

# **MEGGITT A/S**

Porthusvej 4, DK-3490 Kvistgaard

Annual Report for 1 January –  
31 December 2021

CVR No 25 95 49 71

The Annual Report was presented  
and adopted at the Annual  
General Meeting of the Company  
on 31/05 2022

Mickey Minor Nielsen  
Chairman



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## Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Meggitt 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.

Kvistgaard, 31 May 2022

### Executive Board

Frank Andreas Jespersen  
Managing Director

Mickey Minor Nielsen  
Finance Director

### Board of Directors

Paul Francois Marc Devaux  
Chairman

Marina Louise Thomas

Helge Björn Huerkamp

## Independent Auditor's Report

To the Shareholder of Meggitt 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 Meggitt 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 ("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 Financial 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.

## Independent Auditor's Report

### **Management's Responsibilities for the Financial Statements**

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 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.

## Independent Auditor's Report

- 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.

Hillerød, 31 May 2022

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Henrik Aslund Pedersen  
State Authorised Public Accountant  
Mne17120

Preben Bøgeskov Eriksen  
State Authorised Public Accountant  
Mne23370

## Company Information

### **The Company**

Meggitt A/S  
Porthusvej 4  
DK-3490 Kvistgård

CVR No: 25 95 49 71

Founded: 15 March 2001

Financial period: 1 January - 31 December

Municipality of reg. office: Helsingør

### **Board of Directors**

Paul Francois Marc Devaux, Chairman  
Marina Louise Thomas  
Helge Björn Huerkamp

### **Executive Board**

Frank Andreas Jespersen  
Mickey Minor Nielsen

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Milnersvej 43  
DK-3400 Hillerød

## Management's Review

### Financial Highlights

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

	2021	2020	2019	2018	2017
	TDKK	TDKK	TDKK	TDKK	TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Gross profit/loss	<b>93.426</b>	89.468	102.152	74.061	52.305
Operating profit/loss	<b>27.811</b>	22.186	30.917	4.990	-9.138
Profit/loss before financial income and expenses	<b>27.811</b>	22.186	30.917	4.990	-9.138
Net financials	<b>-539</b>	-1.393	-3.824	-1.289	-3.715
Net profit/loss for the year	<b>21.382</b>	16.280	21.186	2.927	-9.971
<b>Balance sheet</b>					
Balance sheet total	<b>109.199</b>	134.219	131.910	114.978	114.052
Equity	<b>87.604</b>	83.497	65.422	44.236	41.310
Investment in property, plant and equipment	<b>253</b>	4.352	3.111	3.805	2.718
Number of employees	<b>91</b>	105	113	104	94
<b>Ratios</b>					
Return on assets	<b>25,5%</b>	16,5%	23,4%	4,3%	-8,0%
Solvency ratio	<b>80,2%</b>	62,2%	49,6%	38,5%	36,2%
Return on equity	<b>25,0%</b>	21,9%	38,6%	6,8%	-21,5%

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

### Main activity

The objects of the Company are to develop, produce and launch piezoceramic components along with other related activities.

### Development in the year

During 2021 the Company managed to secure further increases in profit from continued focus on cost management whilst benefiting from favorable mix and efficiency gains, namely quality.

The income statement of the Company for 2021 shows a profit of DKK 21,382,352, and at 31 December 2021 the balance sheet of the Company shows equity of DKK 87,604,242.

The profit expectation for 2021 was for an increase in net profit between 5 – 7 mDKK as compared to 2020, based on further general growth in the Company's end markets as well as continued focus on managing costs.

### Expectations for the coming year

The Company's outlook for the future will be affected by the conflict in Ukraine, the measures imposed by governments as well as any derivative effects from the conflict.

The Company is monitoring the risks associated with the conflict and is proactively implementing mitigation efforts to minimize any negative impacts to its financial results.

Before the conflict escalated, Management expectations were for an increase in net profit between 2 to 4 mDKK for the coming year as compared to 2021. This was based on continued general growth in the Company's end markets as well as continued focus on managing costs while increasing our investments in strategic initiatives.

Despite the uncertainty, it is Management's belief that the Company remain in position to mitigate any known negative consequences arising from the conflict in comparison to the above expectations.

### Research and development

Development activities primarily consist of development of special products.

### External environment

The company has a developed strategy for handling environmental aspects as well as environmental politics and associated goals.

The company is ISO certified.

## Management's Review

### **Intellectual capital resources**

Production and delivery of special products constitutes part of the company's business model. This leads to high dependence on knowledge resources regarding employees, development, and business processes.

In order to be able to deliver these products, it is essential that the company can recruit and retain employees with a high level of education and as well as employees with a technical background.

The company has implemented procedures and objectives to support this.

### **Foreign exchange risks**

The Company is exposed to both translation and transaction risk due to changes in foreign exchange rates. These risks principally relate to the US dollar/DKK rate, although exposure also exists in relation to other currency pairs, principally transaction risk for the sterling/DKK

Transaction risk arises where revenues and/or costs of our businesses are denominated in a currency other than their own. We hedge known and some anticipated transaction currency exposures, based on historical experience and projections.

## Income Statement 1 January - 31 December

	Note	2021 DKK	2020 DKK
<b>Gross profit/loss</b>		<b>93.425.543</b>	<b>89.467.527</b>
Staff expenses	1	-55.044.603	-57.457.336
<b>Profit/loss before depreciations</b>		<b>38.380.940</b>	<b>32.010.191</b>
Depreciation, amortisation and impairment of fixed assets		-10.569.890	-9.824.024
<b>Profit/loss before financial income and expenses</b>		<b>27.811.050</b>	<b>22.186.167</b>
Financial income	2	1.711.084	638.736
Financial expenses	3	-2.250.195	-2.031.488
<b>Profit/loss before tax</b>		<b>27.271.939</b>	<b>20.793.415</b>
Tax on profit/loss for the year	4	-5.889.587	-4.513.238
<b>Net profit/loss for the year</b>	5	<b>21.382.352</b>	<b>16.280.177</b>

## Balance Sheet 31 December

### Assets

	Note	2021 DKK	2020 DKK
Software		2.844.908	3.677.841
<b>Intangible assets</b>	6	<b>2.844.908</b>	<b>3.677.841</b>
Other fixtures and fittings, tools and equipment		21.135.292	27.297.222
Leasehold improvements		8.035.418	11.801.318
<b>Property, plant and equipment</b>	7	<b>29.170.710</b>	<b>39.098.540</b>
Deposits	8	1.124.338	1.124.338
Receivables from group enterprises	10	0	279.427
<b>Fixed asset investments</b>		<b>1.124.338</b>	<b>1.403.765</b>
<b>Non-current assets</b>		<b>33.139.956</b>	<b>44.180.146</b>
<b>Inventories</b>	9	<b>24.306.692</b>	<b>30.266.310</b>
Trade receivables		19.560.341	12.359.372
Receivables from group enterprises	10	859.782	3.114.082
Other receivables		531.815	596.309
Prepayments	11	2.019.374	1.603.943
<b>Receivables</b>		<b>22.971.312</b>	<b>17.673.706</b>
<b>Cash at bank and in hand</b>		<b>28.781.260</b>	<b>42.098.424</b>
<b>Currents assets</b>		<b>76.059.264</b>	<b>90.038.440</b>
<b>Assets</b>		<b>109.199.220</b>	<b>134.218.586</b>

## Balance Sheet 31 December

### Liabilities and equity

	Note	2021 DKK	2020 DKK
Share capital		26.500.000	26.500.000
Retained earnings		61.104.242	56.997.333
<b>Equity</b>		<b>87.604.242</b>	<b>83.497.333</b>
Provision for deferred tax	12	4.107.786	4.995.652
Other provisions	13	85.000	860.591
<b>Provisions</b>		<b>4.192.786</b>	<b>5.856.243</b>
Payables to group enterprises	10	509.992	0
<b>Total non-current liabilities</b>		<b>509.992</b>	<b>0</b>
Trade payables		3.239.285	5.191.696
Payables to group enterprises	10	879.527	23.320.066
Corporation tax		2.357.469	4.131.726
Other payables		10.415.919	12.221.522
<b>Total current liabilities</b>		<b>16.892.200</b>	<b>44.865.010</b>
<b>Total Liabilities</b>		<b>17.402.192</b>	<b>44.865.010</b>
<b>Liabilities and equity</b>		<b>109.199.220</b>	<b>134.218.586</b>
Contingent assets, liabilities and other financial obligation	14		
Related parties and ownership	15		
Subsequent events	16		
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## Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 January	26.500.000	56.997.333	83.497.333
Extraordinary dividend paid	0	-15.000.000	-15.000.000
Share-based payments	0	-39.456	-39.456
Cash flow hedging	0	-2.235.987	-2.235.987
Net profit/loss for the year	0	21.382.352	21.382.352
<b>Equity at 31 December</b>	<b>26.500.000</b>	<b>61.104.242</b>	<b>87.604.242</b>

The share capital consists of 26,500 shares of a nominal value of DKK 1,000. No shares carry any special rights.

## Notes to the Financial Statements

	2021	2020
	DKK	DKK
<b>1 Staff expenses</b>		
Wages and salaries	49.738.324	51.872.485
Pensions	4.311.334	4.632.664
Other social security expenses	994.945	952.187
	<b>55.044.603</b>	<b>57.457.336</b>
<b>Remuneration:</b>		
Remuneration to the Executive Board	2.630.128	2.504.708
	<b>2.630.128</b>	<b>2.504.708</b>

Management and other employees are included in Meggitt PLC's share-based compensation program. Warrants are granted with a vesting period of 2 years. There are performance conditions in connection with the program. Payments to the parent company regarding shares delivered to employees according to the programmes are recognized directly under Retained Earnings as Share-based payments on the vesting date.

<b>Average number of employees</b>	<b>91</b>	<b>105</b>
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### 2 Financial income

Interest received from group enterprises	176.917	0
Other financial income	2	5.754
Exchange rate adjustments	1.534.165	632.982
	<b>1.711.084</b>	<b>638.736</b>

### 3 Financial expenses

Interest paid to group enterprises	184.917	775.227
Other financial expenses	331.846	267.012
Exchange rate adjustments	1.733.432	989.249
	<b>2.250.195</b>	<b>2.031.488</b>

## Notes to the Financial Statements

	2021	2020
	DKK	DKK
<b>4 Tax on profit/loss for the year</b>		
Current tax concerning previous year	-16	-19
Current tax for the year	6.777.469	4.131.726
Deferred tax concerning previous year	0	2
Deferred tax for the year	-887.866	381.529
	<b>5.889.587</b>	<b>4.513.238</b>

## 5 Distribution of profit

### Proposed distribution of profit

Extraordinary dividend, paid	15.000.000	0
Retained earnings	6.382.352	16.280.177
	<b>21.382.352</b>	<b>16.280.177</b>

## 6 Intangible assets

	Software DKK
Cost at 1 January	4.883.031
Additions for the year	55.800
<b>Cost at 31 December</b>	<b>4.938.831</b>
Impairment losses and depreciation at 1 January	1.205.190
Depreciation for the year	888.733
<b>Impairment losses and depreciation at 31 December</b>	<b>2.093.923</b>
<b>Carrying amount at 31 December</b>	<b>2.844.908</b>



## Notes to the Financial Statements

### 7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improve- ments
	DKK	DKK
Cost at 1 January	70.072.248	37.463.241
Additions for the year	253.098	-
Adjustments to prior years	-499.771	-
<b>Cost at 31 December</b>	<b>69.825.575</b>	<b>37.463.241</b>
Impairment losses and depreciation at 1 January	42.775.026	25.661.923
Depreciation for the year	5.915.257	3.765.900
<b>Impairment losses and depreciation at 31 December</b>	<b>48.690.283</b>	<b>29.427.823</b>
<b>Carrying amount at 31 December</b>	<b>21.135.292</b>	<b>8.035.418</b>

### 8 Fixed asset investments

	Deposits
	DKK
Cost at 1 January	1.124.338
<b>Carrying amount at 31 December</b>	<b>1.124.338</b>

### 9 Inventories

	2021	2020
	DKK	DKK
Raw materials and consumables	2.882.552	2.981.957
Work in progress	16.379.733	17.615.151
Finished goods and goods for resale	5.044.407	9.669.202
	<b>24.306.692</b>	<b>30.266.310</b>

## Notes to the Financial Statements

### 10 Balance with group enterprises - Derivatives

The Company has entered into a series of FX forward contracts during the year, some of which remains unsettled at 31 December 2021. The purpose of these contracts was to hedge future fluctuations in the USDDKK exchange rate. At the balance sheet date, the fair value of the forward exchange contracts amounts to TDKK -510 (2020: 1.726k)

	2021	2020
	DKK	DKK
The fair value is split between forward contracts maturing:		
Within 1 year:	0	1.446.568
Within 1 - 2 years:	-509.992	279.427
	<b>-509.992</b>	<b>1.725.995</b>

### 11 Prepayments

Prepaid rent	574.447	574.447
Other prepayments	1.444.927	1.029.496
	<b>2.019.374</b>	<b>1.603.943</b>

### 12 Provision for deferred tax

Provision for deferred tax 1 January	4.995.652	4.614.121
Deferred tax for the year	-887.866	381.529
Adjustment concerning previous year	0	2
	<b>4.107.786</b>	<b>4.995.652</b>

## Notes to the Financial Statements

### 13 Other provisions

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, general provisions of kDKK 85 (2020: kDKK 295) have been recognized for expected warranty claims. No warranty provision has been booked (2020: kDKK 566) to cover the expected cost of replacements under warranty for specific ongoing warranty claims.

	2021	2020
	DKK	DKK
Provision for warranties , general	85.000	295.000
Provision for warranties , specific	0	565.591
	<b>85.000</b>	<b>860.591</b>
The provisions are expected to mature as follows:		
Within 1 year:	85.000	860.591
	<b>85.000</b>	<b>860.591</b>

### 14 Contingent assets, liabilities and other financial obligations

<b>Rental agreements and leases</b>	2021	2020
	DKK	DKK
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	338.279	287.767
Between 1 and 5 years	527.009	523.369
	<b>865.288</b>	<b>811.136</b>
Rental agreements	1.182.347	1.153.512

#### Contingent liabilities

The company has no other contingent liabilities.

# Notes to the Financial Statements

## 15 Related parties and ownership

### Related parties

Related parties to Meggitt A/S include Meggitt International Ltd. and its affiliates.

The company's related parties also include the Board of Directors and the Executive Board, as well as the related family members of these persons. Related parties also include companies in which the aforementioned group of persons has significant interests.

All transactions have taken place on market terms.

### Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Meggitt International Ltd.  
Pilot Way  
Ansty Business Park  
Coventry CV7 9JU  
United Kingdom

### Consolidated Financial Statements

The Company is included in the Group Annual Report of Meggitt PLC, United Kingdom

The Group Annual Report may be obtained at the following address:  
[www.meggitt.com](http://www.meggitt.com)

## Notes to the Financial Statements

### 16 Subsequent events

CTS Corporation (NYSE: CTS) and Meggitt PLC (LSE: MGGT) have announced a definitive Share Purchase Agreement under which CTS would acquire Meggitt A/S (also known as Ferroperm Piezoceramics) for Danish Krone 525 million in cash, subject to net debt and working capital adjustments and the other terms and conditions of the Share Purchase Agreement. The transaction is expected to close in 2022 and is subject to the receipt of the requisite regulatory approvals, as well as the satisfaction of other customary closing conditions.

The Share Sale does not materially affect the assessment of the financial position of the Company as at the balance sheet date.

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

# Notes to the Financial Statements

## 17 Accounting Policies

### Basis of Preparation

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

The accounting policies applied remain unchanged from last year.

Financial Statements for 2021 are presented in DKK.

### 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 the Ultimate Parent Company, 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 is 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 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.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

### 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.

Fair value adjustments on foreign exchange contracts are recognized 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.

## Notes to the Financial Statements

### **Income Statement**

#### **Gross profit**

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

#### **Revenue**

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is measured excluding VAT and after rebate associated.

#### **Expenses for raw materials and consumables**

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

#### **Other external expenses**

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Under other external expenses are also research and development expenses not meeting the criteria for capitalization, including expenses for maintenance of the existing product portfolio.

#### **Staff expenses**

Staff expenses comprise wages and salaries as well as payroll expenses other than production related.

#### **Amortisation, depreciation and impairment**

Amortisation, depreciation and impairment comprise amortization, depreciation and impairment of intangible assets and property, plant and equipment for the year.

#### **Other operating income and expenses**

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprise, including gains and losses on the sale of property, plant and equipment and provisions for abandonment.

#### **Financial income and expenses**

Financial income and expenses comprise interest, realised and unrealised currency adjustments.

#### **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.

## Notes to the Financial Statements

### Balance Sheet

#### Software and Property, plant and equipment

Software and 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. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub suppliers.

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:

Production buildings	50	years
Other fixtures and fittings, tools and equipment	3 - 10	years
Leasehold improvements	5 - 10	years
Software	3 - 5	years

Depreciation periods and residual values are reassessed annually.

#### Impairment of fixed assets

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

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

#### Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost comprises materials, direct labour, other direct cost and related production overheads, based on normal operating capacity, and is determined using the first-in first-out (FIFO) method.

Abnormal variations between actual/forecasted volumes and normal operating capacity are excluded from the valuation of inventory.

The net realisable value of inventories is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.



## Notes to the Financial Statements

### Government grants

Grants are recognised when the general conditions for recognition are met, and when the conditions attaching to the grants are met.

Subsidies granted to cover expenses are recognised in the income statement in the rate they earned.

Grants to investments in assets are recognised as reduction of the carrying amount of asset by the amount of grants.

### Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

### Prepayments

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

### Equity

#### Dividend

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

### Derivative financial instruments and hedging

The company uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk.

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently held at fair value at each balance sheet date, using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from subsequent measurement at fair value is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. An instrument is recognized as a hedging instrument by documenting, at its inception, the economic relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

### 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 within one year and provision for abandonment. Provisions for warranties are measured and recognised based on experience with guarantee work. Provisions with an expected maturity exceeding 1 year from the balance sheet date are discounted at the average bond yield.

## Notes to the Financial Statements

### 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, including the tax base of tax loss carry forwards, 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.

### 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.

## Financial Highlights

### Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$