

# Eurowater Holding A/S

Aarhusvej 79, Stilling, 8660 Skanderborg

CVR no. 27 06 91 50

## Annual report 2016/17

Approved at the Company's annual general meeting on 22 January 2018

Chairman:



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Harry Viiala





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## Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Eurowater Holding A/S for the financial year 1 November 2016 - 31 October 2017.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 October 2017 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 1 November 2016 - 31 October 2017.



Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's operations and financial matters and the results of the Group's and the Parent Company's operations and financial position.

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

Stilling, 22 January 2018  
Executive Board:

  
Kurt Hufnagl

Board of Directors:

  
Harry Viiala  
Chairman  
Torben Buhl  
Kurt Hufnagl

## Independent auditor's report

To the shareholders of Eurowater Holding A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Eurowater Holding A/S for the financial year 1 November 2016 – 31 October 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for both the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 October 2017 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 November 2016 – 31 October 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 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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 consolidated financial statements and parent company 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 Group's and the Parent 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 Group or the Parent 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 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.

## Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

### Independent auditor's report

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 Statements Act. We did not identify any material misstatement of the Management's review.

Aarhus, 22 January 2018  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Jes Lauritzen  
State Authorised  
Public Accountant  
MNE no. 10121



Henrik Andersen  
State Authorised  
Public Accountant  
MNE no. 32084



## Management's review

### Company details

Name	Eurowater Holding A/S
Address, zip code, city	Aarhusvej 79 Stilling DK-8660 Skanderborg
CVR no.	27 06 91 50
Established	5 March 2003
Registered office	Skanderborg
Financial year	1 November – 31 October
Telephone	+45 87 93 83 00
Board of Directors	Harry Viiala, Chairman Torben Buhl Kurt Hufnagl
Executive Board	Kurt Hufnagl
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 DK-8100 Aarhus C
Subsidiaries	Silhorko-Eurowater A/S, Denmark Armacoat A/S, Denmark Eurotronic ApS, Denmark Eurotank A/S, Harlev, Denmark Eurowater AB, Sweden Eurowater AS, Norway Eurowater B.V., the Netherlands Eurowater Kft., Hungary Eurowater Ltd., Ukraine Eurowater N.V., Belgium Eurowater S.r.o., Slovakia Eurowater S.r.o., the Czech Republic Eurowater Sarl., France Eurowater Sp. z o.o., Poland Eurowater Wasseraufbereitung AG, Switzerland Eurowater Wasseraufbereitung Ges.mBH, Austria Eurowater Wasseraufbereitung GmbH, Germany Unitex Sp. z o.o., Poland

## Management's review

### Financial highlights for the Group

DKK'000	2016/17	2015/16	2014/15	2013/14	2012/13
<b>Key figures</b>					
Revenue	417,869	364,682	364,251	374,549	334,281
Gross profit	50,544	45,358	47,915	52,148	47,646
Ordinary operating profit	38,399	33,412	35,869	39,890	37,906
Profit/loss from financial income and financial expenses	-2,891	-3,621	-3,833	-4,123	-3,374
Profit for the year	22,177	19,476	22,478	24,932	22,594
Non-current assets	70,011	74,826	77,264	82,944	86,072
Current assets	230,476	197,874	190,583	177,138	174,731
Total assets	300,487	272,700	267,847	260,082	260,803
Portion relating to investment in property, plant and equipment	-7,856	-9,571	-7,823	-12,938	-23,856
Share capital	14,000	14,000	20,000	20,000	20,000
Equity	120,990	106,373	153,153	139,971	126,898
Provisions	10,248	6,236	7,022	7,335	6,980
Non-current liabilities other than provisions	52,516	65,628	33,942	35,837	39,248
Current liabilities other than provisions	113,900	92,308	71,661	75,168	86,215
Cash flows from operating activities	26,096	35,858	17,421	18,781	36,093
Cash flows from investing activities	-7,341	-9,780	-5,877	-8,600	-26,082
Cash flows from financing activities	-10,393	-26,522	-12,814	-13,194	-9,016
Total cash flows	8,362	-444	-1,270	-3,013	995
<b>Financial ratios</b>					
Operating margin	9.2	9.2	9.8	10.7	11.3
Return on invested capital	27.1	22.4	21.3	24.6	25.1
Gross margin	12.1	12.5	13.2	13.9	14.3
Current ratio	202.3	214.4	266.0	237.7	202.7
Solvency ratio	40.3	39.0	57.2	53.7	48.7
Return on equity	19.5	15.0	15.8	18.7	18.9

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

In accordance with section 101 of the Danish Financial Statements Act the key figures and financial ratios have not been restated in 2012/13, 2013/14 and 2014/15 following the changes in the accounting policies concerning valuation of inventories.



## Management's review

### Operating review

#### Principal activity

The objective of Eurowater Holding A/S is to carry out trade and industrial activities directly or through investments in other companies as well as all related activities at the discretion of the Board of Directors and through ownership of Silhorko-Eurowater A/S, whose objective is to manufacture and service water treatment plants, including global sale.

#### Development in activities and financial position

The Group's revenue amounted to DKK 417.9 million in 2016/17 against DKK 364.7 million in 2015/16.

During the year, a number of projects were completed in relation to treatment of drinking water and technical water to be used in the industrial sector and the utility sector.

The projects on treatment of drinking water comprise a large number of closed pressure filter solutions that optimise water treatment processes and minimise risks of contamination of drinking water and interruptions of operation at waterworks.

The projects on treatment of technical water comprise a large number of complete water treatment solutions within a wide variety of fields of application where the solutions are focused on water and energy savings without compromising on quality and operating efficiency.

#### Profit for the year

Profit after tax for the year amounted to DKK 22.2 million in 2016/17 against DKK 19.5 million in 2015/16. In 2016/17, net financials showed net expenses of DKK 2.9 million compared to net expenses of DKK 3.6 million in 2015/16. The results are considered satisfactory.

At 31 October 2017, equity amounted to DKK 121 million. In the financial statements for 2016/17, dividends of DKK 7.0 million were proposed.

#### Research and development activities

The Group does not have any actual research activities. The products are developed and improved on an ongoing basis.

#### Outlook

For 2017/18, a slight increase in revenue and profit is expected.

#### General risks

The Group and the Parent Company have no specific risks in relation to operations.

#### Corporate social responsibility

Eurowater Holding A/S has not yet drawn up corporate social responsibility policies, policies on human rights, environment and climate impact applicable to the entire Group.

#### Gender quotation

The board consist of 3 members, of which no one are women. The share of females in the Board of Directors is 0%. It is the goal to have the underrepresented gender represented in the Board of Directors. The goal is to have at least one of each gender represented in the Board of Directors within 2022. As of 31 October 2017, the Board of Directors is unchanged, and therefore we have not yet achieved measurable results. The Company has a policy of increasing the underrepresented gender in Other Management which is defined as the Executive Board. In recruitment context, we are always looking for the best candidates. Part of the considerations include a goal to improve the qualifications and increase recruitment of the underrepresented gender. It is our intention always to have representatives from the underrepresented gender among the last candidates for executive positions, promotions, management training, etc. As of 31 October 2017, the Executive Board is unchanged, and therefore we have not yet achieved measurable results.



## Management's review

### Operating review

#### Events after the balance sheet date

No events have occurred after the balance sheet date, which may materially affect the Company's financial position.

## Financial statements 1 November – 31 October

### Income statement

Note	DKK'000	Consolidated		Parent company	
		2016/17	2015/16	2016/17	2015/16
2	Revenue	417,869	364,682	0	0
	Cost of sales	-156,015	-126,072	0	0
	Contribution margin	261,854	238,610	0	0
4	Other external costs	-48,003	-43,345	-52	-311
	Other operating income	4,070	2,421	0	0
3	Staff costs:				
	Wages and salaries	-144,777	-132,256	0	0
	Pensions	-5,702	-5,304	0	0
	Social security costs	-16,898	-14,768	0	0
	Gross profit/loss	50,544	45,358	-52	-311
5	Depreciation/amortisation	-12,145	-11,946	-2,412	-2,412
	Operating profit/loss, etc.	38,399	33,412	-2,464	-2,723
10	Profit from subsidiaries	0	0	25,057	22,216
	Profit/loss from other investments	-47	44	0	0
6	Financial income	686	688	645	1,159
7	Financial expenses	-3,577	-4,309	-1,193	-1,210
	Profit before tax	35,461	29,835	22,045	19,442
8	Tax on profit	-12,375	-10,070	132	34
	Profit for the year	23,086	19,765	22,177	19,476
	Non-controlling shareholders' share of the results of subsidiaries	-909	-289	0	0
	Eurowater Holding A/S' share of profit for the year	22,177	19,476	22,177	19,476
	Proposed profit appropriation				
	Proposed dividends			7,000	7,000
	Reserve for net revaluation according to the equity method			25,057	22,216
	Retained earnings			-9,880	-9,740
				22,177	19,476

## Financial statements 1 November – 31 October

## Balance sheet

Note	DKK'000	Consolidated		Parent company	
		2017	2016	2017	2016
	ASSETS				
	Non-current assets				
9	Intangible assets				
	Goodwill	0	2,412	0	2,412
	Other intangible assets	438	551	0	0
	Project in progress	32	0	0	0
		470	2,963	0	2,412
9	Property, plant and equipment				
	Properties	48,455	49,652	0	0
	Operating equipment	19,715	21,476	0	0
	Property, plant and equipment under construction	729	0	0	0
		68,899	71,128	0	0
	Investments				
10	Shares in subsidiaries	0	0	131,492	121,994
	Deposit	515	515	0	0
	Other investments	127	220	0	0
		642	735	131,492	121,994
	Total non-current assets	70,011	74,826	131,492	124,406
	Current assets				
	Inventories	85,594	78,826	0	0
		85,594	78,826	0	0
	Receivables				
	Trade receivables	84,178	69,753	0	0
11	Contract work in progress	2,714	2,211	0	0
	Amount owed by Silhorko-Eurowater A/S	0	0	25,302	28,916
	Other receivables	7,461	3,793	0	0
8	Joint taxation contribution receivable	0	0	3,695	4,388
8	Corporation tax	988	5,189	0	0
8	Deferred tax	2,004	59	46	46
	Prepayments	3,489	2,357	0	0
		100,834	83,362	29,043	33,350
	Cash	44,048	35,686	12	24
	Total current assets	230,476	197,874	29,055	33,374
	TOTAL ASSETS	300,487	272,700	160,547	157,780

## Financial statements 1 November – 31 October

### Balance sheet

Note	DKK'000	Consolidated		Parent company	
		2017	2016	2017	2016
		<b>EQUITY AND LIABILITIES</b>			
		Equity			
12	Share capital	14,000	14,000	14,000	14,000
	Revaluation reserves, properties	10,945	10,945	0	0
	Reserve for net revaluation according to the equity method	0	0	86,211	68,715
	Retained earnings	89,045	74,428	13,779	16,658
	Proposed dividends	7,000	7,000	7,000	7,000
	<b>Total equity</b>	<b>120,990</b>	<b>106,373</b>	<b>120,990</b>	<b>106,373</b>
13	Minority interests	2,833	2,155	0	0
	Provisions				
8	Deferred tax	7,972	5,312	0	0
	Other provisions	2,276	924	0	0
	<b>Total provisions</b>	<b>10,248</b>	<b>6,236</b>	<b>0</b>	<b>0</b>
	Liabilities other than provisions				
14	Non-current liabilities other than provisions				
	Subordinate loan capital	3,500	3,500	3,500	3,500
	Mortgage debt	18,627	20,191	0	0
	Other non-current liabilities	39,302	50,847	33,125	44,375
	Next year's instalment, transferred to current liabilities other than provisions	-8,913	-8,910	-7,500	-7,500
		<b>52,516</b>	<b>65,628</b>	<b>29,125</b>	<b>40,375</b>
	Current liabilities other than provisions				
	Next year's instalment on non-current liabilities other than provisions	8,913	8,910	7,500	7,500
	Trade payables	23,245	20,342	80	0
11	Contract work in progress	199	406	0	0
	Bank loans and overdrafts	20,024	16,164	0	0
	Other payables	36,288	28,731	0	85
	Financial instruments	2,649	3,473	0	0
8	Corporation tax	4,694	3,903	2,852	3,447
	Deferred income	17,888	10,379	0	0
		<b>113,900</b>	<b>92,308</b>	<b>10,432</b>	<b>11,032</b>
	<b>Total liabilities other than provisions</b>	<b>166,416</b>	<b>157,936</b>	<b>39,557</b>	<b>51,407</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>300,487</b>	<b>272,700</b>	<b>160,547</b>	<b>157,780</b>

1 Accounting policies

15 Contingent liabilities, other financial commitments and collateral

16 Currency and interest rate risks and use of derivative financial instruments

17 Related parties

## Financial statements 1 November – 31 October

## Statement of changes in equity

DKK'000	Consolidated		Parent company	
	2016/17	2015/16	2016/17	2015/16
Equity at 1 November	106,373	153,153	106,373	153,153
Change	0	-1,077	0	-1,077
Profit for the year	22,177	19,476	22,177	19,476
Adjustment of financial instruments	643	445	643	445
Distributed dividends	-7,000	-65,043	-7,000	-65,043
Foreign exchange adjustments of the subsidiaries' opening values	-1,203	-581	-1,203	-581
Equity at 31 October	<u>120,990</u>	<u>106,373</u>	<u>120,990</u>	<u>106,373</u>
Equity is specified as follows:				
Share capital at 1 November	14,000	20,000	14,000	20,000
Capital reduction	0	-6,000	0	-6,000
Share capital at 31 October	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
Revaluation reserves, properties at 1 November	10,945	10,945	0	0
Transferred to retained earnings	0	0	0	0
Revaluation reserves, properties at 31 October	<u>10,945</u>	<u>10,945</u>	<u>0</u>	<u>0</u>
Revaluation reserves according to the equity method at 1 November	0	0	29,622	67,662
Change	0	0	0	-1,077
Adjustment of financial instruments	0	0	643	445
Foreign exchange adjustments of the subsidiaries' opening values	0	0	-1,203	-581
Dividends, subsidiaries	0	0	0	-59,043
Profit for the year in subsidiaries	0	0	25,057	22,216
Revaluation reserve according to the equity method at 31 October	<u>0</u>	<u>0</u>	<u>54,119</u>	<u>29,622</u>
Retained earnings at 1 November	74,428	122,208	55,751	65,491
Change	0	-1,077	0	0
Foreign exchange adjustment of the opening values of subsidiaries	-1,203	-581	0	0
Transferred from appropriation account	15,177	12,476	-9,880	-9,740
Adjustment of financial instruments	643	445	0	0
Dividends from subsidiaries	0	-59,043	0	0
Retained earnings at 31 October	<u>89,045</u>	<u>74,428</u>	<u>45,871</u>	<u>55,751</u>
Proposed dividends at 1 November	7,000	0	7,000	0
Dividends paid	-7,000	0	-7,000	0
Transferred from appropriation account	7,000	7,000	7,000	7,000
Proposed dividends at 31 October	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>	<u>7,000</u>
Equity at 31 October	<u>120,990</u>	<u>106,373</u>	<u>120,990</u>	<u>106,373</u>

## Capital reduction

The Company has made a capital reduction effective as of 16 December 2015. The share capital is reduced by DKK 6,000 thousand.



## Financial statements 1 November – 31 October

### Cash flow statement

Note	DKK'000	2016/17	2015/16
	Revenue	417,869	365,186
	Costs	-371,395	-321,165
	Other operating income, net	4,070	2,421
	Cash flows from operations (operating activities) before changes in working capital	50,544	46,442
	Changes in working capital	-14,889	5,814
	Cash flows from operations (operating activities) before financial income and expenses	35,655	52,256
6	Interest received	686	688
7	Interest paid	-3,577	-4,309
	Cash flows from operations (ordinary activities)	32,764	48,635
8	Corporation tax paid	-6,668	-12,777
	Cash flows from operating activities	26,096	35,858
9	Acquisition of property, plant and equipment	-7,856	-9,571
9	Acquisition of intangible assets	-149	-581
	Disposal of property, plant and equipment	664	372
	Acquisition and financial assets	0	0
	Cash flows from investing activities	-7,341	-9,780
	Repayment of long-term debt	-1,564	-10,898
	Proceeds from mortgage loans	0	50,000
	Financial instruments	-626	0
	Foreign exchange adjustment of liabilities	-1,203	-581
	Dividends distributed	-7,000	-65,043
	Cash flows from financing activities	-10,393	-26,522
	Net cash flows for the year	8,362	-444
	Cash and cash equivalents at 1 November	35,686	36,130
	Cash and cash equivalents at 31 October	44,048	35,686

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements and the parent company financial statements.

## Financial statements 1 November – 31 October

## Notes

## 1 Accounting policies

The annual report of Eurowater Holding A/S for 2016/17 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

## Changes to presentation and disclosures only

Effective 1 November 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values of property, plant and equipment
2. Inventories measured at cost

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions<sup>1</sup> with future effect only as a change in accounting estimates with no impact on equity.

Re 2: Inventories are to be measured at cost. Previously inventories were measured at replacement cost.

Of the above-mentioned changes, only RE2 impacts on the income statement or the balance sheet for 2016/17 or the comparative figures.

The change in accounting policy was recognised in equity at the beginning of the year totalling DKK 1,077 thousand with a corresponding decrease in shares in subsidiaries. For the year, the change in accounting policies has resulted in a cost of DKK 723 thousand.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

## Consolidated financial statements

The consolidated financial statements comprise the parent company and subsidiaries in which Eurowater Holding A/S directly or indirectly holds more than 50% of the voting rights or otherwise controls. The non-controlling interests' share of profit for the year and equity are disclosed as individual items.

The consolidated financial statements are prepared based on the financial statements of Eurowater Holding A/S and the consolidated companies restated to comply with the accounting policies of the Group. Similar items have been aggregated, and intra-group shareholdings, transactions, outstanding accounts and gains are eliminated.

## Non-controlling interests

In the consolidated financial statements, the items of subsidiaries are recognised in full. The non-controlling interests' proportionate shares of the subsidiaries' results and equity are adjusted annually and recognised separately in the income statement and balance sheet.

## Foreign currency translation

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

<sup>1</sup> The executive order on transitional provisions in connection with the application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.



## Financial statements 1 November – 31 October

### Notes

#### 1 Accounting policies (continued)

The income statement and balance sheets of foreign consolidated companies are translated at the official exchange rates at the balance sheet date. Foreign exchange differences arising on the translation of the opening equity at the exchange rates at the balance sheet date are recognised directly in equity.

#### Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity.

### Income statement

#### Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end and that the income can be reliably measured and is expected to be received. Revenue from the sale of services is recognised in the income when the services are completed and provided that the income can be reliably measured and is expected to be received. Revenue is measured excluding VAT, taxes and less discounts in relation to the sale.

#### Costs of sales

Costs of sales include costs for the purchase of goods to achieve the revenue for the year. Costs of sales include received discounts etc.

#### Staff costs

Staff costs comprise wages and salaries, remuneration, pensions and other staff costs to the employees.

#### Other operating income and costs

Other operating income and costs comprise items secondary to the activities of the enterprises.

#### Financial income and financial expenses

Financial income and financial expenses comprise interest income and expenses, gains and losses on payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

#### Tax on profit/loss for the year

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

### Balance sheet

#### Intangible assets

Goodwill acquired in subsidiaries is measured at cost less accumulated amortisation and impairment losses and is amortised on a straight-line basis over 3-15 years.

## Financial statements 1 November – 31 October

## Notes

## 1 Accounting policies (continued)

Other intangible assets comprise licences and software. The other intangible assets are measured at cost less amortisation and impairment losses and are amortised on a straight-line basis over 5-15 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

## Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	30-50 years
Plant and machinery	5-12 years
Fixtures and fittings, other plant and equipment	3-5 years

Depreciation is recognised in the income statement.

Minor acquisitions and repair and maintenance costs are expensed in the income statement.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

## Investments in subsidiaries

Investments in subsidiaries consist of companies in which the group holds more than 50% of the voting rights.

*Income statement*

The proportionate share of the results after tax of the individual enterprises is recognised in the income statement after full elimination of intra-group profits/losses and less amortisation of goodwill.

*Balance sheet*

Investments in subsidiaries and associates are measured under the equity method.

Investments in subsidiaries are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses in accordance with the acquisition method.

Investments in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation in equity under the equity method to the extent that the carrying amount exceeds cost. Dividends from subsidiaries that are expected to be adopted before the approval of the annual report of Eurowater Holding A/S are not recognised in the reserve for net revaluation.

## Financial statements 1 November – 31 October

## Notes

## 1 Accounting policies (continued)

On acquisition of subsidiaries, the acquisition method is applied; see Consolidated financial statements above.

## Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

## 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.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not recognised.

## Receivables

Receivables are measured at amortised cost, usually nominal value.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication that an individual receivable has been impaired, a write-down is made based on an individual assessment.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows, including the realisable value of any collateral received.

## Contract work in progress

Contract work in progress is measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the contract work.

When the selling price of a construction contract cannot be measured reliably, the selling price is measured at the lower of costs incurred and net realisable value.

Individual contract work in progress is recognised in the balance sheet under either receivables or payables. Net assets represent the sum of work in progress where the sales value of the work performed exceeds progress billings. Net liabilities represent the sum of work in progress where progress billings exceed the sales price.

Selling costs and costs incurred in securing contracts are recognised in the income statement when incurred.

## Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

## Financial statements 1 November – 31 October

## Notes

## 1 Accounting policies (continued)

## Equity

*Reserve for net revaluation according to the equity method*

Net revaluation of investments in subsidiaries is recognised at cost in the reserve for net revaluation according to the equity method.

The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

*Dividends*

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

## Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Provision for deferred tax is recognised on temporary differences between the carrying amount and the tax value of assets at the balance sheet date. Deferred taxes regarding the Company's properties are computed as the difference between cost and the tax base. Deferred tax is computed based on the existing tax rate. Changes for the year in deferred tax are recognised in the income statement.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

The parent company is jointly taxed with Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full absorption with refunds for tax losses).

## Liabilities

Financial liabilities are measured at amortised costs. Other liabilities are measured at net realisable value.

## Deferred income

Deferred income comprises payments received concerning income in subsequent years.

## Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

## Financial statements 1 November – 31 October

### Notes

#### 1 Accounting policies (continued)

##### Cash flows from operating activities

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

##### Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and of intangible assets, property, plant and equipment and investments.

##### Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the Group's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and payment of dividends to shareholders.

##### Cash and cash equivalents

Cash and cash equivalents comprise liquid funds.

##### Segment information

Information is provided on business segments and geographical markets. Segment information is based on the Group's accounting policies, risks and internal financial management.

##### Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios.

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating profit} \times 100}{\text{Average invested capital}}$
Invested capital	Operating intangible assets and property, plant and equipment plus net working capital
Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities other than provisions}}$
Solvency ratio	$\frac{\text{Equity, ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Profit/loss for analytical purposes	Profit/loss from ordinary activities after tax
Return on equity	$\frac{\text{Profit/loss for analytical purposes} \times 100}{\text{Average equity}}$

## Financial statements 1 November – 31 October

### Notes

#### 2 Segment information

##### Geographical – secondary segment

DKK'000	Nordic countries	Rest of world	Total group
Revenue 2016/17	160,556	257,313	417,869
Revenue 2015/16	145,211	219,471	364,682

The Group operates solely in one business segment.

#### 3 Staff costs

There have been no employees in the parent company. At the balance sheet date, the subsidiaries had 356 employees (2015/16: 342 employees).

According to section 98 b (3) of the Danish Financial Statements Act, executive remuneration is not disclosed.

DKK'000	Consolidated		Parent company	
	2016/17	2015/16	2016/17	2015/16
<b>4 Fees paid to the auditors appointed at the annual general meeting</b>				
Total fees to EY	579	340	43	42
Total fees to others	600	843	0	0
	<u>1,179</u>	<u>1,183</u>	<u>43</u>	<u>42</u>
Fee regarding statutory audit	422	415	15	15
Tax assistance	171	166	6	6
Assurance engagements	3	7	0	0
Other assistance	583	595	22	21
	<u>1,179</u>	<u>1,183</u>	<u>43</u>	<u>42</u>

#### 5 Depreciation and amortisation

DKK'000	Consolidated	
	2016/17	2015/16
Amortisation of other intangible assets, see note 9	270	363
Amortisation of goodwill, see note 9	2,412	2,412
Depreciation of properties, see note 9	1,895	1,841
Depreciation of operating equipment, see note 9	7,568	7,330
	<u>12,145</u>	<u>11,946</u>
	Parent company	
DKK'000	2016/17	2015/16
Amortisation of goodwill, see note 9	2,412	2,412
	<u>2,412</u>	<u>2,412</u>

## Financial statements 1 November – 31 October

### Notes

DKK'000	Consolidated		Parent company	
	2016/17	2015/16	2016/17	2015/16
6	<b>Financial income</b>			
Interest income, etc.	686	688	645	1,159
	<u>686</u>	<u>688</u>	<u>645</u>	<u>1,159</u>
7	<b>Financial expenses</b>			
Interest expense, subordinate loan capital	1,193	1,210	1,193	1,210
Interest expense, etc.	2,384	3,099	0	0
	<u>3,577</u>	<u>4,309</u>	<u>1,193</u>	<u>1,210</u>

### 8 Corporation tax

DKK'000	Consolidated		
	Current tax	Deferred tax	Total
Balance at 1 November 2016	1,286	5,253	6,539
Paid during the financial year	-10,136	0	-7,874
	-8,850	5,253	-1,335
Deferred tax on equity entries	181	0	181
Tax on profit from ordinary activities for 2016/17	12,375	715	13,090
Balance at 31 October 2017	<u>3,706</u>	<u>5,968</u>	<u>11,936</u>
Corporation tax and deferred tax (asset)	988	2,004	
Corporation tax and deferred tax (liability)	-4,694	-7,972	
Balance at 31 October 2017	<u>-3,706</u>	<u>-5,968</u>	

DKK'000	Parent company		
	Current tax	Deferred tax	Total
Balance at 1 November 2016	-943	-46	-989
Paid, jointly taxed companies	232	0	232
Tax on profit for the year 2017	-132	0	-132
Balance at 31 October 2017	<u>-843</u>	<u>-46</u>	<u>-889</u>
Joint taxation contribution receivable and deferred tax	3,695	46	
Corporation tax and deferred tax (liability)	-2,852	0	
Balance at 31 October 2017	<u>843</u>	<u>46</u>	

## Financial statements 1 November – 31 October

## Notes

## 9 Intangible assets and property, plant and equipment

DKK'000	Consolidated					Property, plant and equipment under construc- tion	Total
	Intangible assets	Goodwill	Properties	Operating equipment			
Cost at 1 November 2016	8,688	36,180	64,288	81,348	0	190,504	
Foreign exchange adjustment at 1 November 2016	42	0	1,354	-1,367	0	29	
Additions for the year	149	0	366	6,761	729	8,005	
Disposals for the year	-454	0	0	-15,266	0	-15,720	
Cost at 31 October 2017	8,425	36,180	66,008	71,476	729	182,818	
Revaluation in previous years (additions)	0	0	10,945	0	0	10,945	
Revaluation at 31 October 2017	0	0	10,945	0	0	10,945	
Depreciation/amortisation at 1 November 2016	-8,136	-33,768	-25,581	-59,872	0	-127,357	
Foreign exchange adjustment at 1 November 2016	-35	0	-1,022	1,354	0	297	
Depreciation/amortisation of assets sold	454	0	0	14,325	0	14,779	
Depreciation/amortisation for the year	-270	-2,412	-1,895	-7,568	0	-12,145	
Depreciation/amortisation at 31 October 2017	-7,987	-36,180	-28,498	-51,761	0	-124,426	
Carrying amount at 31 October 2017	438	0	48,455	19,715	729	69,337	
Carrying amount at 1 November 2016	551	2,412	49,652	21,476	0	74,092	
					Parent company		
DKK'000					Goodwill		
Cost at 1 November 2016					36,180		
Cost at 31 October 2017					36,180		
Depreciation/amortisation at 1 November 2016					33,768		
Depreciation/amortisation for the year					2,412		
Depreciation/amortisation at 31 October 2017					36,180		
Carrying amount at 31 October 2017					0		
Carrying amount at 31 October 2016					2,824		

Goodwill is amortised on a straight-line basis over 15 years, so that the amortisation corresponds with the earnings expected to derive from goodwill. Goodwill relates to trademarks and rights with a long useful life.



## Financial statements 1 November – 31 October

### Notes

#### 10 Shares in subsidiaries, etc.

DKK'000	Parent company	
	2016/17	2015/16
Cost at 1 November	53,330	53,330
Cost at 31 October	53,330	53,330
Revaluation at 1 November	68,665	67,662
Change in equity in subsidiaries	0	-1,077
Foreign exchange adjustments of the subsidiaries' opening values	-1,203	-581
Adjustment of financial instruments	643	445
Share of profit in subsidiaries after tax	25,057	22,216
Dividends paid	-15,000	-20,000
Revaluation at 31 October	78,162	68,665
Carrying amount at 31 October	131,492	121,995

Name and registered office	Stake	Share capital	Equity	Share of	Carrying
				profit for the year	amount
Silhorko-Eurowater A/S, Denmark	100%	3,000	DKK'000 131,490	DKK'000 25,057	DKK'000 131,492

DKK'000	Consolidated	
	2017	2016
11 Contract work in progress	28,688	21,516
Selling price of work performed	-25,974	-19,711
Progress billings	2,714	1,805
recognised as follows:		
Construction contracts (assets)	2,714	2,211
Construction contracts (liabilities)	0	-406
	2,714	1,805

#### 12 Share capital

The share capital comprises shares of DKK 100 each. The shares are not divided into classes. The share capital has not been subject to any changes for the past five years.

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DKK'000	2016/17	2015/16
<b>13 Non-controlling interests, consolidated</b>		
Non-controlling interests at 1 November	2,155	2,069
Additions	0	0
Disposals	0	0
Adjustment, share in subsidiary	-231	-203
Share of profit for the year	909	289
	<u>2,833</u>	<u>2,155</u>
<b>14 Non-current liabilities other than provisions, consolidated</b>		
Mortgage debt falling due later than 31 October 2021 is specified as follows:		
Silhorko-Eurowater A/S	6,671	8,098
Armacoat A/S	3,955	5,013
	<u>10,626</u>	<u>13,111</u>

Non-current liabilities other than provisions, Parent Company

No mortgage debt falls due later than 31 October 2021.

**15 Contingent liabilities, other financial commitments and collateral (Consolidated and Parent Company)**

Collateral

The Company has provided no collateral.

Group

Normal performance bonds have been provided in connection with the sale of plant.

The Group has entered into operating leases with a residual liability of DKK 620 thousand, which falls due within five years.

The Company is jointly taxed with the other Danish companies in the Eurowater Group. As a wholly-owned subsidiary, the Company has, together with the jointly taxed companies, joint and several liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation unit. Any subsequent corrections of the joint taxation income and withholding tax, etc. may entail an increased liability for the Company.

Collateral

The following assets have been provided as collateral vis-à-vis the Group's banks:

Owner's mortgages, DKK 49,986 thousand, secured on the Group's properties with a carrying amount of DKK 48,455 thousand.

Financial statements 1 November – 31 October

Notes

16 Currency and interest rate risks and use of derivative financial instruments (Consolidated and Parent Company)

The Group uses hedging instruments such as forward exchange contracts and interest and currency swaps to hedge recognised and non-recognised transactions.

Interest rate risks

The Group uses interest rate swaps to hedge interest rate risks, whereby floating interest payments are rescheduled into fixed interest payments.

DKK'000	2015/16				2016/17			
	Notional principal	Value adjustment recognised in equity	Fair value	Term to maturity (months)	Notional principal	Value adjustment recognised in equity	Fair value	Term to maturity (months)
Interest rate swaps	24,797	445	3,473	122	24,797	643	2,649	110

The hedged cash flows are expected to be realised and will affect results of operations over the term to maturity of the interest rate swap.

17 Related parties (Consolidated and Parent Company)

The Company's other related parties comprise subsidiaries and other consolidated entities in which Eurowater Holding A/S and Silhorko-Eurowater A/S hold shares and the companies' Boards of Directors and Executive Boards and their family members. Further, related parties comprise companies in which the above persons have substantial interests.