
VMS Group A/S

Havnepladsen 12, DK-9900 Frederikshavn

Annual Report for 2022

CVR No. 27 21 56 29

The Annual Report was
presented and adopted
at the Annual General
Meeting of the
company
on 30/3 2023

Morten Rokkedal
Vestergaard
Chairman of the
general meeting



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Management's statement

The Executive Board and Board of Directors have today considered and adopted the Financial Statements of VMS Group A/S for the financial year 1 January - 31 December 2022.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2022 of the Company and of the results of the Company operations for 2022.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Financial Statements be adopted at the Annual General Meeting.

Frederikshavn, 30 March 2023

Executive Board

Kim Bengtsen

Kristian Kaasing Larsen

Board of Directors

Morten Rokkedal Vestergaard
Chairman

Karsten Madsen

Henrik Sørensen

Independent Auditor's report

To the shareholder of VMS Group A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of VMS Group A/S for the financial year 1 January - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

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

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

Independent Auditor's report

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Aalborg, 30 March 2023

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Rasmus Møllergaard Stenskrog

State Authorised Public Accountant

mne34161

Company information

The Company	VMS Group A/S Havnepladsen 12 DK-9900 Frederikshavn Email: vms@vms.dk Website: www.vms.dk CVR No: 27 21 56 29 Financial period: 1 January - 31 December Incorporated: 1 January 2003 Municipality of reg. office: Frederikshavn Kommune
Board of Directors	Morten Rokkedal Vestergaard, chairman Karsten Madsen Henrik Sørensen
Executive board	Kim Bengtsen Kristian Kaasing Larsen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Skelagervej 1A 9000 Aalborg

Financial Highlights

Seen over a 5-year period, the development of the Company is described by the following financial highlights:

	2022	2021	2020	2019	2018
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Profit/loss before financial income and expenses	20,621	1,220	723	9,656	4,612
Profit/loss of financial income and expenses	3,368	1,659	-3,080	-5,133	-2,137
Net profit/loss	19,580	2,536	-2,403	1,678	1,565
Balance sheet					
Balance sheet total	247,113	164,670	140,819	182,837	165,871
Investment in property, plant and equipment	3,646	1,762	1,483	2,431	7,034
Equity	60,726	42,359	40,515	40,512	39,667
Number of employees at group level	280	249	192	220	225
Number of employees	172	153	149	168	170
Ratios					
Return on assets	8.3%	0.7%	0.5%	5.3%	2.8%
Solvency ratio	24.6%	25.7%	28.8%	22.2%	23.9%
Return on equity	38.0%	6.1%	-5.9%	4.2%	4.1%

Management's review

Key activities

The Company's activities consist of repair, sale and servicing of large diesel engines and propulsion systems.

Development in the year

The activity in the company has increased since the Covid-19 restrictions were lifted. The company is positioned to serve the reopened markets, of which especially the offshore market is growing. The market increase and the volume of completed projects in 2022 was above expectations.

Results for 2022 show a profit of DKK 23.9 million before tax.

The activity and net profit in the Brazilian subsidiary have increased and are considered satisfactory.

The subsidiary in Walvis Bay, Namibia, is progressing positively and above expectations.

Based on the above, the Board of Directors consider the year and the net profit of the year to be very satisfactory.

Foreign exchange risks

The Company's currency risks primarily relate to the derived effect, which customers with other currencies may face. VMS Group A/S effects most of its sales and purchases in DKK or EUR, and is therefore only to a small extent exposed to direct currency risks. Some exposure in respect of component purchases in USD is offset by corresponding sales. A few projects are sold in USD and the exposure is covered by hedging.

Interest rate risks

The Company has interest-bearing debt; however, not to an extent that is considered to involve sensitivity to significant changes in the level of interest.

Liquidity risks

The Company is not considered particularly price sensitive as, basically, it is possible to pass on price fluctuations in purchase prices and wages/salaries to customers, and competitors are subject to the same sensitivity.

Targets and expectations for the year ahead

The Company expects a result after tax in the range of DKK 15 million - DKK 20 million.

Management is following the development in Ukraine closely, and expectations for 2023 are subject to some uncertainty.

Research and development

The Company does not manufacture own products. Its object is to undertake servicing and trading. Therefore, the Company's development activities are targeted at developing new service concepts as well as internal optimization, quality assurance and customer service.

External environment

The Company is making targeted efforts in the areas of safety at work and environment in the workshop.

In this connection, the Company has prepared an environmental policy with related targets according to which environmental issues are managed. This policy is based on environmentally responsible operations and forms a natural part of the Group's targets for product quality and production conditions. 7. September 2012, VMS Group A/S obtained environmental approval from the Municipality of Frederikshavn without any particular restrictive requirements applying. The approval was latest renewed August 2021.

Management's review

Intellectual capital resources

The Company's earnings depend heavily on Management's and employees' know-how and experience. The Company has focused on this ever since it was founded, and therefore HR has always been an important aspect. Each year, courses are being offered to the Company's employees; not only technology and safety courses, but also HR-related courses. Executives participate in management development courses.

Subsequent events

No events of material importance for the Company's financial position have occurred after the end of the financial year.

Income statement 1 January - 31 December

	Note	2022 DKK	2021 DKK
Gross profit		144,693,803	105,220,835
Staff expenses	1	-121,249,905	-101,029,714
Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment		-2,822,689	-2,959,109
Other operating expenses		0	-12,249
Profit/loss before financial income and expenses		20,621,209	1,219,763
Income from investments in subsidiaries		3,506,089	1,351,605
Income from investments in associates		448,541	6,000
Financial income	2	1,324,408	829,055
Financial expenses	3	-1,910,879	-527,375
Profit/loss before tax		23,989,368	2,879,048
Tax on profit/loss for the year	4	-4,409,416	-343,408
Net profit/loss for the year	5	19,579,952	2,535,640

Balance sheet 31 December

Assets

	Note	2022 DKK	2021 DKK
Acquired licenses		1,127,689	1,505,636
Goodwill		1,496,339	1,870,427
Intangible assets	6	2,624,028	3,376,063
Plant and machinery		9,239,129	6,888,088
Other fixtures and fittings, tools and equipment		379,793	568,878
Leasehold improvements		1,682,821	2,206,361
Property, plant and equipment	7	11,301,743	9,663,327
Investments in subsidiaries	8	5,397,672	2,169,705
Investments in associates	9	97,030	0
Receivables from associates	10	0	95,433
Deposits	10	41,400	21,000
Fixed asset investments		5,536,102	2,286,138
Fixed assets		19,461,873	15,325,528
Inventories	11	39,062,312	31,030,875
Trade receivables		65,694,235	50,414,361
Contract work in progress	12	66,782,881	34,820,061
Receivables from group enterprises		20,476,320	17,881,634
Other receivables	16	8,721,579	565,390
Prepayments	13	23,680,285	14,218,068
Receivables		185,355,300	117,899,514
Cash at bank and in hand		3,233,538	414,336
Current assets		227,651,150	149,344,725
Assets		247,113,023	164,670,253

Balance sheet 31 December

Liabilities and equity

	Note	2022 DKK	2021 DKK
Share capital		500,000	500,000
Reserve for hedging transactions		-1,019,549	64,244
Retained earnings		51,245,361	41,795,071
Proposed dividend for the year		10,000,000	0
Equity		60,725,812	42,359,315
Provision for deferred tax	14	4,323,341	1,490,105
Provisions		4,323,341	1,490,105
Other payables		9,967,077	9,537,938
Long-term debt	15	9,967,077	9,537,938
Credit institutions		33,326,055	28,519,320
Prepayments received from customers		24,008,857	14,722,756
Trade payables		34,232,539	15,630,018
Contract work in progress	12	2,805,386	2,620,525
Payables to group enterprises		1,689,166	610,211
Payables to group enterprises relating to corporation tax		1,557,094	0
Other payables	15, 16	35,093,709	39,296,939
Deferred income	17	39,383,987	9,883,126
Short-term debt		172,096,793	111,282,895
Debt		182,063,870	120,820,833
Liabilities and equity		247,113,023	164,670,253
Contingent assets, liabilities and other financial obligations	18		
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Statement of changes in equity

	Share capital	Reserve for hedging transactions	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	500,000	64,244	41,795,071	0	42,359,315
Exchange adjustments	0	0	-129,662	0	-129,662
Fair value adjustment of hedging instruments, beginning of year	0	-82,364	0	0	-82,364
Fair value adjustment of hedging instruments, end of year	0	-1,307,114	0	0	-1,307,114
Tax on adjustment of hedging instruments for the year	0	305,685	0	0	305,685
Net profit/loss for the year	0	0	9,579,952	10,000,000	19,579,952
Equity at 31 December	500,000	-1,019,549	51,245,361	10,000,000	60,725,812

Notes to the Financial Statements

	<u>2022</u>	<u>2021</u>
	DKK	DKK
1. Staff Expenses		
Wages and salaries	96,243,703	79,927,273
Pensions	13,821,147	11,638,506
Other social security expenses	2,303,513	2,042,806
Other staff expenses	8,881,542	7,421,129
	<u>121,249,905</u>	<u>101,029,714</u>
Including remuneration to the Executive Board and Board of Directors:		
Executive board	3,807,891	
Board of directors	220,000	
	<u>4,027,891</u>	
Average number of employees	<u>172</u>	<u>153</u>

Remuneration to the Executive Board and Board of Directors amounted to DKK 1,990,679 in 2021.

	<u>2022</u>	<u>2021</u>
	DKK	DKK
2. Financial income		
Interest received from group enterprises	623,577	519,685
Interest received from associates	0	16,818
Exchange adjustments	700,831	292,552
	<u>1,324,408</u>	<u>829,055</u>

	<u>2022</u>	<u>2021</u>
	DKK	DKK
3. Financial expenses		
Other financial expenses	1,768,264	527,375
Exchange adjustments, expenses	142,615	0
	<u>1,910,879</u>	<u>527,375</u>

Notes to the Financial Statements

	2022	2021
	DKK	DKK
4. Income tax expense		
Current tax for the year	1,557,094	0
Deferred tax for the year	2,546,637	361,528
Adjustment of tax concerning previous years	-286,599	0
Adjustment of deferred tax concerning previous years	286,599	0
	<u>4,103,731</u>	<u>361,528</u>

thus distributed:

Income tax expense	4,409,416	343,408
Tax on equity movements	-305,685	18,120
	<u>4,103,731</u>	<u>361,528</u>

	2022	2021
	DKK	DKK
5. Profit allocation		
Proposed dividend for the year	10,000,000	0
Retained earnings	9,579,952	2,535,640
	<u>19,579,952</u>	<u>2,535,640</u>

	Acquired licenses	Goodwill
	DKK	DKK
6. Intangible fixed assets		
Cost at 1 January	3,682,897	7,415,866
Additions for the year	62,981	0
Cost at 31 December	<u>3,745,878</u>	<u>7,415,866</u>
Impairment losses and amortisation at 1 January	2,177,261	5,545,439
Amortisation for the year	440,928	374,088
Impairment losses and amortisation at 31 December	<u>2,618,189</u>	<u>5,919,527</u>
Carrying amount at 31 December	<u>1,127,689</u>	<u>1,496,339</u>

Notes to the Financial Statements

7. Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements
	DKK	DKK	DKK
Cost at 1 January	23,256,340	1,665,068	10,375,219
Additions for the year	3,646,088	0	0
Disposals for the year	-46,188	0	0
Cost at 31 December	<u>26,856,240</u>	<u>1,665,068</u>	<u>10,375,219</u>
Impairment losses and depreciation at 1 January	16,368,252	1,096,190	8,168,857
Depreciation for the year	1,295,047	189,085	523,541
Impairment and depreciation of sold assets for the year	-46,188	0	0
Impairment losses and depreciation at 31 December	<u>17,617,111</u>	<u>1,285,275</u>	<u>8,692,398</u>
Carrying amount at 31 December	<u>9,239,129</u>	<u>379,793</u>	<u>1,682,821</u>

Notes to the Financial Statements

	2022	2021
	DKK	DKK
8. Investments in subsidiaries		
Cost at 1 January	8,541,824	8,360,298
Additions for the year	0	181,526
Cost at 31 December	<u>8,541,824</u>	<u>8,541,824</u>
Value adjustments at 1 January	-6,520,579	-7,916,135
Exchange adjustment	-129,662	43,951
Net profit/loss for the year	3,506,089	1,351,605
Value adjustments at 31 December	<u>-3,144,152</u>	<u>-6,520,579</u>
Equity investments with negative net asset value amortised over receivables	0	148,460
Carrying amount at 31 December	<u>5,397,672</u>	<u>2,169,705</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Ownership
LMS Inc.	Kenner, LA, USA	99%
VMS Do Brasil LTDA	Rio de Janeiro, Brasilien	100%
VMS Namibia (Pty) Ltd.	Walvis Bay, Namibia	100%

Notes to the Financial Statements

	2022	2021
	DKK	DKK
9. Investments in associated companies		
Cost at 1 January	835,000	835,000
Cost at 31 December	835,000	835,000
Value adjustments at 1 January	-1,186,511	-1,192,512
Net profit/loss for the year	448,541	6,000
Value adjustments at 31 December	-737,970	-1,186,512
Equity investments with negative net asset value amortised over receivables	0	351,512
Carrying amount at 31 December	97,030	0

Investments in associates are specified as follows:

Name	Place of registered office	Ownership and Votes
OVS Offshore A/S	Frederikshavn Denmark	33%

10. Other fixed asset investments

	Receivables from associates	Deposits
	DKK	DKK
Cost at 1 January	446,945	21,000
Additions for the year	0	20,400
Cost at 31 December	446,945	41,400
Impairment losses at 1 January	351,512	0
Impairment losses for the year	95,433	0
Impairment losses at 31 December	446,945	0
Carrying amount at 31 December	0	41,400

Notes to the Financial Statements

	<u>2022</u>	<u>2021</u>
	DKK	DKK
11. Inventories		
Raw materials and consumables	39,062,312	31,030,875
	<u>39,062,312</u>	<u>31,030,875</u>

	<u>2022</u>	<u>2021</u>
	DKK	DKK
12. Contract work in progress		
Selling price of work in progress	77,501,717	41,346,729
Payments received on account	<u>-13,524,222</u>	<u>-9,147,193</u>
	<u>63,977,495</u>	<u>32,199,536</u>
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	66,782,881	34,820,061
Prepayments received recognised in debt	<u>-2,805,386</u>	<u>-2,620,525</u>
	<u>63,977,495</u>	<u>32,199,536</u>

13. Prepayments

Prepayments consist of prepaid expenses concerning goods, rent, insurance premiums, subscriptions and interest as well.

	<u>2022</u>	<u>2021</u>
	DKK	DKK
14. Provision for deferred tax		
Deferred tax liabilities at 1 January	1,490,105	1,128,577
Amounts recognised in the income statement for the year	3,138,921	343,408
Amounts recognised in equity for the year	<u>-305,685</u>	<u>18,120</u>
Deferred tax liabilities at 31 December	<u>4,323,341</u>	<u>1,490,105</u>

Notes to the Financial Statements

15. Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	<u>2022</u>	<u>2021</u>
	DKK	DKK
Other payables		
After 5 years	9,300,610	9,112,479
Between 1 and 5 years	666,467	425,459
Long-term part	<u>9,967,077</u>	<u>9,537,938</u>
Within 1 year	0	0
Other short-term payables	<u>35,093,709</u>	<u>39,296,939</u>
	<u>45,060,786</u>	<u>48,834,877</u>

16. Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	<u>2022</u>	<u>2021</u>
	DKK	DKK
Assets	0	82,364
Liabilities	1,307,114	0

Forward exchange contracts have been concluded to hedge future sale of goods in USD. At the balance sheet date, the fair value of the forward exchange contracts amounts to DKK -1,307,114. Sale of goods in USD of USD 3,063,500 has been hedged. The forward exchange contracts have a term of 6-9 month.

17. Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

<u>2022</u>	<u>2021</u>
DKK	DKK

18. Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with bankers:

Company charge of a nominal amount of DKK 41.300.000 secured on trade receivables, inventories, property, plant and equipment and intangible assets.	118,682,317	94,484,624
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Notes to the Financial Statements

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	1,188,531	1,090,289
Between 1 and 5 years	1,422,218	1,640,169
	<u>2,610,749</u>	<u>2,730,458</u>

Rental obligations, period of interminability 3-12 months (2021: 3-12 months)	2,491,531	2,427,560
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Rental obligations, period of interminability between 1 and 5 years.	797,148	1,217,678
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Other contingent liabilities

The Company has issued a joint and several guarantee to the affiliated company VMS Ejendomme ApS.

The Group companies are jointly and severally liable for tax on the jointly taxed income etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Vestergaard Marine Service Holding ApS, which is the management company under the joint taxation purposes. Moreover, the Group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, royalty tax and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

The Company has entered into an agreement concerning payment guarantee of DKK 1,180,790.

19. Related parties and disclosure of consolidated financial statements

	<u>Basis</u>
Controlling interest	
Morten Rokkedal Vestergaard Vestergaard Marine Service Holding ApS	Main shareholder Controlling shareholder

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act. No such transactions have occurred.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

<u>Name</u>	<u>Place of registered office</u>
Vestergaard Marine Service Holding ApS	Frederikshavn, Denmark

The Consolidated Financial Statements of Vestergaard Marine Service Holding ApS may be obtained by contacting the Company at the following address: Havnepladsen 12, DK-9900 Frederikshavn.

Notes to the Financial Statements

20. Subsequent events

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

Notes to the Financial Statements

21. Accounting policies

The Annual Report of VMS Group A/S for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2022 are presented in DKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements for 2022 of Vestergaard Marine Service Holding ApS, Havnepladsen 12, DK-9900 Frederikshavn, CVR 27 47 88 67, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Vestergaard Marine Service Holding ApS, Havnepladsen 12, DK-9900 Frederikshavn, CVR 27 47 88 67, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

Income statements of foreign subsidiaries and associates that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in the fair value reserve under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

Income statement

Net sales

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Expenses for raw materials and consumables

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

Other external expenses

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

Gross profit

With reference to section 32 of the Danish Financial Statements Act, gross profit is calculated as a summary of revenue, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Notes to the Financial Statements

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries and associates

The items “Income from investments in subsidiaries” and “Income from investments in associates” in the income statement include the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the on-account taxation scheme.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with Danish and foreign subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes.

Balance sheet

Intangible fixed assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 10 year.

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 3 year.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Plant and machinery	5-10 years
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	10 years

Notes to the Financial Statements

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries and associates

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

The items "Investments in subsidiaries" and "Investments in associates" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries and the associates.

Subsidiaries and associates with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments

Other fixed asset investments consist of receivables from associates and deposits, which are measured at amortized cost. Provisions are made for expected bad debts.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of raw materials and consumables equals landed cost.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Notes to the Financial Statements

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

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

Equity

Dividend

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

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Notes to the Financial Statements

Financial Highlights

Explanation of financial ratios

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