Phoenix International A/S

Industrivej Vest 11, 6600 Vejen

CVR no. 26 07 87 17

Annual report 2017

Approved at the Company's annual general meeting on ~~2~~ 22 May 2018

Chairman:

Tony Hansen

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 Phoenix International 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 for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Vejen, 2 May 2018
Executive Board:

René Koch

Board of Directors:

Thomas Rask Jensen Chairman	Hamzeh Ilkhanizadeh	Tony Hansen

Independent auditor's report

To the shareholders of Phoenix International A/S

Opinion

We have audited the financial statements of Phoenix International A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity 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 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.
- 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.

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Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our 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.

Kolding, 22 May 2018
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Claus E. Andreasen
State Authorised Public Accountant
MNE no.: mne16652

Management's review

Company details

Name	Phoenix International A/S
Address, Postal code, City	Industrivej Vest 11, 6600 Vejen
CVR no.	26 07 87 17
Established	25 June 2001
Registered office	Vejen
Financial year	1 January - 31 December
Website	www.phoenixint.dk
Telephone	+45 76 96 34 00
Telefax	+45 76 96 34 01
Board of Directors	Thomas Rask Jensen, Chairman Hamzeh Ilkhanizadeh Tony Hansen
Executive Board	René Koch
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Kolding Åpark 1, 3. sal, 6000 Kolding, Denmark

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Management's review

Business review

The Company was established on 1 January 2001 and was previously a part of A/S Phoenix Contractors (established in 1907), where the activities primarily were carried out under the secondary name Phoenix Pipe Protectors A/S.

Phoenix International A/S is a contracting, industrial and trade company with production and delivery of coating materials for protection against corrosion of oil-, gas- and water pipes and road and roofing materials as core business.

Since 1907, the core business in Phoenix International A/S, its group entities and activities world-wide has been based on bitumen products, which originate from oil refining. An example of products is two-component polyurethane modified bitumen ("2K" material). In recent years, the product palette has been extended with the product FBE (Fusion Bonded Epoxy). FBE and 2-K are both produced in our own factory in Vejen. The FBE products are sold on the international market to the pipe coating industry. The 2K products are sold on the international market to e.g. high voltage cables and joint filling materials for constructions of concrete.

During 2017, the Company invested in the expansion of its buildings to make room for four new production lines, a new FBE line, a line for the production of PE/OO (Polyethylen/Polypropylene), a PE/PP adhesive line and a liquid epoxy line to enable Phoenix International to deliver a full 3-layer coating solution.

Since 1997, the Company has participated in a joint venture in South Africa together with SHELL, where the joint venture produces and sells modified bitumen to the road and pipe coating industry.

The fully owned subsidiary in Malaysia has in 2017 continued its delivery of orders from own production of primer, enamel and wrap to the pipe coating industry, however at a considerably higher level than in 2016.

The Company's primary market areas are Africa as well as the Middle and Far East.

Financial review

The income statement for 2017 shows a profit of DKK 9,350 thousand against a profit of DKK 700 thousand last year, and the balance sheet at 31 December 2017 shows equity of DKK 41,574 thousand. The results of operation are considered very satisfactory.

The profit for the year is positively affected by high activity on FBE products throughout the year and by the contribution from the 2K market, which exceeded expectations.

Malaysia has a positive impact on the financial statements due to a high activity level.

The expansion of the buildings by 2,500 square meters was taken into use in June, and the erection of the four new production lines was initiated. The FBE line was completed and put into production in Q4, whereas the erection and completion of the other production lines are expected to be finalised in Q1/Q2 2018.

Phoenix International A/S, which was certified to ISO 9001 in 2010, has been recertified in 2017 without remarks. ISO 9001:2015

Phoenix International A/S, which was certified ISO 9001 in 2010, has been recertified in 2016 without remarks.

Knowledge resources

The Company is not dependent on any particular knowledge resources other than what the industry requires.

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Management's review

Special risks

Country risk
The Company has investments in South Africa, Malaysia and Iran as well as sales and receivables to some of these countries among others. Consequently the Company is influenced by the political and economical development in said countries.

Price risk
The Company's use of oil-based products and the significant price increases in the market pose a special risk on the volatile oil market, as price increases cannot always fully be included in the price of the finished products to the end user.

Currency risk
The Company has customers world-wide. Sales are primarily invoiced in DKK and EUR and secondarily in USD.

In case of special customer relationships an exception may be made. This implies that the results may be affected by the development in exchange rates and interest rates of other currencies.
From a risk and cost point of view, the Company evaluates whether these risks are to be hedged; such evaluation is made per order. Hedging is increasingly made on USD and ZAR. Often however, the risk is limited as matching purchase and sales orders are made in the same currency, primarily in EUR.

Credit risk
As of 2013 and onwards, the Company has hedged the credit risk on trade receivables by engaging only in orders covered by a Letter of Credit to the largest extent possible.

Interest rate risk
As the interest on the Company's interest-bearing debt is fixed through agreements, moderate changes in the interest level will not have any major impact on earnings.

Research and development activities

The Company has own development activities.

The development activities mainly consist of product improvement and less resource demanding coating materials and systems both in terms of the development of new products as well as custom-designed products.

In connection with the new production lines, development activities are expected to increase.

Outlook

Activities and revenue for 2018 are expected to be in line with 2017, but results of operation are expected to be down on 2017.

The level of activities for the K2 business is expected to be in line with 2017 and to make positive contributions to the results of operation.

The uncertainty regarding prices on raw material and the currency exchange rate development have been hedged by foreign currency hedge, the opening of letter of credits regarding sale, and purchase and sale made in the same currency.

In Malaysia and the Far East, it is expected that the local presence with own production facilities will have a positive impact on business potential. Revenue and earnings in 2018 are expected to contribute positively to the financial statements.

The plant in Scotland will be dismantled during the first half of 2018. The dismantling will have no revenue effect in 2018.

In South Africa, earnings are expected to improve compared to the past years, which is primarily attributable to an increase in activities based on major projects on the pipe coating market.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2017	2016
	Gross margin	22,277	13,204
2	Staff costs	-10,484	-6,367
5,6	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-2,243	-2,267
	Other operating expenses	0	-1,364
	Profit before net financials	9,550	3,206
	Income from investments in group entities	2,046	-1,921
	Income from investments in associates	251	301
3	Financial income	1,139	743
	Financial expenses	-1,630	-965
	Profit before tax	11,356	1,364
4	Tax for the year	-2,006	-664
	Profit for the year	9,350	700

	Recommended appropriation of profit		
	Retained earnings	9,350	700
		9,350	700

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	ASSETS		
	Fixed assets		
5	**Intangible assets**		
	Completed development projects	100	192
		100	192
6	**Property, plant and equipment**		
	Land and buildings	21,778	7,116
	Plant and machinery	17,226	4,786
	Other fixtures and fittings, tools and equipment	663	464
	Property, plant and equipment under construction	11,594	2,875
	Prepayments for property, plant and equipment	2,291	0
		53,552	15,241
7	**Investments**		
	Investments in group entities, net asset value	2,969	943
	Investments in associates, net asset value	4,000	5,277
	Other securities and investments	10,067	10,067
		17,036	16,287
	Total fixed assets	70,688	31,720
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	19,990	5,975
	Finished goods and goods for resale	2,959	421
		22,949	6,396
	Receivables		
	Trade receivables	8,673	7,276
	Receivables from group entities	12,845	24,085
	Receivables from associates	0	624
	Dividend receivable from associates	1,433	0
	Prepayments	639	659
		23,590	32,644
	Cash	244	10,094
	Total non-fixed assets	46,783	49,134
	TOTAL ASSETS	117,471	80,854

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	18,500	18,500
	Retained earnings	23,074	13,838
	Total equity	41,574	32,338
	Provisions		
	Deferred tax	1,209	381
	Total provisions	1,209	381
	Liabilities other than provisions		
8	**Non-current liabilities other than provisions**		
	Mortgage debt	8,608	2,676
	Bank debt	17,393	3,267
	Lease liabilities	0	655
		26,001	6,598
	Current liabilities other than provisions		
8	Current portion of long-term liabilities	5,844	1,139
	Bank debt	8,470	13,355
	Trade payables	8,111	8,710
	Income taxes payable	1,175	485
	Payables to shareholders and management	21,534	14,850
	Other payables	3,553	2,998
		48,687	41,537
	Total liabilities other than provisions	74,688	48,135
	TOTAL EQUITY AND LIABILITIES	117,471	80,854

1 Accounting policies
9 Contractual obligations and contingencies, etc.
10 Collateral
11 Related parties

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Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2017	18,500	13,838	32,338
Transfer through appropriation of profit	0	9,350	9,350
Exchange adjustment	0	-114	-114
Equity at 31 December 2017	18,500	23,074	41,574

Financial statements 1 January - 31 December

Notes to the financial statements

1 **Accounting policies**

The annual report of Phoenix International A/S for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Foreign group entities

Foreign subsidiaries and associates are considered separate entities. Items in such entities' income statements are translated at an average exchange rate for the month, and balance sheet items are translated at closing rates. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries to closing rates and on translation of the income statements from average exchange rates to closing rates are taken directly to equity.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for hedging of future assets or liabilities are recognised in other receivables or other payables, respectively, and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects the profit/loss for the year.

Leases

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to the ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of the future lease payments. In calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for in the same way as the Company's other assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Income from the rendering of services, which comprises consultancy services, is recognised as revenue as the services are rendered, implying that revenue corresponds to the market value of the services rendered in the year (production method).

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross margin

The items revenue, change in inventories of finished goods and work in progress, work performed for own account and capitalised, other operating income and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

External expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life. Acquired IP rights include patents, rights and licences.

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	5 years
Acquired intangible assets	5 years

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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:

Buildings	30 years
Plant and machinery	5-15 years
Other fixtures and fittings, tools and equipment	3-5 years

Land is not depreciated.

Income from investments in subsidiaries and associates

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries and associates are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries. Only proportionate elimination of intra-group gains/losses is made for equity investments in associates.

The item also includes gains and losses from sales of shares in subsidiaries and associates.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities and associates, declared dividends from other securities and investments, financial expenses relating to finance leases, realised and unrealised capital gains and losses relating to other securities and investments, exchange gains and losses and amortisation of financial assets and liabilities.

The item also includes dividend received from other securities and investments in so far as the dividend does not exceed the accumulated earnings in the subsidiary or the associate in the period of ownership.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Intangible assets

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

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

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

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

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

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

As regards self-produced assets, the cost includes the cost of materials and labour, etc. directly relating to the production.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Investments in subsidiaries and associates

Equity investments in subsidiaries and associates are measured according to the equity method.

On initial recognition, equity investments in subsidiaries and associates are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries and associates measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other securities and investments

Other securities and investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at a value made up using generally recognised valuation principles if the securities are unlisted.

When conditions for measuring at fair value is not present the securities are measured at cost.

Impairment of fixed assets

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

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 at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Goods for resale are measured at cost, which comprises the cost of acquisition plus delivery costs as well as other expenses directly attributable to the acquisition.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Equity

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries and associates relative to cost. The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the 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 and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or 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 is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

As management company for all the entities in the joint taxation arrangement, the parent company is liable for payment of the subsidiaries' income taxes vis à vis the tax authorities as the subsidiaries pay their joint taxation contributions. Joint taxation contributions payable or receivable are recognised in the balance sheet as income tax receivables or payables.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Lease liabilities

Lease liabilities are measured at the net present value of the remaining lease payments including any guaranteed residual value based on the interest rate implicit in the lease.

	DKK'000	2017	2016
2	**Staff costs**		
	Wages/salaries	9,600	5,728
	Pensions	705	460
	Other social security costs	179	179
		10,484	6,367
	Average number of full-time employees	17	10
3	**Financial income**		
	Interest receivable, group entities	364	320
	Other financial income	775	423
		1,139	743

In other financial income dividend from Varziran Co. is included with DKK 605 thousand (2016: DKK 371 thousand).

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2017	2016
4 Tax for the year		
Estimated tax charge for the year	1,178	511
Deferred tax adjustments in the year	828	153
	2,006	664

5 Intangible assets

DKK'000	Completed development projects
Cost at 1 January 2017	1,805
Cost at 31 December 2017	1,805
Impairment losses and amortisation at 1 January 2017	1,613
Amortisation/depreciation in the year	92
Impairment losses and amortisation at 31 December 2017	1,705
Carrying amount at 31 December 2017	100

6 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Prepayments for property, plant and equipment	Total
Cost at 1 January 2017	9,223	21,807	1,845	2,875	0	35,750
Additions in the year	12,081	14,120	377	11,594	2,291	40,463
Disposals in the year	-169	0	0	0	0	-169
Transfer from other accounts	2,898	0	22	-2,875	0	1
Cost at 31 December 2017	24,033	35,927	2,200	11,594	2,291	76,045
Impairment losses and depreciation at 1 January 2017	2,107	17,021	1,381	0	0	20,509
Amortisation/depreciation in the year	294	1,677	180	0	0	2,151
Reversal of amortisation/depreciation and impairment of disposals	-169	0	0	0	0	-169
Transferred	23	3	-24	0	0	2
Impairment losses and depreciation at 31 December 2017	2,255	18,701	1,537	0	0	22,493
Carrying amount at 31 December 2017	21,778	17,226	663	11,594	2,291	53,552
Property, plant and equipment include finance leases with a carrying amount totalling	0	617	0	0	0	617

Note 10 provides more details on security for loans, etc. as regards property, plant and equipment.

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Notes to the financial statements

7 Investments

DKK'000	Investments in group entities, net asset value	Investments in associates, net asset value	Other securities and investments	Total
Cost at 1 January 2017	8,902	2,111	10,067	21,080
Cost at 31 December 2017	8,902	2,111	10,067	21,080
Value adjustments at 1 January 2017	-7,959	3,166	0	-4,793
Exchange adjustment	-20	-95	0	-115
Dividend distributed	0	-1,433	0	-1,433
Share of the profit/loss for the year	2,046	251	0	2,297
Value adjustments at 31 December 2017	-5,933	1,889	0	-4,044
Carrying amount at 31 December 2017	2,969	4,000	10,067	17,036

Name	Legal form	Domicile	Interest
Subsidiaries			
Phoenix International Malaysia	Sdn. Bhd. (limited company)	Malaysia	100.00%
Phoenix Global Holding ApS	ApS (limited company)	Denmark	100.00%
Associates			
Bituguard Southern Africa	Ltd. (limited company)	South Africa	50.00%

Other investments comprises of an ownership of 17% in the listed company Varziran Co., Iran. The shares have a very low negotiability on the stock exchange in Teheran. Like prior year the investment is measured at cost. The latest published audited financial statements for 2016/17 of Varziran Co., Iran shows a profit of DKK 6,957 thousand (2015/16: 2,368 thousand) and capital and reserves at 20 March 2017 of DKK 20,241 thousand (20 March 2016: DKK 19,406 thousand). Phoenix International A/S' share of the carrying amount of the capital and reserves amounts to DKK 3,440 thousand. In 2017 the Company has received dividend of DKK 605 thousand (2016: DKK 371 thousand).

8 Non-current liabilities other than provisions

Of the long-term liabilities, DKK 10,613 thousand falls due for payment after more than 5 years after the balance sheet date.

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9 Contractual obligations and contingencies, etc.

Contingent liabilities

DKK'000	2017	2016
Letter of credit	1,466	0
	1,466	0

Guarantee commitments consist of a guarantee provided in respect of bank commitments in subsidiaries. The debt concerned amounts to DKK 0 as of 31 December 2017.

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally with other jointly taxed group entities for payment of income taxes as well as withholding taxes on interest, royalties and dividends.

Other contingent liabilities

Other financial obligations

The Company has liabilities under operating leases for production and IT equipment, totalling DKK 883 thousand, with remaining contract terms of up to 55 months.

10 Collateral

Land and buildings with a carrying amount of DKK 21,778 thousand have been provided as collateral for mortgage debt of DKK 8,998 thousand.

Plant and machinery with a carrying amount of DKK 617 thousand are held under finance leases. The finance lease obligation amounts to DKK 763 thousand.

As colleteral for bank debt of DKK 30,197 and letter of credit of DKK 1,466 thousand the following are issued:

-Mortgage registered to the owner of DKK 2,200 thousand secured on land and buildings with a carrying amount of DKK 21,778 thousand.

-Mortgage registered to the owner of DKK 2,750 thousand secured on operating equipment with a carrying amount of DKK 643 thousand.

-Mortgage registered to the owner of DKK 6,000 thousand secured on assets with a carrying amount of DKK 50,068 thousand.

-Mortgage registered to the owner of DKK 6,000 thousand secured on operating equipment with a carrying amount of DKK 8.558 thousand.

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11 Related parties

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
Hamzeh Ilkhanizadeh c/o Phoenix Middle East	Office No. LB 190909 Jebel Ali P.O. Box 262302 Dubai Dubai UAE