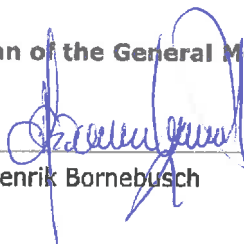


**Falck Schmidt Defence  
Systems A/S**  
Oslogade 1  
5000 Odense C  
Central Business Registration No  
28490259

## Annual report 2016

The Annual General Meeting adopted the annual report on 21.06.2017

**Chairman of the General Meeting**



Name: Henrik Bornebusch

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## Entity details

### Entity

Falck Schmidt Defence Systems A/S  
Oslogade 1  
5000 Odense C

Central Business Registration No: 28490259

Registered in: Odense

Financial year: 01.01.2016 - 31.12.2016

Phone: 66135700

Website: [www.f-sds.com](http://www.f-sds.com)

E-mail: [info@f-sds.com](mailto:info@f-sds.com)

### Board of Directors

Henrik Bornebusch, formand  
Ove Høegh-Guldberg Hoff  
Jan Falck-Schmidt  
Lars Blavnsfeldt

### Executive Board

Jan Falck-Schmidt, administrerende direktør

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
Tværkajen 5  
Postboks 10  
5100 Odense C

## Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Falck Schmidt Defence Systems A/S for the financial year 01.01.2016 - 31.12.2016.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

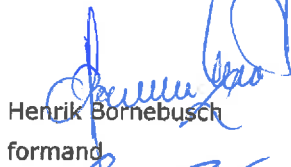
Odense, 21.06.2017

### Executive Board

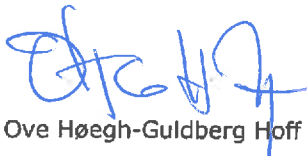


Jan Falck-Schmidt  
administrerende direktør

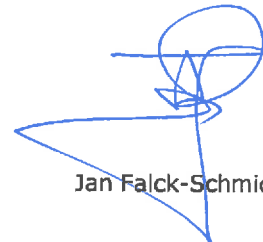
### Board of Directors



Henrik Bornebusch  
formand



Ove Høegh-Guldberg Hoff



Jan Falck-Schmidt



Lars Blavnsfeldt

## Independent auditor's report

### To the shareholders of Falck Schmidt Defence Systems A/S

#### Adverse opinion

We have audited the financial statements of Falck Schmidt Defence Systems A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, due to the significance of the matter discussed in the Basis for adverse opinion section, the financial statements do not give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

#### Basis for adverse opinion

In 2016, the company realized a loss of DKK 26,376k before taxes. The equity is negative and amounts to DKK (14,464)k, as at 31. December 2016. Although there is substantial uncertainty about this, the company expects to be able to maintain the required liquidity to carry out the planned activities, and therefore the management has presented the financial statements using going concern principles. The future of the company is dependent on the Group's retention of current credits and the raising of additional loan capital that is currently not committed. We therefore qualify our auditor's report as regards using going concern principles. We refer to Note 1 to the financial statements.

As at 31 December 2016 the company has receivables from other Group companies totaling DKK 31,124k. As a result of the Group's financing and liquidity position, we consider it very uncertain whether the counterparties will be able to settle these balances, and therefore we qualify our auditor's report as regards to valuation of receivables from group companies.

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 financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

#### Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

### **Statement on the management commentary**

Management is responsible for the management commentary.

## Independent auditor's report

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

The information in the management's commentary is based on the fact that the financial statements can be prepared on the assumption of going concern and that receivables from group enterprises can be valued at booked value. As stated in the "Basis for adverse opinion" section, we do not find that the company can present the financial statements subject to going concern, and in our view, the management's commentary should have reflected this.

### **Violation of company law and similar legislation**

#### **Loan to shareholder**

In contravention of the Danish Companies Act, the Company has granted a loan to a shareholder, for which Management may be held liable. For further details refer to Note 14 to the financial statements.

#### **Loss of capital**

The company has lost more than 50% of the contributed capital and is therefore subject to the rules on capital losses in section 119 of the Danish Companies Act.

Odense, 21.06.2017

#### **Deloitte**

Statsautoriseret Revisionspartnerselskab  
Central Business Registration No: 33963556

Lars Knage Nielsen  
State Authorised Public Accountant



## Management commentary

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>DKK'000</b>	<b>DKK'000</b>	<b>DKK'000</b>	<b>DKK'000</b>	<b>DKK'000</b>
<b>Financial highlights</b>					
<b>Key figures</b>					
Gross profit	3.264	19.900	14.002	47.150	18.895
Operating profit/loss	(25.127)	(9.874)	(14.318)	19.974	33.123
Net financials	(1.249)	(1.235)	(218)	274	356
Profit/loss for the year	(26.376)	(8.684)	(11.161)	15.166	25.091
Total assets	81.494	63.577	58.992	78.430	60.046
Investments in property, plant and equipment	0	0	0	0	1.338
Equity	(14.464)	11.912	20.594	36.753	31.591
<b>Ratios</b>					
Equity ratio (%)	(17,7)	18,7	34,9	46,9	52,6

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

### Ratios

Equity ratio (%)

### Calculation formula

$$\frac{\text{Equity} \times 100}{\text{Total assets}}$$

### Ratios

The financial strength of the entity.



## Management commentary

### Primary activities

The activities of the company include research and development, manufacture, trade and logistic services of any kind and with products and systems of defence-, aerospace- and space-nature.

The corporation has sister companies in several countries;

- FALCK SCHMIDT Advanced Composites Engineering (Fredericia, DK)
- FALCK SCHMIDT Defense Systems Corp. (USA)
- FALCK SCHMIDT Defence Systems Ltd. (UK)

The sales network including dealers, agents etc. covers North America, Europe incl. the former east-block countries, the middle east and Turkey.

### Development in activities and finances

The overall growth in activities from 2008 to 2012 has not been sustainable in the following years. Several programs incl. programs where the company has been successful have moved to the right resulting in significantly growing order backlog but also that earnings in 2015 although growing compared to 2014 did not match the expenses. Two major programs played a role – new APC 's for the Danish army where the company will have a sizeable contract, but first to have any effect in 2017 and growing the following years. Also programs cancelled have contributed to the cost base but not to the turnover/earnings.

The Order backlog is now more than 150 mio. DKK. Also worth mentioning the Space programs are on a steady growth path.

Export share of total turnover in 2014 to 2016 was more than 95% - and expectations are the same for 2017.

The Result for 2016 is negative and not acceptable but equals the expectations in late 2016 as programs showed to be delayed into 2017 and following years.

The continued development of new technologies gives a broad span of technology based possibilities for the company in its portfolio of solutions and competencies which individually and collectively as a basis shall provide superior ability and survivability for the soldier.

- Carbon composite based structures (with/without armor capability) for defence, aerospace and space applications.
- Integrated electromechanical solutions (no hydraulic).
- Integrated software and controls.
- Masts and platforms with a stability that can enable targeting, launch and guidance of missiles from larger heights as well as mobility with vehicle based sensors and weapons elevated.

## Management commentary

- Auxiliary Power Units (APU´s) – power supply for mobile platforms based on diesel technology – today on conventional diesel engines but with future solutions based on unique engine technology.
- Further engagement into Space business.

These capabilities are today unique on the world market and are expected to contribute significantly to the future growth.

Furthermore in 2016 the company continued to work the defence market in 3 new areas:

- Research and development incl. investment in Different engine technology for APU´s for the defence and aerospace market
- Significant investment in state of the art technology on the Elevated (Based on mast systems providing a world-class capability for mobile reconnaissance. This work is aiming at also provide not only sub-systems but also total turnkey solutions as systems integrator.
- Continued work to achieve position to develop and manufacture next generation combat vehicle hulls in composites – incl. Composites with extra blast absorption (Mine and IED´s) as well as lightweight kinetic energy protection.

These technologies will also secure continued growth and a broader market access.

Based on the intensive development and sales/demo activities the booked contracts level for the coming years is now growing. These contracts has put the company back in a profit and growth mode and will create a stable base for more than 5 years to come.

The development in activities has resulted in expectations for 2017 of a reasonable profit level and increased profit levels in the years to follow. The budget for 2017 with the existing and ongoing volume of orders is showing a positive and satisfactory result which give the management confidence in the progress and the financial situation for the company and shows that we are catching up with the many delays.

### Information on non-financial issues

As a result of the above mentioned development and expectations for 2017 is that the company has a growing work force that will continue to grow.

The company participates in several international exhibitions on several continents as part of the marketing and networking. In 2016 the company attended the following exhibitions:

- IDEX, Abu Dhabi, UAE
- AUSA - Winter - Ft. Lauderdale - USA
- EUROSATORY, Paris
- Cansec, Canada
- AUSA Fall - Washington DC – USA
- A number of smaller exhibiths

## Management commentary

In 2016 audits have been carried out based on EN/ISO 9001 and NATO AQAP 2110 by BVQI resulting in renewed QA-certificates.

### **Uncertainties on calculations and estimates**

The company only manufactures to order. Conservative principles are used for calculating profits etc.

### **Business risks**

The market for defence equipment is contrary to the commercial market and industrial market not dependent on the normal business cycles. The development in this market is driven by political initiatives as result of security political development.

Risks are thus especially related to changes in procurements that can be changed short-term based on the political decisions and developments.

This also means that expectations to the coming development are subject to the same political security/insecurity where projects can be moved in time and extent - not only as a result of requirement assessments but as a result of political compromises.

Being an order based company this means that the result of each year is under significant influence from the political process on procurements.

Due to the large share of revenue exports also currency is a risk factor. The risk associated with currency are secured to the extent possible.

As stated above the schedule delays and cancellation of program(s) has caused 2016 to be a year with a net loss.

### **Financial risks**

The financial risks are considered low. The cash flow is based on government funds providing a relatively high security of payment. Having a base with a good portion of the business based on USD the fluctuation of the USD rate is closely monitored and rates secured as seen applicable.

### **Cashflow and capital resources**

The negative result and the investments in 2015 and 2016 has increased to need for further credit. The granted credits and the expectations to getting further credit are expected big enough to accomplish the estimated activities for 2017 and coming years. Also agreements are made increasing credits. FSDS has basically agreed to also work with Industri Udvikling to increase the capital base. We refer to note 1.

The reduced cash availability especially for 2017 is worked extensively with the focus to increase the working cash. Management has a running focus on cash flow to secure the continued growth.

## Management commentary

### Knowledge resources

The strategic goals are based on a know-how heavy organization and thus to have a quite large number of engineers as well as an ongoing relation to knowledge institutions i.e. RISOE, DTU, SDU etc.

The co-operation with knowledge institutions had continued in 2016.

### Environmental issues

The company complies with environmental regulations.

Within the defence area the environmental consciousness is growing including decommissioning of equipment as part of development activities and the avoidance of hazardous materials. Water based coatings are used where possible.

### Development activities

Research and development activities are based on several areas and fora, including NATO/NIAG, WEAG. EUROPA MOU as well as between the company and the national defence procurement agencies respectively international defence contractors.

These activities are collectively focused on survivability/safety of the soldier. Development of technologies and products shall provide the optimum of protection in the role in which the equipment is used.

Objectively survivability can best be achieved by keeping the soldier out of harms way respectively providing best possible protection.

The company thus focuses on:

- Elevated mobile solutions where sensors or weapons are elevated and potentially remotely controlled keeping the operator in defilade and under protection.
  - Army ground equipment and vehicles
  - Focus on future programs for the NAVY
- Composite structures including protection with low weight to strength and protection ratio.
- Development of electronics and systems incl. Power supply solutions – over time to include the application of novel cyclone engine technology.
- Development and supply of components for Space applications.

Several patents have been applied for as well as been issued in 2016.

The investments in 2016 has especially concentrated on two focus areas;

1. Development of elevated solutions for mobile reconnaissance proving the user ability to carry out reconnaissance while on the move and under protection. The system developed provides unmatched stability and weight to performance ratio by use of high performance materials (Carbon fiber etc.) and patented drive systems and manufacturing methods. First sale that was expected in 2014 was concluded in 2015 – New reconnaissance systems to

## Management commentary

the Canadian Army providing unmatched mobile reconnaissance. Deliveries are now ongoing.

2. Further development of the Standardized elevated platforms that provides a range of solutions with capability of up to 400kg/900lbs payload (Sensors, Weapons etc.) and elevated heights of up to 16m/55 ft. 3 standard ranges are developed from Light weight Masts (LWM) to High Mobility Masts (HMM) and Elevated Mast Platform (EMP).
3. Novel engine/APU technology providing unmatched capability in terms of size, weight, noise and multifuel capability

This technology provides the following products and applications:

### **Masts (EMP – Elevated Mast Platform)**

Masts are primarily developed to increase protection for the operator on vehicles maintaining situational awareness while staying under protection.

Use of masts further provides the capability, also under defilade and during mobility to observe and engage in combat.

Resources are used to continuously develop the capability also reducing weight by use of composites.

The significant increase in request for information and proposals has shown a big need for these products.

Increase in sales in coming years is expected.

### **MSLP = Missile Stand Lifting Platform**

MSLP is a new product developed in co-operation with a national defense command. This product and technologies developed are expected to contribute significantly to the future sales and revenue.

This mast elevates to approx. 20 meters.

This gives unique possibilities for an optimal position for an air-defence-system. (Stealth design and the possibility to get cover from the forest). This maintains the possibility to detect, target and track incoming aircraft.

With this mast system it is for the first time in history proven possible to fire guided surface to air missiles from an 18-20 m mast. The system completed live missile firing trials in May 2008 and in 2014 with Radar with a result by far exceeding the contractual as well as the expected performance.

Based on the already established interest management expects production of this product type within the next 12-18 months.

### **REMS = Radar Elevated Mast System.**

A modified MSLP to elevates sensors (Radar).

### **Structural composite solutions**

The company has in the prior period moved activities which since 2009 have moved from research and development to product solutions. Furthermore the company has taken the first steps to also use these

## Management commentary

technologies on airframes and products related to the aircraft industry. Developments are all based on methods based on – out of autoclave – technology while applying nano technology.

Focus is on lightweight structural components with integrated protection/armour with the goal to improve the protection and structural integrity relative to weight throughout the product line. In the EMP and MSLP structural parts are in carbon composites as well as vehicle components and structures with integrated protection.

European Space Agency has contracted with the company to develop unique composite structure capabilities. (Pure carbon).

The company does use and see strategic alliances as a means to further develop this area and will also in the future continue this effort.

### **VETRONICS and APU´s.**

The electronics area has continued in 2015 and also the focus apart from the manufacture of VETRONICS the focus is on development of drive systems incl. the software portion. In the same period the company has further engaged in power system solutions for mobile systems (APU´s Auxiliary Power Units). Simple VETRONICS solutions and products are expected to get under increased costs pressure. Investment is planned for 2017 to automate part of the manufacturing/assembly work on the Vetronics.

### **SPACE-activities**

In 2016 the corporation has delivered products and satellite structures and contracted deliveries for the ESA Solar Orbiter, Exo-Mars as well as several other programs.

### **Research and Development**

Funds are continuously used out of the overhead of sales to further develop products, technologies and programs. In 2016 a larger number of millions have been spent as IR&D funds.

The company further participates in national and international research- and development programs – typically the company finances 50% of the overall costs.

### **Representation abroad**

Based on agencies and agreements representation is established in a number of locations.

### **Outlook**

The company expects a positive result for 2017.

### **Events after the balance sheet date**

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report. The agreement with IU will positively affect the balance sheet. We refer to Note 1.

## Income statement for 2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK'000</u>
<b>Gross profit</b>	2	<b>3.263.840</b>	<b>19.900</b>
Staff costs	3	(25.864.711)	(28.053)
Depreciation, amortisation and impairment losses	4	<u>(2.526.252)</u>	<u>(1.721)</u>
<b>Operating profit/loss</b>		<b>(25.127.123)</b>	<b>(9.874)</b>
Other financial income	5	1.647.965	1.616
Other financial expenses	6	<u>(2.896.852)</u>	<u>(2.851)</u>
<b>Profit/loss before tax</b>		<b>(26.376.010)</b>	<b>(11.109)</b>
Tax on profit/loss for the year	7	<u>0</u>	<u>2.425</u>
<b>Profit/loss for the year</b>	8	<b><u>(26.376.010)</u></b>	<b><u>(8.684)</u></b>

## Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK'000</u>
Completed development projects		7.601.694	9.840
<b>Intangible assets</b>	<b>9</b>	<b><u>7.601.694</u></b>	<b><u>9.840</u></b>
Plant and machinery		88.516	360
Other fixtures and fittings, tools and equipment		621.964	638
<b>Property, plant and equipment</b>	<b>10</b>	<b><u>710.480</u></b>	<b><u>998</u></b>
<b>Fixed assets</b>		<b><u>8.312.174</u></b>	<b><u>10.838</u></b>
Raw materials and consumables		6.168.617	4.541
Manufactured goods and goods for resale		1.660.858	543
<b>Inventories</b>		<b><u>7.829.475</u></b>	<b><u>5.084</u></b>
Trade receivables		14.170.148	6.790
Contract work in progress	11	13.545.029	4.458
Receivables from group enterprises	12	31.124.300	28.714
Deferred tax	13	4.175.982	4.176
Other receivables		1.172.550	1.380
Receivables from owners and management	14	12.408	99
Prepayments	15	1.125.188	1.984
<b>Receivables</b>		<b><u>65.325.605</u></b>	<b><u>47.601</u></b>
<b>Cash</b>		<b><u>26.442</u></b>	<b><u>54</u></b>
<b>Current assets</b>		<b><u>73.181.522</u></b>	<b><u>52.739</u></b>
<b>Assets</b>		<b><u>81.493.696</u></b>	<b><u>63.577</u></b>



## Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK'000</u>
Contributed capital	16	575.000	575
Retained earnings		(15.039.411)	11.337
<b>Equity</b>		<b>(14.464.411)</b>	<b>11.912</b>
Subordinate loan capital		13.000.000	0
<b>Non-current liabilities other than provisions</b>		<b>13.000.000</b>	<b>0</b>
Bank loans		43.688.311	38.714
Contract work in progress	11	28.799.820	0
Trade payables		5.074.074	3.041
Payables to group enterprises		499.860	0
Other payables	17	4.896.042	9.910
<b>Current liabilities other than provisions</b>		<b>82.958.107</b>	<b>51.665</b>
<b>Liabilities other than provisions</b>		<b>95.958.107</b>	<b>51.665</b>
<b>Equity and liabilities</b>		<b>81.493.696</b>	<b>63.577</b>
Going concern	1		
Unrecognised rental and lease commitments	19		
Mortgages and securities	20		
Related parties with controlling interest	21		

## Statement of changes in equity for 2016

	<b>Contributed capital DKK</b>	<b>Retained earnings DKK</b>	<b>Total DKK</b>
Equity beginning of year	575.000	11.336.599	11.911.599
Profit/loss for the year	<u>0</u>	<u>(26.376.010)</u>	<u>(26.376.010)</u>
<b>Equity end of year</b>	<b><u>575.000</u></b>	<b><u>(15.039.411)</u></b>	<b><u>(14.464.411)</u></b>

## Cash flow statement 2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK'000</u>
Operating profit/loss		(25.127.123)	(9.871)
Amortisation, depreciation and impairment losses		2.526.252	1.720
Working capital changes	18	<u>5.848.035</u>	<u>(944)</u>
<b>Cash flow from ordinary operating activities</b>		<b>(16.752.836)</b>	<b>(9.095)</b>
Financial income received		1.647.965	1.616
Financial income paid		<u>(2.896.852)</u>	<u>(2.851)</u>
<b>Cash flows from operating activities</b>		<b>(18.001.723)</b>	<b>(10.330)</b>
Acquisition etc of intangible assets		<u>0</u>	<u>(1.571)</u>
<b>Cash flows from investing activities</b>		<b>0</b>	<b>(1.571)</b>
Loans raised		<u>13.000.000</u>	<u>0</u>
<b>Cash flows from financing activities</b>		<b>13.000.000</b>	<b>0</b>
<b>Increase/decrease in cash and cash equivalents</b>		<b>(5.001.723)</b>	<b>(11.901)</b>
Cash and cash equivalents beginning of year		<u>(38.660.146)</u>	<u>(26.758)</u>
<b>Cash and cash equivalents end of year</b>		<b>(43.661.869)</b>	<b>(38.659)</b>
Cash and cash equivalents at year-end are composed of:			
Cash		26.442	54
Short-term debt to banks		<u>(43.688.311)</u>	<u>(38.713)</u>
<b>Cash and cash equivalents end of year</b>		<b>(43.661.869)</b>	<b>(38.659)</b>

## Notes

### 1. Going concern

The company realized a loss of DKK 26,376k before tax in 2016. Equity is negative amounting to DKK (14,464)k as at 31. December 2016.

The Company is part of the Falck-Schmidt group, in which all entities are economically dependent of each other due to joint and several liability. The Entity's and the Group's bank has indicated that the current credit facilities will be available until 30 June 2017. In addition, Industri Udvikling has added additional loans of DKK 6 million to the Group at the end of April 2017. At the moment there is no resolution on capital injection.

Without further provision of new loan capital, which is currently not agreed, the Group will not have sufficient liquidity to continue its operations.

The first 5 months in 2017 show a small profit for the company but a result lower than budgeted.

The Group's Board of Directors and the Company's Board of Directors consider the current credit facilities, in addition to the expectation of further addition of loan capital, sufficient to enable the company to continue operating, and the annual report has therefore been prepared using the going concern assumptions. For 2017, a profit is expected for the company.

### 2. Gross profit

For competitive reasons, revenue is not disclosed but included in the item gross profit/loss, see Section 32 of the Danish Financial Statements Act.

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>3. Staff costs</b>		
Wages and salaries	21.088.924	22.808
Pension costs	3.191.173	3.396
Other social security costs	1.436.278	1.702
Other staff costs	148.336	147
	<b>25.864.711</b>	<b>28.053</b>
Average number of employees	<b>55</b>	<b>51</b>

## Notes

	<b>Remunera- tion of manage- ment 2016 DKK</b>	<b>Remunera- tion of manage- ment 2015 DKK'000</b>
Total amount for management categories	2.131.714	2.102
	<b>2.131.714</b>	<b>2.102</b>
	<b>2016 DKK</b>	<b>2015 DKK'000</b>
<b>4. Depreciation, amortisation and impairment losses</b>		
Amortisation of intangible assets	2.238.804	1.354
Depreciation of property, plant and equipment	287.448	367
	<b>2.526.252</b>	<b>1.721</b>
	<b>2016 DKK</b>	<b>2015 DKK'000</b>
<b>5. Other financial income</b>		
Financial income arising from group enterprises	1.420.947	1.231
Interest income	0	6
Exchange rate adjustments	227.018	379
	<b>1.647.965</b>	<b>1.616</b>
	<b>2016 DKK</b>	<b>2015 DKK'000</b>
<b>6. Other financial expenses</b>		
Interest expenses	2.896.852	1.644
Exchange rate adjustments	0	1.207
	<b>2.896.852</b>	<b>2.851</b>
	<b>2016 DKK</b>	<b>2015 DKK'000</b>
<b>7. Tax on profit/loss for the year</b>		
Change in deferred tax for the year	0	(2.627)
Effect of changed tax rates	0	202
	<b>0</b>	<b>(2.425)</b>

## Notes

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>8. Proposed distribution of profit/loss</b>		
Retained earnings	(26.376.010)	(8.684)
	<b>(26.376.010)</b>	<b>(8.684)</b>
		<b>Completed develop- ment projects DKK</b>
<b>9. Intangible assets</b>		
Cost beginning of year		11.193.998
<b>Cost end of year</b>		<b>11.193.998</b>
Amortisation and impairment losses beginning of year		(1.353.500)
Amortisation for the year		(2.238.804)
<b>Amortisation and impairment losses end of year</b>		<b>(3.592.304)</b>
<b>Carrying amount end of year</b>		<b>7.601.694</b>
<p>The company has developed a number of mast types that can be sold as standard products or with customizations according to the customer's wishes. In a number of years, the sales potential is estimated to be over DKK 100m.</p>		
	<b>Plant and machinery DKK</b>	<b>Other fixtures and fittings, tools and equipment DKK</b>
<b>10. Property, plant and equipment</b>		
Cost beginning of year	3.766.657	1.092.968
<b>Cost end of year</b>	<b>3.766.657</b>	<b>1.092.968</b>
Depreciation and impairment losses beginning of the year	(3.406.693)	(455.004)
Depreciation for the year	(271.448)	(16.000)
<b>Depreciation and impairment losses end of the year</b>	<b>(3.678.141)</b>	<b>(471.004)</b>
<b>Carrying amount end of year</b>	<b>88.516</b>	<b>621.964</b>

## Notes

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>11. Contract work in progress</b>		
Contract work in progress	16.973.094	10.884
Progress billings regarding contract work in progress	(32.227.885)	(6.426)
Transferred to liabilities other than provisions	28.799.820	0
	<b>13.545.029</b>	<b>4.458</b>

### 12. Receivables from group enterprises

Of receivables from investments, DKK 19,926k relates to a loan to the parent Falck-Schmidt A/S. On recognition of this receivable, it was assumed that cash is generated from subsidiaries, which enables repayment in the long term. Furthermore, DKK 9,267k of the receivable relates to a loan to the sister subsidiary Falck Schmidt Corporation in the US. For both loans a long payback period must be expected. No reduction of the receivable is expected in 2017.

### 13. Deferred tax

At 31 December 2016 the company has a deferred tax asset of DKK 9,686k. This asset is valued at DKK 4,176k as it is not expected that the company can take advantage of the total tax asset in a shorter period of time.

### 14. Receivables from owners and management

The receivable at 31.12.2016 consists of a receivable from the Executive Board and carries no interest. The Company is liable for settlement of withholding taxes etc. on the payment. The largest receivable from owners and management in 2016 amounts to DKK 237k.

### 15. Prepayments

Prepayments consists of prepaid expenses.

	<b>Number</b>	<b>Par value DKK</b>	<b>Nominal value DKK</b>
<b>16. Contributed capital</b>			
Ordinary shares	575	100	575.000
	<b>575</b>		<b>575.000</b>

No changes in share capital in the past 5 financial years.

## Notes

	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>17. Other payables</b>		
VAT and duties	572.355	3.774
Wages and salaries, personal income taxes, social security costs, etc payable	3.203.975	3.408
Other costs payable	1.119.712	2.728
	<b>4.896.042</b>	<b>9.910</b>
	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>18. Change in working capital</b>		
Increase/decrease in inventories	(2.745.592)	(5.067)
Increase/decrease in receivables	(17.836.078)	895
Increase/decrease in trade payables etc	26.429.705	3.228
	<b>5.848.035</b>	<b>(944)</b>
	<b>2016</b>	<b>2015</b>
	<b>DKK</b>	<b>DKK'000</b>
<b>19. Unrecognised rental and lease commitments</b>		
Hereof liabilities under rental or lease agreements until maturity in total	<b>142.000</b>	<b>258.000</b>

### 20. Mortgages and securities

Bank debt is secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 45 mio. Nominal, which include Completed development projects (Booked value: DKK 7.602k), Property, plant and equipment (Booked value: DKK 710k), Inventories (Booked value: DKK 7.829k), Trade receivables (Booked value: DKK 14.170k), Other receivables and prepayments (Booked value: DKK 2.310k).

The following guarantors are fully jointly and severally liable:

Falck-Schmidt A/S  
 Falck Schmidt Defence Systems A/S  
 Falck Schmidt Ejendomsselskab ApS  
 Falck Schmidt ACE A/S

The guaranty include the total debt to the bank including transfer of intercompany accounts.

The company is part of a Danish joint taxation with Falck-Schmidt A/S as an administration company. Accordingly, the company is liable under the corporation tax rules for income taxes, etc. for the jointly taxed



## Notes

companies and for any obligations to include withholding tax on interest, royalties and dividends for jointly taxed companies.

### **21. Related parties with controlling interest**

Related parties with a controlling influence in Falck Schmidt Defence Systems A/S:

Majority shareholder Falck-Schmidt A/S, Central Business Registration No 29 61 39 15

Supervisory Board and executive Board

Transactions between related parties and Falck Schmidt Defence Systems A/S in 2016:

Continuous Intercompany account including interest

Lawyer's fee

Other related parties:

Falck Schmidt Ejendomsselskab ApS, Central Business Registration No 29 38 78 85

Falck Schmidt ACE A/S, Central Business Registration No 33 04 19 34

Transactions between other related parties and Falck Schmidt Defence Systems A/S in 2016:

Continuous Intercompany account including interest

Administrative agreement

All related party transactions are on arm's-length basis.

## Accounting policies

### Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (Medium).

The accounting policies applied for these financial statements are consistent with those applied last year.

### Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

### Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

### Income statement

#### Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

#### Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

## Accounting policies

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

### Cost of sales

Cost of sales comprises costs of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

### Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

### Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

### Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

### Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

### Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

### Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

## Accounting policies

### Balance sheet

#### Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is 5 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

#### Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-manufactured assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Indirect production costs in the form of indirect attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each asset.

Interest expenses on loans for the financing of the manufacture of property, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	3 years
Other fixtures and fittings, tools and equipment	3 years

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

## Accounting policies

### Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

### Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

### Contract work in progress

Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

### Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

### Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

## Accounting policies

### Cash

Cash comprises cash in hand and bank deposits.

### Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

### Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

### Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.