KK Wind Solutions A/S

Bøgildvej 3, DK-7430 Ikast

Annual Report for 1 January - 31 December 2021

CVR No 25 74 67 16

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 20/4 2022

Allan Gabriel Zandberg
Chairman of the General Meeting

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of KK Wind Solutions A/S for the financial year 1 January - 31 December 2021.

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 at 31 December 2021 of the Company and of the results of the Company operations for 2021.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Ikast, 20 April 2022

Executive Board

Mauricio Fernando Quintana
CEO

Board of Directors

Søren Bæk Just Chairman	Mauricio Fernando Quintana	Thomas Rosenkrands Olsen

Independent Auditor’s Report

To the Shareholder of KK Wind Solutions A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company’s operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of KK Wind Solutions A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies (”the Financial Statements”).

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’ International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management’s Review
Management is responsible for Management’s Review.

Our opinion on the Financial Statements does not cover 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 Management’s Review and, in doing so, consider whether 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 Management’s Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management’s Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management’s Review.

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 misstate-

ment, 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 these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Aarhus, 20 April 2022
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lyngsø Sørensen
State Authorisered Public Accountant
mne34539

Thomas Bernth Jensen
State Authorisered Public Accountant
mne47814

Company Information

The Company	KK Wind Solutions A/S Bøgildvej 3 DK-7430 Ikast CVR No: 25 74 67 16 Financial period: 1 January - 31 December Municipality of reg. office: Ikast-Brande
Board of Directors	Søren Bæk Just, Chairman Mauricio Fernando Quintana Thomas Rosenkrands Olsen
Executive Board	Mauricio Fernando Quintana
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2021	2020	2019	2018	2016/17
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	2.199.734	2.327.569	2.137.409	1.528.972	1.816.434
Gross profit/loss	379.046	378.699	302.744	194.471	238.950
Operating profit/loss	203.116	239.460	187.475	148.098	160.835
Net financials	-10.525	-5.839	-5.962	-8.932	-1.060
Net profit/loss for the year	154.156	179.945	137.258	106.516	124.545
Balance sheet					
Balance sheet total	996.840	1.219.714	940.363	777.603	597.923
Equity	283.922	231.308	205.442	200.897	159.447
Investment in property, plant and equipment	6.837	8.010	-13.674	4.158	11.113
Number of employees	187	173	149	159	183
Ratios					
Gross margin	17,2%	16,3%	14,2%	12,7%	13,2%
EBIT margin	9,1%	10,3%	9,7%	8,9%	12,1%
Net margin	7,0%	10,3%	8,8%	9,7%	8,9%
Return on equity	59,8%	82,4%	67,6%	59,1%	70,4%
Solvency ratio	28,5%	19,0%	21,8%	25,8%	26,7%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

KK Wind Solutions A/S is a market leading system manufacturer and developer of electro-mechanical systems and advanced technology solutions for on- and offshore wind turbines including supply chain and manufacturing solutions.

The activities are driven from the headquarters in Ikast, Denmark as well from the main sites in Stettin, Poland and Bangalore, India. The activities are supported by sales and engineering representation in all main markets.

Development in the year

KK Wind Solutions A/S realized a turnover of 2.200 mDKK in 2021 representing a -5% decline compared to 2020 in line with expectations. The profit after tax of ended at 154 mDKK compared to 180 mDKK in 2020 negatively impacted impacts from COVID-19 pandemic, material price increases and component shortages. Despite the declining results, KK Wind Solutions A/S showed a solid resilience in a difficult business environment.

Operating risks

The company's primary activities are within the Wind Industry which is characterized by few large Original Equipment Manufacturers of wind turbines. KK Wind Solutions A/S has during the last years increased the customer and product portfolio including own developed products and hereby reduced the dependency on single customers or products.

Besides the above, KK Wind Solutions A/S has no specific risks besides what is common to the industry.

Foreign exchange risks

The reporting currency is Danish Krone, however, a large part of the company's costs are in Polish Zloty.

The expected net PLN exposure for the upcoming 12 months is evaluated on an ongoing basis and hedged according to the treasury policy.

The FX risk related to other currencies is considered low.

Targets and expectations for the year ahead

Due to the present geopolitical situation and component challenges the outlook remains positive but with more uncertainty and lower growth rates in the coming 18- 24 months with earnings under pressure. As a result, the Company forecasts turnover in 2022 at or around the same level as 2021 while earnings performance will be challenged with an expected profit after tax below the level of 2021.

Management's Review

Research and development

Development activities are carried out within the company and in some cases in corporation with a number of clients. Development activities both includes improvements and changes to existing products as well as development of new products.

Intellectual capital resources

KK Wind Solutions A/S works with development, production and maintenance of advanced and reliable systems for wind turbines. This generates high demands for knowledge resources and innovation within key domains. The group works dedicated on attracting, sustaining and developing employees that have leading edge knowledge within wind turbines and advanced electro-mechanical solutions. KK Wind Solutions A/S has defined key competency areas within Electrical Power, Data Driven Business and Integrated Supply Chain Networks that are the lighthouses for training and development of our employees. It is also endeavored that employees are continuously trained via continued education and cooperation with universities, so that the latest knowledge is constantly present in the organization.

Statement of corporate social responsibility according to the Danish Financial Statements Act, section 99a

Reference is made to the Group's statement on corporate social responsibility included in the annual report for KK Wind Solutions Holding A/S, Business Registration No. 39067048.

For more information about KK Wind Solutions' progress within corporate social responsibility, we refer to the Sustainability Report 2021, published 1 March 2022:

https://www.kkwindsolutions.com/Files//Files/CSR_Reports/Sustainability%20Report%202021.pdf

Management's Review

Statement on gender composition according to the Danish Financial Statements Act, section 99b

KK Wind Solutions A/S want to be an inclusive workplace without discrimination. We hire new employees solely based on our best evaluation of their competencies and experiences. Gender, belief, age, nationality, ethnicity or sexual orientation are not relevant criteria's when recruiting and the company aims to have a balanced split between genders.

In the Board of Directors in KK Wind Solutions A/S, the target is that a minimum of 33% of the shareholder elected board members should be female by the annual general assembly 2024. By the end of 2021 the actual number of shareholder elected female board members was 0 out of 3 in total elected board members and therefore the target was not met. The composition of genders in the Board of Directors is unchanged in 2021 due to no changes in shareholder elected members.

The female share on management levels from 1st line managers up to CXO level is by end 2021 on 6%. The target is to seek to improve the female share via internal promotions and when recruiting. To bring more females into managerial positions, a mandate and focus to always include qualified female candidates in managerial recruitments has been put in place.

Approach to data ethics

It is the company's assessment that it does not have data that has not been adequately handled via the GDPR legislation, which is why there is currently no need of a data ethics policy.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Unusual events

The financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have not been affected by any unusual events.

Income Statement 1 January - 31 December

	Note	2021	2020
		kDKK	kDKK
Revenue	1	**2.199.734**	**2.327.569**
Cost of sales	2	-1.820.688	-1.948.870
Gross profit/loss		**379.046**	**378.699**
Distribution expenses		-43.077	-32.645
Administrative expenses		-79.373	-68.450
Development expenditure		-53.480	-38.144
Operating profit/loss		**203.116**	**239.460**
Other operating expenses		-2.914	-525
Profit/loss before financial income and expenses		**200.202**	**238.935**
Financial income	3	17.123	20.840
Financial expenses	4	-27.648	-26.679
Profit/loss before tax		**189.677**	**233.096**
Tax on profit/loss for the year	5	-35.521	-53.151
Net profit/loss for the year		**154.156**	**179.945**

Balance Sheet 31 December

Assets

	Note	2021	2020
		kDKK	kDKK
Completed development projects		6.107	7.310
Development projects in progress		104.443	60.268
Intangible assets	6	**110.550**	**67.578**
Plant and machinery		2.332	2.830
Other fixtures and fittings, tools and equipment		9.528	9.424
Leasehold improvements		4.339	2.654
Property, plant and equipment	7	**16.199**	**14.908**
Investments in subsidiaries	8	160	160
Receivables from group enterprises	9	25.467	15.576
Deposits	9	2.639	2.451
Fixed asset investments		**28.266**	**18.187**
Fixed assets		**155.015**	**100.673**
Inventories	10	**283.304**	**285.830**
Trade receivables		145.099	343.873
Contract work in progress	11	6.855	21.028
Receivables from group enterprises		216.137	306.688
Other receivables		36.947	30.224
Prepayments	12	6.421	5.479
Receivables		**411.459**	**707.292**
Cash at bank and in hand		**147.062**	**125.919**
Currents assets		**841.825**	**1.119.041**
Assets		**996.840**	**1.219.714**

Balance Sheet 31 December

Liabilities and equity

	Note	2021	2020
		kDKK	kDKK
Share capital		5.000	5.000
Reserve for development costs		86.229	52.711
Reserve for hedging transactions		-3.440	-1.898
Retained earnings		146.133	75.495
Proposed dividend for the year		50.000	100.000
Equity		**283.922**	**231.308**
Provision for deferred tax	14	15.435	15.870
Other provisions	15	41.850	48.986
Provisions		**57.285**	**64.856**
Lease obligations		2.580	3.108
Long-term debt	16	**2.580**	**3.108**
Lease obligations	16	1.465	1.440
Trade payables		371.385	429.137
Contract work in progress, liabilities	11	645	2.875
Payables to group enterprises		200.230	377.194
Corporation tax		41.464	36.773
Other payables	17	37.864	73.023
Short-term debt		**653.053**	**920.442**
Debt		**655.633**	**923.550**
Liabilities and equity		**996.840**	**1.219.714**

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Statement of Changes in Equity

	Share capital	Reserve for development costs	Reserve for hedging transactions	Retained earnings	Proposed dividend for the year	Total
	kDKK	kDKK	kDKK	kDKK	kDKK	kDKK
Equity at 1 January	5.000	52.711	-1.898	75.495	100.000	231.308
Ordinary dividend paid	0	0	0	0	-100.000	-100.000
Fair value adjustment of hedging instruments, end of year	0	0	-1.977	0	0	-1.977
Tax on adjustment of hedging instruments for the year	0	0	435	0	0	435
Development costs for the year	0	39.279	0	-39.279	0	0
Depreciation, amortisation and impairment for the year	0	-5.761	0	5.761	0	0
Net profit/loss for the year	0	0	0	104.156	50.000	154.156
Equity at 31 December	**5.000**	**86.229**	**-3.440**	**146.133**	**50.000**	**283.922**

Notes to the Financial Statements

		2021	2020
		kDKK	kDKK
1	**Revenue**		
	Geographical segments		
	Asia	243.328	236.935
	Europe	1.907.434	2.053.412
	North America	47.675	37.222
	Other	1.297	0
		2.199.734	**2.327.569**
2	**Staff**		
	Wages and Salaries	144.057	125.279
	Pensions	11.262	8.296
	Other social security expenses	922	1.892
		156.241	**135.467**
	Average number of employees	**187**	**173**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

		2021	2020
3	**Financial income**		
	Interest received from group enterprises	2.089	2.370
	Other financial income	4.732	17
	Exchange gains	10.302	18.453
		17.123	**20.840**
4	**Financial expenses**		
	Interest paid to group enterprises	3.154	3.404
	Other financial expenses	4.808	1.431
	Exchange loss	19.686	21.844
		27.648	**26.679**

Notes to the Financial Statements

		2021	2020
		kDKK	kDKK
5	**Tax on profit/loss for the year**		
	Current tax for the year	41.729	36.748
	Deferred tax for the year	-435	14.312
	Adjustment of tax concerning previous years	-6.208	2.091
		35.086	**53.151**
	which breaks down as follows:		
	Tax on profit/loss for the year	35.521	53.151
	Tax on changes in equity	-435	0
		35.086	**53.151**

6 Intangible assets

	Completed development projects	Development projects in progress
	kDKK	kDKK
Cost at 1 January	24.057	60.268
Additions for the year	0	50.358
Transfers for the year	6.183	-6.183
Cost at 31 December	30.240	104.443
Impairment losses and amortisation at 1 January	16.747	0
Amortisation for the year	7.386	0
Impairment losses and amortisation at 31 December	24.133	0
Carrying amount at 31 December	**6.107**	**104.443**

Development activities comprise internal salaries as well as purchased goods and consultancy services. The development projects serve as a basis for forward-looking product deliveries to the company's customers.

Notes to the Financial Statements

7 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements
	kDKK	kDKK	kDKK
Cost at 1 January	13.729	92.267	4.249
Additions for the year	392	4.353	2.092
Cost at 31 December	14.121	96.620	6.341
Impairment losses and depreciation at 1 January	10.899	82.843	1.595
Depreciation for the year	890	4.249	407
Impairment losses and depreciation at 31 December	11.789	87.092	2.002
Carrying amount at 31 December	**2.332**	**9.528**	**4.339**
Including assets under finance leases amounting to	7	4.420	0

8 Investments in subsidiaries

	2021	2020
	kDKK	kDKK
Cost at 1 January	160	160
Cost at 31 December	160	160
Carrying amount at 31 December	**160**	**160**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
KK-Electronic Denmark ApS	Ikast, Denmark	100%	141	-12
KK Wind Solutions International ApS	Ikast, Denmark	100%	-581	-15

Notes to the Financial Statements

9 Other fixed asset investments

	Receivables from group enterprises	Deposits
	kDKK	kDKK
Cost at 1 January	15.576	2.451
Additions for the year	9.891	188
Cost at 31 December	25.467	2.639
Carrying amount at 31 December	**25.467**	**2.639**

	2021	2020
	kDKK	kDKK

10 Inventories

	2021	2020
Raw materials and consumables	184.991	170.634
Work in progress	59.770	34.822
Finished goods and goods for resale	38.543	80.374
	283.304	**285.830**

11 Contract work in progress

	2021	2020
Selling price of work in progress	150.526	75.626
Payments received on account	-144.316	-57.473
	6.210	**18.153**
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	6.855	21.028
Prepayments received recognised in debt	-645	-2.875
	6.210	**18.153**

12 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well as fair value adjustments of derivative financial instruments with a postitive fair value.

Notes to the Financial Statements

		2021	2020
		kDKK	kDKK
13	**Distribution of profit**		
	Proposed dividend for the year	50.000	100.000
	Retained earnings	104.156	79.945
		154.156	**179.945**

14	**Provision for deferred tax**		
	Provision for deferred tax at 1 January	15.870	2.608
	Amounts recognised in the income statement for the year	0	14.312
	Amounts recognised in equity for the year	-435	-1.050
	Provision for deferred tax at 31 December	**15.435**	**15.870**

15 Other provisions

Other provisions includes provisions for expected liabilities on delivered products.

Other provisions	41.850	48.986
	41.850	**48.986**

16 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Lease obligations

Between 1 and 5 years	2.580	3.108
Long-term part	2.580	3.108
Within 1 year	1.465	1.440
	4.045	**4.548**

Notes to the Financial Statements

17 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	2021	2020
	kDKK	kDKK
Other payables	4.411	2.514

Forward exchange contracts have been concluded to hedge future purchase of goods in PLN. At the balance sheet date, the fair value of the forward exchange contracts amounts to kDKK -4.411. The forward exchange contracts have a term of 1-12 months for an amount of kPLN 144,000.

18 Contingent assets, liabilities and other financial obligations

Charges and security

KK Wind Solutions A/S has issued a joint and unlimited surety guarantee for all bank debt in KK Wind Solutions Service A/S, KK-Group A/S and KK Wind Solutions Polska Sp. Z.o.o. The net book value of bank debt amount to DKK 0 million at 31. December 2021.

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:	41.896	45.906

Other contingent liabilities

The company is party to a small numbers of disputes, lawsuits and legal actions, including tax disputes. It is the view of the management that the outcome of these legal actions will have no significant impact on the company's financial position beyond what have been recognized and stated in the financial statements.

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of A.P. MØLLER HOLDING A/S, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company’s liability.

Notes to the Financial Statements

19 Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

20 Related parties

	Basis
Controlling interest	
A.P. MØLLER OG HUSTRU CHASTINE MCKINNEYMØLLERSFOND TIL ALMENE FORMAAL,Esplanaden 50, 1263 København K	Ultimate Parent Company
KK-Group A/S, Bøgildvej 3, 7430 Ikast, Denmark	Parent Company

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm’s length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act. Transactions between KK Wind Solutions A/S and related parties are on arm's length terms.

Consolidated Financial Statements

Name and registered office of the Parent preparing consolidated financial statements for the largest and smallest group:

Name	Place of registered office
A.P. MØLLER HOLDING A/S, København K, Business Registration No. 25 67 92 88	Copenhagen, Denmark
KK Wind Solutions Holding A/S, business registration no. 39 06 70 48	Ikast, Denmark

Notes to the Financial Statements

21 Accounting Policies

The Annual Report of KK Wind Solutions A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Financial Statements for 2021 are presented in kDKK.

Accounting policies are unchanged from last year.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of KK Wind Solutions Holding A/S, business registration no. 39 06 70 48 and A.P. MØLLER HOLDING A/S, København K, Business Registration No. 25 67 92 88, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of KK Wind Solutions Holding A/S, business registration no. 39 06 70 48, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Notes to the Financial Statements

21 Accounting Policies (continued)

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Notes to the Financial Statements

21 Accounting Policies (continued)

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

Revenue

Information on geographical segments based on the Companys risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Notes to the Financial Statements

21 Accounting Policies (continued)

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Development expenditure

Development expenditure indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with A.P. MØLLER HOLDING A/S. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

21 Accounting Policies (continued)

Balance Sheet

Intangible assets

Development projects, patents and licences

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item "Reserve for development costs". The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 1-3 year.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Plant and machinery	5-10 years

Notes to the Financial Statements

21 Accounting Policies (continued)

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	5 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Notes to the Financial Statements

21 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-6 years. Provisions are measured and recognised based on experience with guarantee work.

Notes to the Financial Statements

21 Accounting Policies (continued)

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Notes to the Financial Statements

21 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
EBIT margin	$\frac{\text{Operating Profit x 100}}{\text{Revenue}}$
Net margin	$\frac{\text{Net profit for the year x 100}}{\text{Revenue}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$