Phoenix International A/S

Industrivej Vest 11, 6600 Vejen

CVR no. 26 07 87 17

Annual report 2016

Approved at the annual general meeting of shareholders on 30 May 2017

Chairman:

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Building a better working world

Contents

Statement by the Board of Directors and the Executive Board

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

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

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

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, 19 May 2017
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 2016, which comprise an 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report

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

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

Statement on Management's review

Management is responsible for the Management's review.

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

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

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

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

Kolding, 19 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Claus E. Andreasen
State Authorised Public Accountant

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

Management's review

Management commentary

Business review

The Company was established on 1 January 2001 and was previously a part of A/S Phønix 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 companies and activities world-wide has been based on bitumen products, which originates from oil refinding. An example of products is two-component polyuretan modified bitumen ("2K" material). In the latest years the product palette has been extended with the product FBE (Fusion Bonded Epoxy). Both products are produced in our own factory in Vejen. FBE products are sold on the international market to the pipecoating industry. The 2K products are sold on the international market to e.g. highvoltage cables and joint filling materials for constructions of concrete.

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 pipecoating industry.

The fully owned component in Malaysia has in 2016 continued with delivery of orders from own production of primer, enamel and wrap to the pipe coating industry, however at a lower level compared to 2015. A high activity were expected regarding November and December due to the startup of a larger project. However the project did not startup as planned in 2016. In 2016 the result has like in previous years been affected by currency exchange fluctuations.

Like the previous two years the Company's own production in Scotland had no activity in 2016.

The Company's market area is primarily Africa as well as the Middle and Far East.

Financial review

The income statement for 2016 shows a profit of DKK 700 thousand against DKK 854 thousand last year, and the balance sheet at 31 December 2016 shows equity of DKK 32,339 thousand. In the annual report for 2015, Management expected a profit higher than 2015. Management considers the Company's financial performance in the year, under the given circumstances, to be acceptable.

The profit for the year is positively influenced by high activity on FBE products, especially in second half of 2016. The market for 2K contributed as expected. Due to negative currency adjustments in the subsidiary Phoenix Malaysia and low activity the profit is negatively influenced by the result from Phoenix Malaysia.

In second half of 2016 the planned expansion of production facilities in Vejen startedup with approximately 2,500 m2, which will accommodate four new production lines, a PE/PP (Polyethylen/Polyprolylen) line, a PE/PP adhesive line, a liquid epoxy line and an additional FBE line.

The company were in 2016 exposed to the so called "CEO fraud", where external fraudsters had luck with initiating a fake money transfer. The case has been handed over to the police for investigation.

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

Knowledge resources

The Company does not dependend on particular intellectual capital except what the general business demands.

Management's review

Management commentary

Special risks

Country risk
The Company has investments in Scotland, 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
Due to the major price fluctuations existing on the volatile market regarding oil based products, the Company's use of oil based products entails a particular risk for the Company as increases in prices for raw materials may not immediately be included fully in the sales price for the finished goods to the end-user.

Currency risk
The Company has customers world wide. Sales are primarily invoiced in DKK, EUR and secondarily in USD. In particular customer relationships this may be deviated. Consequently, the results are affected by the development in exchange rates and interest rates regarding EUR, USD and other currencies. From a risk and cost point of view the Company evaluates whether these risks are to be hedged, in some cases hedging 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, which primarely is EUR.

Credit risk
From 2013 and onwards the Company has made an effort to hedge the credit risk on trade receivables by engaging only in orders covered with 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, significant changes in the interest level will not have any major influence 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 both in terms of the development of new products as well as custom-designed products. In connection with new production lines in 2017, development activities is expected to be on a higher level compared to 2016.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Management's review

Management commentary

Outlook

In 2017 a turnover and a profit higher than in 2016 is expected.

The expectation is based on a larger order income regarding FBE. The headcount in the production is expected to be raised significant and the production capacity is expected to be raised via extension of worker shifts. The new production facilities is expected to be finalized and handed over approximately at 1 June 2017 where four new productions lines will be started up. It is expected that one or more of the new production lines at the end of 2017 will be contributing positively to the profit of the business. The 2K business is expected to continue the activity at the same level as 2016 and contribute positively to the company's result.

The uncertainty regarding prices at raw material and the currency exchange rate development has been covered by agreements regarding delivery, letter of credit regarding sale and purchase and sale performed in the same currency.

In Malaysia and far East it is expected that the local presence with own productions facilities will have a positive influence at the business opportunities, which already has resulted in extended orders during 2015 and 2016. The turnover and the margin in 2017 is expected to contribute positive to the result due to deliveries to a large project.

In 2016 there has not been any activity in Scotland. In 2017 no new orders is ecpected.

IIn South Africa, an average level of earnings is expected. A previous expansion of the production capacity to cover Bituseal enamel has given new opportunities, and it seems that the quality problems regarding Bitumen, which have been seen the past years, are solved. It seems that for the first time in many years there will be a positive income to Bituguard South Africa regarding the pipecoating market. It is expected that there will be a good acitivity at the pipe coating market in South Africa in 2017.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	2016	2015
	Gross margin	13,204	8,507
3	Staff costs	-6,367	-5,802
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-2,267	-2,184
4	Other operating expenses	-1,364	0
	Profit before net financials	3,206	521
	Income from investments in group entities	-1,921	-652
	Income from investments in associates	301	515
5	Financial income	743	925
	Financial expenses	-965	-575
	Profit before tax	1,364	734
6	Tax for the year	-664	120
	Profit for the year	700	854

	Recommended appropriation of profit		
	Retained earnings	700	854
		700	854

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Fixed assets		
7	**Intangible assets**		
	Completed development projects	192	439
		192	439
8	**Property, plant and equipment**		
	Land and buildings	7,116	7,459
	Plant and machinery	4,786	5,392
	Other fixtures and fittings, tools and equipment	464	476
	Property, plant and equipment in progress	2,875	0
		15,241	13,327
9	**Investments**		
	Investments in group entities, net asset value	943	2,755
	Investments in associates, net asset value	5,277	4,336
	Other securities and investments	10,067	10,067
		16,287	17,158
	Total fixed assets	31,720	30,924
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	5,975	3,608
	Finished goods and goods for resale	421	983
	Prepayments for goods	0	7,121
		6,396	11,712
	Receivables		
	Trade receivables	7,276	696
	Receivables from group entities	24,085	8,964
	Receivables from associates	624	630
	Other receivables	0	30
	Deferred income	659	474
		32,644	10,794
	Cash	10,094	1,726
	Total non-fixed assets	49,134	24,232
	TOTAL ASSETS	80,854	55,156

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	18,500	18,500
	Retained earnings	13,839	12,470
	Total equity	32,339	30,970
	Provisions		
	Deferred tax	381	228
	Total provisions	381	228
	Liabilities		
10	**Non-current liabilities other than provisions**		
	Mortgage debt	2,676	2,864
	Bank debt	3,267	3,490
	Lease liabilities	655	1,556
		6,598	7,910
	Current liabilities		
10	Current portion of long-term liabilities	1,139	1,077
	Bank debt	13,355	4,784
	Trade payables	8,709	4,008
	Income taxes payable	485	0
	Payables to shareholders and management	14,850	5,059
	Other payables	2,998	1,120
		41,536	16,048
	Total liabilities other than provisions	48,134	23,958
	TOTAL EQUITY AND LIABILITIES	80,854	55,156

1 Accounting policies
2 Special items
11 Contractual obligations and contingencies, etc.
12 Collateral
13 Related parties

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2016	18,500	12,470	30,970
Transfer, see "Appropriation of profit"	0	700	700
Exchange adjustment	0	669	669
Equity at 31 December 2016	18,500	13,839	32,339

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Phoenix International A/S has been presented in accordance with the provisions of the Danish Financial Statements Act as regards reporting class B enterprises.

Changes to presentation and disclosures only

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

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

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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".

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 non-current 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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

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	5-10 years
Other fixtures and fittings, tools and equipment	3-5 years

Land is not depreciated.

Income from investments in group entities and associates

The item includes the Company's proportionate share of the profit/loss for the year in subsidiaries and associates after elimination of intra-group income or losses and net of amortisation and impairment of goodwill and other excess values at the time of acquisition.

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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.

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

On initial recognition, investments in subsidiaries and associates are measured at cost and subsequently at the proportionate share of the entities' net asset values calculated in accordance with the parent company's accounting policies minus or plus any residual value of positive or negative goodwill calculated in accordance with the purchase method of accounting. Subsidiaries and associates with a negative net asset value are measured at DKK 0 (nil), and any amounts owed by such entities are written down by the parent company's share of the net asset value if the amount owed is deemed irrecoverable. If the negative net asset value exceeds the amounts owed, the remaining amount is recognised under provisions if the parent company has a legal or a constructive obligation to cover the entity's deficit. Net revaluations of investments in subsidiaries and associates are transferred to the net revaluation reserve according to the equity method where the carrying amount exceeds the acquisition cost.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Newly acquired or formed entities are recognised in the financial statements from the date of acquisition or formation. Entities sold or otherwise disposed of are recognised up to the date of disposal.

Corporate acquisitions are accounted for using the purchase method according to which the acquired entity's identifiable assets and liabilities are measured at fair value at the date of acquisition. In connection with the acquisition, a provision is made for expenses related to adopted plans to restructure the acquired entity. The tax effect of revaluations made is taken into account.

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 non-current 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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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.

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.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 **Accounting policies (continued)**

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.

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.

2 **Special items**

Special items for the year are specified below just as are the items under which they are recognised in the income statement.

In 2016 the company were exposed to the so called "CEO fraud". External fraudsters had success with stealing an amount of DKK 1,364 thousand.

	DKK'000	2016	2015
3	**Staff costs**		
	Wages/salaries	5,728	5,256
	Pensions	460	422
	Other social security costs	179	124
		6,367	5,802
	Average number of full-time employees	10	9

4 **Other operating expenses**

Please refer to note 2.

5	**Financial income**		
	Interest receivable, group entities	320	294
	Other financial income	423	631
		743	925

In other financial income dividend from Varziran Co. is included with DKK 371 thousand (2015: DKK 401 thousand).

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK'000	2016	2015
6	**Tax for the year**		
	Estimated tax charge for the year	511	0
	Deferred tax adjustments in the year	153	-120
		664	-120

7 **Intangible assets**

DKK'000	Completed development projects
Cost at 1 January 2016	1,806
Cost at 31 December 2016	1,806
Impairment losses and amortisation at 1 January 2016	1,367
Amortisation/depreciation in the year	247
Impairment losses and amortisation at 31 December 2016	1,614
Carrying amount at 31 December 2016	192

8 **Property, plant and equipment**

DKK'000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2016	9,222	20,909	1,795	0	31,926
Additions in the year	1	898	163	2,875	3,937
Disposals in the year	0	0	-113	0	-113
Cost at 31 December 2016	9,223	21,807	1,845	2,875	35,750
Impairment losses and depreciation at 1 January 2016	1,763	15,517	1,319	0	18,599
Amortisation/depreciation in the year	344	1,504	175	0	2,023
Reversal of amortisation/depreciation and impairment of disposals	0	0	-113	0	-113
Impairment losses and depreciation at 31 December 2016	2,107	17,021	1,381	0	20,509
Carrying amount at 31 December 2016	7,116	4,786	464	2,875	15,241
Property, plant and equipment include finance leases with a carrying amount totalling	0	1,962	0	0	1,962

Note 12 provides more details on security for loans, etc. as regards property, plant and equipment.

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Notes to the financial statements

9 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 2016	8,902	2,111	10,067	21,080
Cost at 31 December 2016	8,902	2,111	10,067	21,080
Value adjustments at 1 January 2016	-6,147	2,225	0	-3,922
Exchange adjustment	29	640	0	669
Share of the profit/loss for the year	-1,921	301	0	-1,620
Equity adjustments, investments	90	0	0	90
Other adjustments, investments	-10	0	0	-10
Value adjustments at 31 December 2016	-7,959	3,166	0	-4,793
Carrying amount at 31 December 2016	943	5,277	10,067	16,287

Name	Legal form	Domicile	Interest
Subsidiaries			
Phoenix International	Sdn. Bhd. (limited company)	Malaysia	100.00 %
Phoenix Global Holding	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 accounts for 2015/16 of Varziran Co., Iran show a profit of DKK 2,368 thousand (2014/15: 2,627 thousand) and capital and reserves at 20 March 2016 of DKK 19,406 thousand (20 March 2015: DKK 21,760 thousand). Phoenix International A/S' share of the carrying amount of the capital and reserves amounts to DKK 3,299 thousand. In 2016 the Company has received dividend of DKK 371 thousand (2015: DKK 401 thousand).

10 Long-term liabilities

Of the long-term liabilities, DKK 1,882 thousand falls due for payment after more than 5 years after the balance sheet date.

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11 Contractual obligations and contingencies, etc.

Contingent liabilities

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 2016.

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 244 thousand, with remaining contract terms of up to 41 months.

12 Collateral

Land and buildings with a carrying amount of DKK 7,115 thousand have been provided as collateral for mortgage debt of DKK 2,863 thousand.

Plant and machinery with a carrying amount of DKK 1,289 thousand are held under finance leases. The finance lease obligation amounts to DKK 1,386 thousand.

As colleteral for bank debt of DKK 16,738 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 7,115 thousand.

-Mortgage registered to the owner of DKK 2,750 thousand secured on operating equipment with a carrying amount of DKK 878 thousand.

-Mortgage registered to the owner of DKK 6,000 thousand secured on assets with a carrying amount of DKK 19.962 thousand.

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Notes to the financial statements

13 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