

Eurowater Holding A/S

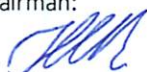
Aarhusvej 79, Stilling, 8660 Skanderborg

CVR no. 27 06 91 50

Annual report 2018/19

Approved at the Company's annual general meeting on 28 January 2020

Chairman:



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Harry Viiala





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Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of Eurowater Holding A/S for the financial year 1 November 2018 - 31 October 2019.

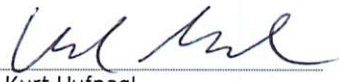
The annual report has been prepared in accordance with the Danish Financial Statements Act.

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 2019 and of the results of their operations and consolidated cash flows for the financial year 1 November 2018 - 31 October 2019.

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, the results for the year and the Group's and the Parent Company's financial position.

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

Stilling, 28 January 2020
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 2018 - 31 October 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for 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 2019 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 2018 - 31 October 2019 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.

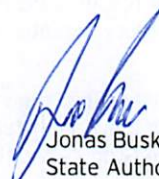
Independent auditor's report

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, 28 January 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Jes Lauritzen
State Authorised
Public Accountant
mne10121



Jonas Busk
State Authorised
Public Accountant
mne42771



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
Auditor	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., the 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	2018/19	2017/18	2016/17	2015/16	2014/15
Key figures					
Revenue	480,471	459,907	417,869	364,682	364,251
Operating profit before depreciation	63,540	55,613	50,544	45,358	47,915
Operating profit	52,570	45,650	38,399	33,412	35,869
Profit/loss from financial income and financial expenses	-1,718	-3,063	-2,891	-3,621	-3,833
Profit for the year¹⁾	38,863	32,098	23,086	19,765	23,184
Non-current assets	72,517	72,072	70,011	74,826	77,264
Current assets	233,767	226,559	230,476	197,874	190,583
Total assets	306,284	298,631	300,487	272,700	267,847
Amount relating to investment in property, plant and equipment	-11,237	-13,325	-7,856	-9,571	-7,823
Share capital	14,000	14,000	14,000	14,000	20,000
Equity	176,894	147,501	123,823	108,528	155,222
Provisions	3,223	8,330	10,248	6,236	7,022
Long-term liabilities other than provisions	22,606	38,826	52,516	65,628	33,942
Short-term liabilities other than provisions	103,561	103,974	113,900	92,308	71,661
Cash flows from operating activities	31,906	35,074	37,641	35,858	17,421
Cash flows from investing activities	-10,499	-12,316	-7,341	-9,780	-5,877
Cash flows from financing activities	-27,744	-20,463	-21,938	-26,522	-12,814
Total cash flows	-6,337	2,295	8,362	-444	-1,270
Financial ratios					
Operating margin	10.9	9.9	9.2	9.2	9.8
Return on invested capital	26.5	24.0	27.1	22.4	21.3
Gross margin	13.2	12.1	12.1	12.5	13.2
Current ratio	225.7	217.9	202.3	214.4	266.0
Solvency ratio	56.6	48.5	40.3	39.0	57.2
Return on equity	23.0	23.5	19.5	15.0	15.8

1) The comparative figures for profit for the year have been restated from majority share of profit to the Group's share of profit. This relates to the last four years.

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.

Pursuant to section 101 of the Danish Financial Statements Act, the key figures and financial ratios were not restated in 2013/14 and 2014/15 following the changes in the accounting policies concerning valuation of inventories.

Management's review

Operating review

Principal activities

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 any 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 matters

The Group's revenue amounted to DKK 480.4 million in 2018/19 against DKK 459.9 million in 2017/18.

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 the 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 38.9 million in 2018/19 against DKK 31.3 million in 2017/18. In 2018/19, net financials showed net expenses of DKK 1.7 million compared to net expenses of DKK 3.1 million in 2017/18. The results of operation are considered satisfactory and in line with the expectations.

At 31 October 2019, equity amounted to DKK 176.9 million. In the financial statements for 2018/19, dividend of DKK 10.5 million has been 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

An increase in revenue and profit is expected for 2019/20.

General risks

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

Corporate social responsibility

The corporate social responsibility of Eurowater Holding A/S has deep roots in the mission "We Treat Water", our vision and values of the company. The policies for health & safety and environment gives the direction to all employees in the company for our activities.

The work with health & safety is organized in accordance to local legislation and built on employee involvement. With regards to labor conditions, Silhorko has identified risks related to safety among employees. The work with health and safety is focused on continuously protecting the health, safety, and welfare of the individual employee. We are continuously taking measures to improve the wellbeing of our employees. In 2018/19 the KPI "Sick leave" was 3,1% compared to 3,3% in 2017/18.

The aim of the company's environmental work is a long-term and sustainable development. Our company has a special focus on risks associated with water usage. Our company seeks to use the least possible resources and the produce the minimum environmental impact. The activities are split between our internal activities to optimise the use of resources for production of water treatment plants and continuous drive to introduce initiatives to reduce water use at our customers. In 2018/19 the KPI "Water consumption production facility" was 4.354 m³ compared 4.730 m³ in 2017/18.

Management's review

Operating review

In terms of climate issues, our company has identified risks associated with energy consumption. Our company cares for the climate and is committed to reducing energy consumption both internally and through our energy saving products used in water treatment plants of our customers. In 2019, we continued our focus to encourage customers to upgrade to new low energy membranes. In 2019, we reviewed existing installations and based hereof, we made individual assessment of the possibilities of saving power consumption for the benefit of both the climate and our customers' expenses.

The company has not identified significant risks not governed by local legislation in the countries of operation within human rights and anticorruption why the company not yet has made written policies.

Gender quotation

The share of female 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 on the Board of Directors within a four year period. As of 31. October 2019, the Board of Directors is unchanged, and therefore we have not yet achieved measurable results.

The share of female in the Executive Board is 0%. The Company has a policy of increasing the underrepresented gender in 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. We are continuously working to always have representatives from the underrepresented gender among the last candidates for executive positions, promotions, management training, etc. As of 31. October 2019, the Executive Board is unchanged, and therefore we have not yet achieved measurable results.

Events after the balance sheet date

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

Financial statements 1 November - 31 October

Income statement

Note	DKK'000	Group		Parent Company	
		2018/19	2017/18	2018/19	2017/18
2	Revenue	480,471	459,907	0	0
	Cost of goods sold	-172,198	-176,871	0	0
	Contribution margin	308,273	283,036	0	0
4	Other external costs	-52,271	-48,697	-53	-54
	Other operating income	1,868	2,596	0	0
3	Staff costs	-194,330	-181,322	0	0
	Operating profit/loss before depreciation/amortisation	63,540	55,613	-53	-54
5	Depreciation/amortisation	-10,970	-9,963	0	0
	Operating profit/loss, etc.	52,570	45,650	-53	-54
10	Profit from subsidiaries	0	0	37,671	31,754
	Profit/loss from other investments	5	41	0	0
6	Financial income	1,644	1,167	438	473
7	Financial expenses	-3,362	-4,230	-884	-1,053
	Profit before tax	50,857	42,628	37,172	31,120
8	Tax for the year	-11,994	-10,530	112	139
	Profit for the year	38,863	32,098	37,284	31,259
	Non-controlling shareholders' share of the results in subsidiaries	-1,579	-839	0	0
	Eurowater Holding A/S' share of profit for the year	37,284	31,259	37,284	31,259
	Proposed distribution of profit				
	Proposed dividend			10,500	10,500
	Net revaluation reserve according to the equity method			37,671	31,754
	Retained earnings			-10,887	-10,995
				37,284	31,259

Financial statements 1 November - 31 October

Balance sheet

Note	DKK'000	Group		Parent Company	
		2018/19	2017/18	2018/19	2017/18
	ASSETS				
	Non-current assets				
9	Intangible assets				
	Goodwill	0	0	0	0
	Other intangible assets	36	200	0	0
	Intangible assets under construction	913	464	0	0
		<u>949</u>	<u>664</u>	<u>0</u>	<u>0</u>
9	Property, plant and equipment				
	Properties	46,944	48,189	0	0
	Operating equipment	24,016	22,668	0	0
	Property, plant and equipment under construction	50	0	0	0
		<u>71,010</u>	<u>70,857</u>	<u>0</u>	<u>0</u>
	Investments				
10	Shares in subsidiaries	0	0	167,342	147,806
	Deposits	408	408	0	0
	Other investments	150	143	0	0
		<u>558</u>	<u>551</u>	<u>167,342</u>	<u>147,806</u>
	Total non-current assets	<u>72,517</u>	<u>72,072</u>	<u>167,342</u>	<u>147,806</u>
	Current assets				
	Inventories				
	Raw materials and consumables	73,337	62,959	0	0
	Work in progress	4,722	5,074	0	0
	Finished goods and goods for resale	22,568	21,753	0	0
		<u>100,627</u>	<u>89,786</u>	<u>0</u>	<u>0</u>
	Receivables				
	Trade receivables	80,197	72,201	0	0
11	Contract work in progress	662	307	0	0
	Receivables from Silhorko-Eurowater A/S	0	0	16,095	20,765
	Other receivables	8,427	8,698	0	0
8	Joint taxation contribution receivable	0	0	3,026	7,908
8	Corporation tax	752	4,998	674	0
8	Deferred tax	761	2,016	49	46
	Prepayments	2,335	2,210	0	0
		<u>93,134</u>	<u>90,430</u>	<u>19,844</u>	<u>28,719</u>
	Cash	<u>40,006</u>	<u>46,343</u>	<u>0</u>	<u>0</u>
	Total current assets	<u>233,767</u>	<u>226,559</u>	<u>19,844</u>	<u>28,719</u>
	TOTAL ASSETS	<u>306,284</u>	<u>298,631</u>	<u>187,186</u>	<u>176,525</u>

Financial statements 1 November - 31 October

Balance sheet

Note	DKK'000	Group		Parent Company	
		2018/19	2017/18	2018/19	2017/18
		EQUITY AND LIABILITIES			
		Equity			
12	Share capital	14,000	14,000	14,000	14,000
	Revaluation reserves, properties	10,945	10,945	0	0
	Net revaluation reserve according to the equity method	0	0	114,012	94,476
	Retained earnings	138,013	109,364	34,946	25,833
	Proposed dividend	10,500	10,500	10,500	10,500
	Equity holders' share of equity	173,458	144,809	173,458	144,809
13	Non-controlling interests	3,436	2,692	0	0
	Total equity	176,894	147,501	173,458	144,809
	Provisions				
8	Deferred tax	3,223	6,621	0	0
	Other provisions	0	1,709	0	0
	Total provisions	3,223	8,330	0	0
	Liabilities other than provisions				
14	Long-term liabilities other than provisions				
	Subordinate loan capital	0	3,500	0	3,500
	Mortgage debt	15,567	17,211	0	0
	Other long-term liabilities	15,739	27,255	10,625	21,875
	Lease commitments	460	0	0	0
	Next year's instalment transferred to short-term liabilities other than provisions	-9,160	-9,140	-7,500	-7,500
		22,606	38,826	3,125	17,875
	Short-term liabilities other than provisions				
	Next year's instalment on long-term liabilities other than provisions	9,160	9,140	7,500	7,500
	Bank loans and overdrafts	11,066	9,729	3	0
	Lease commitments	477	0	0	0
	Trade payables	21,084	26,408	57	65
11	Contract work in progress	59	1,122	0	0
	Other payables	36,454	33,633	0	0
	Financial instruments	2,012	2,140	0	0
8	Corporation tax	5,656	8,732	3,043	6,276
	Deferred income	17,593	13,070	0	0
		103,561	103,974	10,603	13,841
	Total liabilities other than provisions	126,167	142,800	13,728	31,716
	TOTAL EQUITY AND LIABILITIES	306,284	298,631	187,186	176,525

- 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	Group		Parent Company	
	2018/19	2017/18	2018/19	2017/18
Equity at 1 November	144,809	120,990	144,809	120,990
Profit for the year	37,284	31,259	37,284	31,259
Distributed dividend	-10,500	-7,000	-10,500	-7,000
Adjustment of interest rate swap	100	397	100	397
Other changes in equity specified below	1,765	-837	1,765	-837
Equity at 31 October	173,458	144,809	173,458	144,809
Non-controlling interests	3,436	2,692		
Total equity at 31 October	176,894	147,501		
Equity is specified as follows:				
Share capital at 1 November	14,000	14,000	14,000	14,000
Share capital at 31 October	14,000	14,000	14,000	14,000
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	10,945	10,945	0	0
Net revaluation reserve according to the equity method at 1 November	0	0	94,476	86,211
Movement in 2017/18	0	0	0	-8,049
Adjustments regarding dividends in subsidiaries	0	0	2,241	0
Adjustment of financial instruments	0	0	100	397
Foreign exchange adjustments of subsidiaries' opening values	0	0	-476	-837
Dividends, subsidiaries	0	0	-20,000	-15,000
Profit for the year in subsidiaries	0	0	37,671	31,754
Net revaluation reserve according to the equity method at 31 October	0	0	114,012	94,476
Retained earnings at 1 November	109,364	89,045	25,833	13,779
Adjustments regarding dividends in subsidiaries	2,241	0	0	0
Foreign exchange adjustments of subsidiaries' opening values	-476	-837	0	0
Changes in 2017/18	0	0	0	8,049
Transferred from distribution account	26,784	20,759	-10,887	-10,995
Adjustment of financial instruments	100	397	0	0
Dividends from subsidiaries	0	0	20,000	15,000
Retained earnings at 31 October	138,013	109,364	34,946	25,833
Proposed dividend at 1 November	10,500	7,000	10,500	7,000
Dividend paid	-10,500	-7,000	-10,500	-7,000
Transferred from distribution account	10,500	10,500	10,500	10,500
Proposed dividend at 31 October	10,500	10,500	10,500	10,500
Equity at 31 October	173,458	144,809	173,458	144,809

Capital reduction

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

Financial statements 1 November - 31 October

Cash flow statement (consolidated)

Note	DKK'000	2018/19	2017/18
	Revenue	480,471	459,907
	Costs	-418,799	-406,890
	Other operating income, net	1,868	2,596
	Cash flows from operations (operating activities) before changes in working capital	63,540	55,613
	Changes in working capital	-15,244	-5,610
	Cash flows from operations (operating activities) before financial income and expenses	48,296	50,003
6	Interest received	1,644	1,167
7	Interest paid	-3,358	-4,230
	Cash flows from operations (ordinary activities)	46,582	46,940
8	Corporation tax paid	-14,676	-11,866
	Cash flows from operating activities	31,906	35,074
9	Acquisition of property, plant and equipment	-12,758	-13,325
9	Additions of property, plant and equipment with no cash effect	1,521	0
9	Acquisition of intangible assets	0	0
	Disposal of property, plant and equipment	738	1,009
	Acquisition and financial assets	0	0
	Cash flows from investing activities	-10,499	-12,316
	Repayment of long-term liabilities	-17,244	-13,463
	Distributed dividend	-10,500	-7,000
	Cash flows from financing activities	-27,744	-20,463
	Net cash flows for the year	-6,337	2,295
	Cash and cash equivalents at 1 November	46,343	44,048
	Cash and cash equivalents at 31 October	40,006	46,343

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

Financial statements 1 November – 31 October

Notes

1 Accounting policies

The annual report of Eurowater Holding A/S for 2018/19 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The financial statements have been prepared in accordance with the same accounting policies as last year.

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company Eurowater Holding A/S and subsidiaries controlled by Eurowater Holding A/S.

Control means the power to exercise decisive influence over a subsidiary's financial and operating decisions. Moreover, the possibility of yielding a return from the investment is required.

In assessing if the Parent Company controls an entity, de facto control is taken into consideration as well.

The existence of potential voting rights that may currently be exercised or converted into additional voting rights is considered when assessing if an entity may become empowered to exercise decisive influence over another entity's financial and operating decisions.

Preparation of consolidated financial statements

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends as well as realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains unless they do not reflect impairment.

The subsidiaries' financial statement items are included 100% in the consolidated financial statements. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries that are not wholly-owned are included in the Group's profit/loss and equity, respectively, but are disclosed separately.

Acquisitions and disposals of non-controlling interests that are still controlled are recognised directly in equity as a transaction between shareholders.

Non-controlling interests

The subsidiaries' financial statement items are included 100% in the consolidated financial statements. The non-controlling interests' proportionate share 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.

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1 Accounting policies (continued)

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

Derivative financial instruments

On initial recognition, derivative financial instruments are 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 or other payables.

Fair value adjustments 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 measured reliably and is expected to be received. Revenue from the sale of services is recognised in the income statement when the services are completed and provided that the income can be measured reliably and is expected to be received. Revenue is measured ex VAT, taxes and less discounts in relation to the sale.

Cost of goods sold

Cost of sales includes costs for the purchase of goods to generate the revenue for the year. Cost of sales includes discounts received, etc.

Staff costs

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

Other operating income and expenses

Other operating income and expenses comprise items secondary to the activities of the entities.

Profit/loss from equity investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the Parent Company after full elimination of intra-group profits/losses.

The proportionate share of the results after tax of the associates is recognised in both the consolidated and the parent company income statement after elimination of the proportionate share of intra-group profits/losses.

Financial income and financial expenses

Financial income and financial expenses comprise interest income and expenses, gains and losses on securities, 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 for the year

Tax for the year comprises current income 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 recognised directly in equity is recognised directly in equity.

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1 Accounting policies (continued)

Balance sheet

Intangible assets

Intangible assets comprise licences and software. Intangible assets are measured at cost less amortisation and impairment losses and are amortised on a straight-line basis over 3-15 years.

Gains and losses on the disposal of licences are determined as the difference between the selling price less selling 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 expenses, respectively.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools 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, tools 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 selling price less selling 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 expenses, respectively.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of future lease payments. In calculating the 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 as the Company's other assets.

The capitalised residual lease commitment 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.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating leases and other leases are disclosed under contingencies, etc.

Equity investments in subsidiaries and associates

Equity investments in subsidiaries consist of companies in which the Group holds more than 50% of the voting rights.

Financial statements 1 November - 31 October

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1 Accounting policies (continued)

Income statement

The proportionate share of the results after tax of the individual entities is recognised in the income statement after full elimination of intra-group profits/losses.

Balance sheet

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

Equity investments in subsidiaries are measured at the proportionate share of the entities' 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.

Equity investments in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such entities 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 in provisions.

Net revaluation of equity investments in subsidiaries is recognised in the net revaluation reserve under the equity method in equity 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 net revaluation reserve.

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 equity investments in subsidiaries and associates is tested annually for indications of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is indication of impairment. Write-down is made to the lower of the carrying amount and the recoverable 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 as well as indirect production overheads. Indirect production overheads include the indirect costs of material and labour as well as maintenance of and depreciation on production machinery, buildings and equipment as well as costs relating to plant administration and management.

The net realisable value of inventories is calculated as the selling price less costs of completion and costs incurred to make the sale, taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost, usually at nominal value.

Write-down for bad and doubtful debt is made when there is objective evidence that a receivable has been impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is made recognised on an individual basis.

Financial statements 1 November – 31 October

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1 Accounting policies (continued)

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.

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 as either receivables or payables. Net assets are determined as the sum of work in progress where the selling price of the work performed exceeds progress billings. Net liabilities are determined as the sum of work in progress where progress billings exceed the selling 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.

Equity

Net revaluation reserve according to the equity method

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

The reserve can be eliminated in case of losses, realisation of equity investments or changes in accounting estimates.

The reserve cannot be recognised at a negative amount.

Dividend

Proposed dividend is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is presented as a separate line item in equity.

Corporation tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on taxable income in previous 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 tax regarding the Company's properties is computed as the difference between cost and the tax base. Deferred tax is computed based on the current 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 carryforwards, 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 according to 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.

Financial statements 1 November - 31 October

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1 Accounting policies (continued)

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 cost. Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received regarding 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.

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 entities 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 dividend to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash.

Segment information

Information is disclosed by business segments and geographical markets. Segment information is based on the Group's accounting policies, risks and management control.

Financial statements 1 November - 31 October

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1 Accounting policies (continued) Financial ratios

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

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

Operating margin	$\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$
Invested capital	Operating intangible assets and property, plant and equipment plus net working capital
Gross margin	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$
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	$\frac{\text{Profit/loss for analytical purposes} \times 100}{\text{Average equity}}$

2 Segment information

Geographical - secondary segment

DKK'000	Nordic countries	Rest of world	Total Group
Revenue 2018/19	179,310	301,161	480,471
Revenue 2017/18	182,130	277,777	459,907

The Group operates solely in one business segment.

DKK'000	Group		Parent Company	
	2018/19	2017/18	2018/19	2017/18
3 Staff costs				
Wages and salaries	171,601	161,349	0	0
Pensions	5,402	5,037	0	0
Other social security costs	17,327	14,936	0	0
	194,330	181,322	0	0
Average number of full-time employees	395	379	0	0

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

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DKK'000	Group		Parent Company	
	2018/19	2017/18	2018/19	2017/18
4 Fees paid to the auditors appointed at the annual general meeting				
Total fees to Ernst & Young	411	391	46	44
Total fees to others	855	786	0	0
	<u>1,266</u>	<u>1,177</u>	<u>46</u>	<u>44</u>
Split of fee to Ernst & Young				
Statutory audit	251	233	16	15
Tax assistance	47	46	7	7
Assurance engagements	3	3	0	0
Other assistance	110	109	23	22
	<u>411</u>	<u>391</u>	<u>46</u>	<u>44</u>
5 Depreciation/amortisation				
DKK'000			Group	
			2018/19	2017/18
Amortisation of other intangible assets, see note 9			202	229
Depreciation on properties, see note 9			1,906	1,912
Depreciation on operating equipment, see note 9			8,862	7,822
			<u>10,970</u>	<u>9,963</u>
DKK'000			Group	
			2018/19	2017/18
6 Financial income				
Interest income from consolidated entities	0	0	438	473
Interest income, etc.	1,644	1,167	0	0
	<u>1,644</u>	<u>1,167</u>	<u>438</u>	<u>473</u>
7 Financial expenses				
Interest expense, subordinate loan capital	700	700	700	700
Interest expense, etc.	2,662	3,530	184	353
	<u>3,362</u>	<u>4,230</u>	<u>884</u>	<u>1,053</u>

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8 Corporation tax and deferred tax

DKK'000	Group			
	Corporation tax	Deferred tax	Total	2017/18
Balance at 1 November 2018	3,734	4,605	8,339	9,674
Paid during the financial year	-14,676	0	-14,150	-11,866
Tax payable presented elsewhere	4,248	0	4,248	0
	-6,694	4,605	-1,563	-2,192
Deferred tax on equity entries	0	-2,539	-2,539	112
Tax on profit from ordinary activities for 2018/19	12,026	-32	11,994	10,419
Transfer to deferred tax	-428	428	0	0
Balance at 31 October 2019	4,904	2,462	7,892	8,339
Corporation tax and deferred tax (asset)	752	761		
Corporation tax and deferred tax (liability)	-5,656	-3,223		
Balance at 31 October 2019	-4,904	-2,462		

DKK'000	Parent Company			
	Corporation tax	Deferred tax	Total	2017/18
Balance at 1 November 2018	-1,632	-46	-1,678	-889
Paid, jointly taxed companies	1,084	0	1,084	-650
Tax for the year 2018/19	-109	-3	-112	-139
Balance at 31 October 2019	-657	-49	-706	-1,678
Joint taxation contribution receivable and deferred tax	3,700	49		
Corporation tax and deferred tax (liability)	-3,043	0		
Balance at 31 October 2019	657	49		

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9 Intangible assets and property, plant and equipment

DKK'000	Group						Total
	Goodwill	Other intangible assets	Intangible assets under construction	Properties	Operating equipment	Property, plant and equipment under construction	
Cost at 1 November 2018	36,180	8,145	464	67,544	78,637	0	190,970
Foreign exchange adjustment at 1 November 2018	0	49	0	78	-22	0	105
Additions for the year	0	20	449	531	11,708	50	12,758
Transferred	0	0	0	0	0	0	0
Disposals for the year	0	0	0	0	-5,640	0	-5,640
Cost at 31 October 2019	36,180	8,214	913	68,153	84,683	50	198,193
Revaluation in previous years (additions)	0	0	0	10,945	0	0	10,945
Revaluation at 31 October 2019	0	0	0	10,945	0	0	10,945
Depreciation/amortisation at 1 November 2018	-36,180	-7,945	0	-30,300	-55,969	0	-130,394
Foreign exchange adjustment at 1 November 2018	0	-31	0	52	-2	0	19
Additions for the year	0	0	0	0	-736	0	0
Depreciation/amortisation of assets sold	0	0	0	0	4,902	0	4,902
Depreciation/amortisation for the year	0	-202	0	-1,906	-8,862	0	-10,970
Depreciation/amortisation at 31 October 2019	-36,180	-8,178	0	-32,154	-60,667	0	-137,179
Carrying amount at 31 October 2019	0	36	913	46,944	24,016	50	71,959
Property, plant and equipment include assets held under finance leases with a carrying amount totalling	0	0	0	0	938	0	938
Carrying amount at 1 November 2018	0	200	464	48,189	22,668	0	71,521

Financial statements 1 November - 31 October

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9 Intangible assets and property, plant and equipment (continued)

DKK'000	Parent Company
	Goodwill
Cost at 1 November 2018	36,180
Cost at 31 October 2019	36,180
Depreciation/amortisation at 1 November 2018	36,180
Depreciation/amortisation for the year	0
Depreciation/amortisation at 31 October 2019	36,180
Carrying amount at 31 October 2019	0
Carrying amount at 1 November 2018	0

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

10 Shares in subsidiaries, etc.

DKK'000	Parent Company	
	2018/19	2017/18
Cost at 1 November	53,330	53,330
Cost at 31 October	53,330	53,330
Revaluation at 1 November	94,476	78,162
Adjustments regarding dividends in subsidiaries (no P/L effect)	2,241	0
Foreign exchange adjustments of subsidiaries' opening values	-476	-837
Adjustment of financial instruments	100	397
Share of profits after tax in subsidiaries	37,671	31,754
Dividends paid	-20,000	-15,000
Revaluation at 31 October	114,012	94,476
Carrying amount at 31 October	167,342	147,806

Name and registered office	Ownership share	Share capital
		DKK'000
Silhorko-Eurowater A/S, Denmark	100%	3,000

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DKK'000	Group	
	2018/19	2017/18
11 Contract work in progress		
Selling price of work performed	6,145	20,281
Progress billings	-5,542	-21,096
	<u>603</u>	<u>-815</u>
recognised as follows:		
Construction contracts (assets)	662	307
Construction contracts (liabilities)	-59	-1,122
	<u>603</u>	<u>-815</u>

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.

DKK'000	2018/19	2017/18
13 Non-controlling interests, Group		
Non-controlling interests at 1 November	2,692	2,833
Disposals	0	-248
Foreign exchange adjustments of non-controlling interests' opening values	29	-21
Dividends from subsidiaries	-864	-711
Share of profit for the year	1,579	839
	<u>3,436</u>	<u>2,692</u>

14 Long-term liabilities other than provisions, Group

Mortgage debt falling due later than 31 October 2024 is specified as follows:

Silhorko-Eurowater A/S	3,774	5,233
Armacoat A/S	3,481	3,720
	<u>7,255</u>	<u>8,953</u>

Long-term liabilities other than provisions, Parent Company

No mortgage debt falls due later than 31 October 2024.

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

The Group has entered into operating leases with a residual liability of DKK 332 thousand, which falls due within five years.

Performance guarantee and prepayment guarantee for DKK 12,278 thousand have been provided by the Group's bank.

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 arrangement. Any subsequent corrections of the joint taxation income and withholding tax, etc., may entail an increased liability for the Company.

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15 Contingent liabilities, other financial commitments and collateral (Group and Parent Company) (continued)

Collateral

The shares in Silhorko-Eurowater A/S have been pledged as security for the Parent Company's outstanding debt of DKK 10,625 thousand to credit institutions.

Assets with a carrying amount of DKK 32,483 thousand have been pledged as security for the Group's outstanding mortgage debt of DKK 15,567 thousand to credit institutions.

16 Currency and interest rate risks and use of derivative financial instruments (Group 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.

	2018/19				2017/18			
	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)
DKK'000								
Interest rate swaps	24,797	100	2,012	86	24,797	397	2,140	98

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 (Group 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.

Transactions with related parties are specified below

DKK'000	Parent Company	
	2018/19	2017/18
Interest income from consolidated entities	438	473
Interest expense, subordinate loan capital	-700	-700
	-262	-227

The subordinate loan capital of total DKK 3,500 thousand has been repaid in the end of October 2019.