

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

Annual report 2015

The Annual General Meeting adopted the annual report on 13.06.2016

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: 01.01.2015 - 31.12.2015

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Board of Directors

Henrik Bornebusch, formand

Ove Høegh-Guldberg Hoff

Jan Falck-Schmidt

Executive Board

Jan Falck-Schmidt, administrerende direktør

Entity 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 01.01.2015 - 31.12.2015.

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 31.12.2015 and of the results of its operations and cash flows for the financial year 01.01.2015 - 31.12.2015.

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, 13.06.2016

Executive Board

Jan Falck-Schmidt
administrerende direktør

Board of Directors

Henrik Bornebusch
formand

Ove Høegh-Guldberg Hoff

Jan Falck-Schmidt

Independent auditor's reports

To the owners of Falck Schmidt Defence Systems A/S

Report on the financial statements

We have audited the financial statements of Falck Schmidt Defence Systems A/S for the financial year 01.01.2015 - 31.12.2015, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2015 and of the results of its operations and cash flows for the financial year 01.01.2015 - 31.12.2015 in accordance with the Danish Financial Statements Act.

Emphasis of matter affecting the financial statements

Without this having affected our opinion we refer to note 1 to the financial statements, which states the reasons for presenting the financial statements on a going concern basis. We did not find any reason to take a different view in this respect.

Independent auditor's reports

Report on other legal and regulatory requirements

Emphasis of matter regarding other issues

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, please refer to Note 13 to the financial statements.

Statement on the management commentary

Statement on the management commentary

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

Odense, 13.06.2016

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No 33963556

Lars Knage Nielsen
State Authorised Public Accountant

Management commentary

	<u>2015</u> <u>DKK'000</u>	<u>2014</u> <u>DKK'000</u>	<u>2013</u> <u>DKK'000</u>	<u>2012</u> <u>DKK'000</u>	<u>2011</u> <u>DKK'000</u>
Financial high-lights					
Key figures					
Gross profit	19,901	14,002	47,150	74,362	18,895
Operating profit/loss	(9,871)	(14,318)	19,974	33,123	8,499
Net financials	(1,236)	(218)	274	356	(39)
Profit/loss for the year	(8,682)	(11,161)	15,166	25,091	6,322
Total assets	63,577	58,992	78,430	93,056	68,505
Investments in property, plant and equipment	0	0	0	1,338	931
Equity	11,912	20,594	36,753	31,591	11,500
Ratios					
Return on equity (%)	(53.4)	(38.9)	44.4	116.5	72.5
Equity ratio (%)	18.7	34.9	46.9	33.9	16.8

Financial highlights

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2010" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios reflect
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Solvency ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	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 company has expanded its sales network to the former east block countries, 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 2016 and growing the following years as the actual contract first was settled early 2016 despite a decision in early 2015. Also programs cancelled have contributed to the cost base but not to the turnover/earnings. The Danish MOD in April 2015 announced buying new Artillery – and the company was partnered on that program. The Danish Parliament in June 2015 cancelled the program – just to re-issue an identical RFP late 2015. To that a slowdown on acquisitions is now seen in the oil rich countries as a result of a huge drop in oil pricing.

In this period significant investments have also been made in the portfolio of products, solutions and new technologies which has not only continued in 2014 but also in 2015.

Export share of total turnover in 2014 and 2015 was app. 95% - and expectations are the same for 2016.

The Result for 2015 is negative and naturally not acceptable but equals the expectations as programs showed to be delayed into 2016 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.

Management commentary

- 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.
- 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 fuel cell technology.
- Application of UAS/UAV to a broad spectrum of tasks.
- 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 2015 the company continued to work the defence market in 3 new areas:

- Research and development activities for special Composite structures for airframes (Out-of-Autoclave technology) – i.e. space exploration and satellite structures.
 - An intensified effort of programs and products for space applications in a combination of R&D activities and manufacturing /delivery of products for Space vehicles.
 - Research and development activities for special Composite structures for airframes (Out-of-Autoclave)
- Significant investment in state of the art technology on the Elevated (Based on masted systems providing a world class capability for mobile reconnaissance. This work is aiming at also provide not only subsystems but also total turnkey solutions as systems integrator.
- Continued work to achieve position to develop and manufacture next generation combat vehicle hulls in composites.

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 growth mode and will create a stable base for more than 5 years to come.

The development in activities has resulted in expectations for 2016 of a reasonable profit level and increased profit levels in the years to follow.

Information on non-financial issues

As a result of the above mentioned development and expectations for 2015 is that the company has a growing work force that will continue to grow with expectation to more than double the size in the next 12-18 months.

The company participates in several international exhibitions on several continents as part of the marketing and networking. In 2015 the company attended the following exhibitions:

Management commentary

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

In 2015 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 currecy are secured to the extent possible.

As stated above the schedule delays and cancellation of program(s) has caused 2015 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.

Management commentary

Cashflow and capital resources

The negative result and the big investments in 2014 and 2015 has increased to need for further credit and the granted credits are big enough to accomplish the estimated activities for 2016 and coming years. Also agreements are made increasing credits. FSDS has basically agreed to also work with Industri Udvikling to increase the capital base.

Management has a running focus on cash flow to secure the continued growth.

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 2015.

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.

Management commentary

- Development of electronics and systems incl. Power supply solutions – over time to include the application of fuel cells.
- Development and supply of components for Space applications.

Several patents have been applied for as well as been issued in 2015.

The investments in 2015 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 the Canadian Army providing unmatched mobile reconnaissance.
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).

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.

Management commentary

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 elevate 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 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/armor 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.

SPACE-activities

In 2015 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 2015 a larger number of millions have been spent as IR&D funds.

Management commentary

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 2016.

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.

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

Accounting policies

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.

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.

Amortisation, depreciation 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.

Accounting policies

Income taxes

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).

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, sub-suppliers 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.

Accounting policies

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.

Other investment assets

On initial recognition, other investment assets that comprise listed securities are measured at cost consisting of the acquisition price of the securities plus any directly related acquisition costs.

After initial recognition, investment assets are measured at fair value, equal to the market price at the balance sheet date. Fair value adjustments for the financial year are recognised in the income statement.

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.

Accounting policies

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.

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.

Accounting policies

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.

Income statement for 2015

	<u>Notes</u>	<u>2015 DKK</u>	<u>2014 DKK'000</u>
Gross profit	2	19,900,925	14,002
Staff costs	3	(28,051,655)	(27,949)
Depreciation, amortisation and impairment losses	4	<u>(1,720,454)</u>	<u>(371)</u>
Operating profit/loss		(9,871,184)	(14,318)
Other financial income	5	1,237,084	793
Other financial expenses	6	<u>(2,472,872)</u>	<u>(1,011)</u>
Profit/loss from ordinary activities before tax		(11,106,972)	(14,536)
Tax on profit/loss from ordinary activities	7	<u>2,424,482</u>	<u>3,375</u>
Profit/loss for the year		<u><u>(8,682,490)</u></u>	<u><u>(11,161)</u></u>
Proposed distribution of profit/loss			
Retained earnings		<u>(8,682,490)</u>	<u>(11,161)</u>
		<u><u>(8,682,490)</u></u>	<u><u>(11,161)</u></u>

Balance sheet at 31.12.2015

	<u>Notes</u>	<u>2015 DKK</u>	<u>2014 DKK'000</u>
Completed development projects		9,840,498	0
Development projects in progress		<u>0</u>	<u>9,623</u>
Intangible assets	8	<u>9,840,498</u>	<u>9,623</u>
Other investment assets		489,968	490
Plant and machinery		359,964	695
Other fixtures and fittings, tools and equipment		<u>147,996</u>	<u>180</u>
Property, plant and equipment	9	<u>997,928</u>	<u>1,365</u>
Fixed assets		<u>10,838,426</u>	<u>10,988</u>
Raw materials and consumables		4,541,006	0
Manufactured goods and goods for resale		<u>542,877</u>	<u>17</u>
Inventories		<u>5,083,883</u>	<u>17</u>
Trade receivables		6,790,475	12,094
Contract work in progress	10	4,457,823	9,317
Receivables from group enterprises	11	28,714,315	20,684
Deferred tax assets		4,175,982	1,752
Other short-term receivables	12	1,379,174	1,190
Receivables from owners and management	13	99,287	0
Prepayments	14	<u>1,984,121</u>	<u>1,036</u>
Receivables		<u>47,601,177</u>	<u>46,073</u>
Cash		<u>53,360</u>	<u>1,914</u>
Current assets		<u>52,738,420</u>	<u>48,004</u>
Assets		<u>63,576,846</u>	<u>58,992</u>

Balance sheet at 31.12.2015

	<u>Notes</u>	<u>2015 DKK</u>	<u>2014 DKK'000</u>
Contributed capital	15	575,000	575
Retained earnings		<u>11,336,599</u>	<u>20,019</u>
Equity		<u>11,911,599</u>	<u>20,594</u>
Bank loans		38,713,506	28,673
Trade payables		3,041,182	4,927
Other payables	16	<u>9,910,559</u>	<u>4,798</u>
Current liabilities other than provisions		<u>51,665,247</u>	<u>38,398</u>
Liabilities other than provisions		<u>51,665,247</u>	<u>38,398</u>
Equity and liabilities		<u><u>63,576,846</u></u>	<u><u>58,992</u></u>
Going concern	1		
Mortgages and securities	18		
Related parties with controlling interest	19		
Ownership	20		

Statement of changes in equity for 2015

	Contributed capital DKK	Retained ear- nings DKK	Total DKK
Equity beginning of year	575,000	20,019,089	20,594,089
Profit/loss for the year	0	(8,682,490)	(8,682,490)
Equity end of year	<u>575,000</u>	<u>11,336,599</u>	<u>11,911,599</u>

Cash flow statement 2015

	<u>Notes</u>	<u>2015 DKK</u>	<u>2014 DKK'000</u>
Operating profit/loss		(9,871,184)	(14,163)
Amortisation, depreciation and impairment losses		1,720,454	372
Other provisions		0	(3,000)
Working capital changes	17	<u>(944,193)</u>	<u>22,875</u>
Cash flow from ordinary operating activities		(9,094,923)	6,084
Financial income received		1,237,084	793
Financial income paid		(2,472,872)	(1,011)
Income taxes refunded/(paid)		<u>0</u>	<u>(8,955)</u>
Cash flows from operating activities		<u>(10,330,711)</u>	<u>(3,089)</u>
Acquisition etc of intangible assets		<u>(1,571,141)</u>	<u>(3,951)</u>
Cash flows from investing activities		<u>(1,571,141)</u>	<u>(3,951)</u>
Dividend paid		<u>0</u>	<u>(5,000)</u>
Cash flows from financing activities		<u>0</u>	<u>(5,000)</u>
Increase/decrease in cash and cash equivalents		(11,901,852)	(12,040)
Cash and cash equivalents beginning of year		<u>(26,758,294)</u>	<u>(14,719)</u>
Cash and cash equivalents end of year		<u>(38,660,146)</u>	<u>(26,759)</u>
Cash and cash equivalents at year-end are composed of:			
Cash		53,360	1,914
Short-term debt to banks		<u>(38,713,506)</u>	<u>(28,673)</u>
Cash and cash equivalents end of year		<u>(38,660,146)</u>	<u>(26,759)</u>

Notes

1. Going concern

The Company is part of the Falck-Schmidt group, in which all entities are economically dependent of each other due joint and several liability. The Entity's and the Group's bank guarantees that the existing credit facilities will remain available for 2016 provided that Industri Udvikling grants a subordinate loan of DKK 13 million to Falck Schmidt Defence Systems A/S and DKK 7 million to Falck-Schmidt A/S in June 2016. The Group has a satisfactory volume of orders and budgets for a profit although the first four months in the Falck Schmidt Group see a loss. The Board of Directors considers the existing credit facilities to be sufficient for the Entity to continue as a going concern, and so the financial statements have been presented on a going concern basis. A considerable profit is expected for 2016 for the Entity.

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.

	2015	2014
	DKK	DKK'000
3. Staff costs		
Wages and salaries	22,806,865	22,316
Pension costs	3,395,410	3,725
Other social security costs	1,702,329	1,766
Other staff costs	147,051	142
	28,051,655	27,949
Average number of employees	55	51
	2015	2014
	DKK	DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	1,353,500	0
Depreciation of property, plant and equipment	366,954	371
	1,720,454	371
	2015	2014
	DKK	DKK'000
5. Other financial income		
Financial income arising from group enterprises	1,230,964	793
Interest income	6,120	0
	1,237,084	793

Notes

	2015	2014
	DKK	DKK'000
6. Other financial expenses		
Interest expenses	1,644,630	428
Exchange rate adjustments	828,242	583
	2,472,872	1,011
	2015	2014
	DKK	DKK'000
7. Tax on profit/loss from ordinary activities		
Change in deferred tax for the year	(2,626,605)	(3,558)
Effect of changed tax rates	202,123	183
	(2,424,482)	(3,375)
	Completed	Development
	development	projects in
	projects	progress
	DKK	DKK
8. Intangible assets		
Cost beginning of year	0	9,622,857
Transfer to and from other items	11,193,998	(11,193,998)
Additions	0	1,571,141
Cost end of year	11,193,998	0
Amortisation for the year	(1,353,500)	0
Amortisation and impairment losses end of year	(1,353,500)	0
Carrying amount end of year	9,840,498	0

Notes

	<u>Other invest- ment assets DKK</u>	<u>Plant and machinery DKK</u>	<u>Other fix- tures and fit- tings, tools and equipment DKK</u>
9. Property, plant and equipment			
Cost beginning of year	489,968	3,766,657	603,000
Cost end of year	489,968	3,766,657	603,000
Depreciation and impairment losses beginning of the year	0	(3,071,739)	(423,004)
Depreciation for the year	0	(334,954)	(32,000)
Depreciation and impairment losses end of the year	0	(3,406,693)	(455,004)
Carrying amount end of year	489,968	359,964	147,996

10. Contract work in progress

	<u>2015 DKK</u>	<u>2014 DKK'000</u>
Sales value	15.341.843	10.564
Amount invoiced	(10.884.020)	(1.246)
	4.457.823	9.318

11. Receivables from group enterprises

Of receivables from investments, DKK 20,017k 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 6,418k of the receivable relates to a loan to the sister subsidiary Falck Schmidt Corporation in the US, which is guaranteed by the parent. For both loans a long payback period must be expected.

	<u>2015 DKK</u>	<u>2014 DKK'000</u>
12. Other short-term receivables		
Other receivables	1,379,174	1,190
	1,379,174	1,190

Notes

13. Receivables from owners and management

The receivable at 31.12.2015 consists of a receivable from the Executive Board and carries interest at 10.2% for H1 2015 and 10.05% for H2 2015. The Company is liable for settlement of withholding taxes etc. on the payment.

14. Prepayments

Prepayments consists of prepaid expenses.

	<u>Number</u>	<u>Par value DKK</u>	<u>Nominal value DKK</u>
15. Contributed capital			
Ordinary shares	575	100	575,000
	<u>575</u>		<u>575,000</u>

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

	<u>2015 DKK</u>	<u>2014 DKK'000</u>
16. Other payables		
VAT and duties	3,773,631	0
Wages and salaries, personal income taxes, social security costs, etc payable	3,406,723	3,280
Other costs payable	2,730,205	1,518
	<u>9,910,559</u>	<u>4,798</u>

	<u>2015 DKK</u>	<u>2014 DKK'000</u>
17. Change in working capital		
Increase/decrease in inventories	(5,067,130)	0
Increase/decrease in receivables	(3,964,316)	26,088
Increase/decrease in trade payables etc	3,228,089	(4,491)
Other changes	4,859,164	1,278
	<u>(944,193)</u>	<u>22,875</u>

18. Mortgages and securities

Bank debt is secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 35 mio. nominal. (In May 2016: 45 mio. nominal).

Bank debt is secured by way of a lifeinsurance in PFA pension, of DKK 2 mio.

Notes

Solidary guarantee and assignment of group accounts has been given from the following companies:

Falck-Schmidt A/S

Falck Schmidt Defence Systems A/S

Falck Schmidt Ejendomsselskab ApS

Falck Schmidt ACE A/S

Guarantee for all payments.

Guarantee for all payments is secured by security deposit belonging to Falck-Schmidt A/S.

19. 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 2015:

Continuous Intercompany account including interest

Terms and conditions of employment

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 2015:

Continuous Intercompany account including interest

Administrative agreement

20. Ownership

The company has registered the following shareholders to more than 5% of the voting share capital or of the nominal value of the shares capital:

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

Odense