-5,189
23	Changes in working capital	21,348	15,141
	Cash generated from operations (operating activities)	42,761	9,952
	Income taxes paid	-3,494	-1,691
	Other cash flows from operating activities	26	-1,928
	Cash flows from operating activities	39,293	6,333
	Additions of intangible assets	-2,149	-7,693
	Additions of property, plant and equipment	-18,575	-12,176
	Disposals of property, plant and equipment	463	2,174
	Cash flows to investing activities	-20,261	-17,695
	Dividends paid	0	-40,000
	Repayments, long-term liabilities	-5,386	-5,411
	Repayments, borrowings from group enterprises	-62,086	-1,706
	Cash flows from financing activities	-67,472	-47,117
	Net cash flow	-48,440	-58,479
	Cash and cash equivalents at 1 January	-120,720	-62,241
	Cash and cash equivalents at 31 December	-169,160	-120,720

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of LOGSTOR A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 atributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exhcange 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 transalted 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 aare 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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 and impairment

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 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

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further amortisation charges are recognised. In case of changes in the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

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

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.

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial income and expenses

Financial Income comprises interest income, including interest income on receivalbes 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 wekk as in foreign permanent establishments.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

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 xpected 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 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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 cist and less accumulated depreciation.

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

Impairment of fixed assets

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

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 prices 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 of negative.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Provisions

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

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

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 & 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 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 activitites are presented using the indirect methiod 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.

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

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

2 Going Concern

Going into 2018, LOGSTOR group's loan agreement with the main bank Nordea was only running until 31 march 2018. In order to ensure a going concern for the LOGSTOR group, the Company, the owners and the bank have negotiated a new long term solution in place for the coming 5-6 years. The refinance will ensure LOGSTOR sufficient cash to run the business and execute on the Back to Black plan.

The new finance structure has been signed on 9 May 2018 and includes elements of both sufficient liquidity and a rebalance of the solidity of the Company.

Due to the refinance agreement, the Financial Statements for 2017 has been presented as going concern.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2017	2016
3	Profit/loss from sale of intangible assets and property, plant and equipment		
	Gain on the sale of property, plant and equipment	453	456
		453	456

		2017	2016
4	Staff costs		
	Wages/salaries	121,425	129,244
	Pensions	9,906	10,057
	Other social security costs	2,008	2,283
	Other staff costs	660	878
		133,999	142,462
	Average number of full-time employees	276	294
	Remuneration to members of management:		
	Executive board	3,278	2,579
	Board of Directors	20	186
		3,298	2,765

		2017	2016
5	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment		
	Amortisation of intangible assets	9,819	9,244
	Impairment of intangible assets	788	0
	Depreciation of property, plant and equipment	24,267	24,643
		34,874	33,887

		2017	2016
6	Financial income		
	Interest receivable, group entities	2,618	1,106
	Other financial income	2,132	5
		4,750	1,111

		2017	2016
7	Financial expenses		
	Interest expenses, group entities	427	816
	Other financial expenses	10,558	10,448
		10,985	11,264

		2017	2016
8	Tax for the year		
	Estimated tax charge for the year	-1,440	-4,618
	Deferred tax adjustments in the year	-425	1,757
	Tax adjustments, prior years	-1,380	-109
		-3,245	-2,970

Financial statements 1 January - 31 December

Notes to the financial statements

9 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 2017	50,521	21,821	66,858	3,842	143,042
Additions	0	0	0	2,149	2,149
Disposals	-1,351	0	0	0	-1,351
Transferred	2,489	0	0	-2,489	0
Cost at 31 December 2017	51,659	21,821	66,858	3,502	143,840
Impairment losses and amortisation at 1 January 2017	30,494	17,427	42,602	0	90,523
Impairment losses for the year	788	0	0	0	788
Amortisation for the year	4,276	1,352	4,191	0	9,819
Amortisation and impairment losses of disposals for the year	-1,351	0	0	0	-1,351
Impairment losses and amortisation at 31 December 2017	34,207	18,779	46,793	0	99,779
Carrying amount at 31 December 2017	17,452	3,042	20,065	3,502	44,061

10 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Property, plant and equipment under construction	Total
Cost at 1 January 2017	135,544	237,502	4,332	377,378
Additions	5,019	9,915	3,641	18,575
Disposals	0	-10,210	0	-10,210
Transferred	459	3,397	-3,856	0
Cost at 31 December 2017	141,022	240,604	4,117	385,743
Impairment losses and depreciation at 1 January 2017	64,215	174,802	0	239,017
Depreciation	5,988	18,279	0	24,267
Reversal of accumulated depreciation and impairment of assets disposed	0	-10,198	0	-10,198
Impairment losses and depreciation at 31 December 2017	70,203	182,883	0	253,086
Carrying amount at 31 December 2017	70,819	57,721	4,117	132,657

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
11 Construction contracts		
Selling price of work performed	1,287	255,499
Progress billings	-919	-247,787
	368	7,712
recognised as follows:		
Construction contracts (assets)	368	7,712
	368	7,712

12 Prepayments

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

13 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 6 years.

14 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2017	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	47,336	5,350	41,986	20,432
	47,336	5,350	41,986	20,432

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
15 Deferred tax		
Deferred tax at 1 January	10,899	14,853
Deferred tax adjustments, prior year	1,382	665
Deferred tax adjustments for the year	-2,173	-4,377
Tax on equity	368	-240
Effect of incremental reduction of Danish corporation tax from 25% to 22%	0	-2
Deferred tax at 31 December	10,476	10,899
Deferred tax relates to:		
Intangible assets	9,652	11,492
Property, plant and equipment	6,776	7,226
Inventories	696	617
Provisions	0	-2,051
Liabilities	-29	-33
Tax loss	-6,619	-6,352
	10,476	10,899
Analysis of the deferred tax		
Deferred tax assets	-6,649	-8,436
Deferred tax liabililties	17,125	19,335
	10,476	10,899

16 Provisions

Other provisions are DKK 19,273 thousand at 31 December 2017 (2016: DKK 16,850 thousand) and comprise anticipated costs of non-recourse guarantee commitments.

The carrying amount of non-recourse guarantees is DKK 19,273 thousand at 31 December 2017 and DKK 7,525 thousand at 31 December 2016.

17 Contractual obligations and contingencies, etc.

Contingent liabilities

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 ApS 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.

Financial statements 1 January - 31 December

Notes to the financial statements

18 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 2017 (2016: 131,497) over real property and plant, machinery, etc. The carrying amount of real property is DKK 70,819 thousand at 31 December 2017 (2016: DKK 71,329 thousand). The carrying amount of plant, machinery, etc. is DKK 61,837 thousand at 31 December 2017 (2016: DKK 67,032 thousand).

Guarantee for fulfilment of any obligation incurred by the Group towards banks, a maximum of DKK 862.278 thousand at 31 December 2017 (2016: DKK 726.1m). Of this amount debt in the other companies which have signed this guarantee amounts to DKK 634,794 thousand at 31 December 2017 (2016: DKK 549,117 thousand).

Guarantee provided to third party for subsidiaries's guarantees is DKK 31,586 thousand at 31 December 2017 (2016: DKK 25,195 thousand).

Guarantee provided to affiliated company's financing sources. Mortgage deed of DKK 131,497 thousand (2016: 131,497 thousand) nominal on properties also constitutes security.

19 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.á.r.l	Luxembourg	www.cvr.dk

Related party transactions

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

DKK'000	2017	2016
Sales of goods to group enterprises	251,218	246,089
Sales of goods to associated enterprises	0	8,104
Interest income from group enterprises	2,618	2,095
Interest expenses to group enterprises	427	5,520
Intercompany fee from group enterprises	30,801	28,424
Intercompany fee to group enterprises	11,795	19,193
Receivables at group enterprises	145,103	124,187
Receivables at associated enterprises	317	5,299
Payables to group enterprises	37,492	88,168

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

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Notes to the financial statements

DKK'000	2017	2016
20 Fee to the auditors appointed by the Company in general meeting		
Statutory audit	265	260
Assurance engagements	15	0
Tax assistance	773	0
Other assistance	417	50
	1,470	310

	2017	2016
21 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Other reserves	-448	7,014
Retained earnings/accumulated loss	-11,737	-22,144
	-12,185	-15,130

	2017	2016
22 Adjustments		
Amortisation/depreciation and impairment losses	34,874	33,887
Gain/loss on the sale of non-current assets	-453	-456
Provisions	2,423	-20,520
Tax for the year	-3,246	-2,970
	33,598	9,941

	2017	2016
23 Changes in working capital		
Change in inventories	315	3,627
Change in receivables	19,889	21,199
Change in trade and other payables	-527	-9,685
Unrealized loss on hedge interest	1,671	0
	21,348	15,141