
ST Engineering Aerospace Solutions A/S

Amager Strandvej 392, DK-2770 Kastrup

Annual Report for 1 January - 31 December 2020

CVR No 28 50 10 48

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
29/07 21

Henrik Eilif Schlotfeldt
Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of ST Engineering Aerospace Solutions A/S for the financial year 1 January - 31 December 2020.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Company and of the results of the Company operations for 2020.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 29 July 2021

Executive Board

Henrik Eilif Schlotfeldt

Board of Directors

Lam Wai Meng Jeffrey
Chairman

Lit Yoke Suan

Goh Poh Loh

Kieran Gerard Butler

Independent Auditor's Report

To the Shareholder of ST Engineering Aerospace Solutions A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of ST Engineering Aerospace Solutions A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' 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 opinion.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Management's responsibilities for the Financial Statements

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

Independent Auditor's Report

ment, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

Independent Auditor's Report

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.

Hellerup, 29 July 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild
statsautoriseret revisor
mne33262

Lone Vindbjerg Larsen
statsautoriseret revisor
mne34548

Company Information

The Company

ST Engineering Aerospace Solutions A/S
Amager Strandvej 392
DK-2770 Kastrup

CVR No: 28 50 10 48

Financial period: 1 January - 31 December

Municipality of reg. office: Tårnby

Board of Directors

Lam Wai Meng Jeffrey, Chairman
Lit Yoke Suan
Goh Poh Loh
Kieran Gerard Butler

Executive Board

Henrik Eilif Schlotfeldt

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

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

	2020 TEUR	2019 TEUR	2018 TEUR	2017 TEUR	2016 TEUR
Key figures					
Profit/loss					
Operating profit/loss	-8.501	-12.931	-20.532	-17.274	-20.665
Profit/loss before financial income and expenses	-9.452	-12.930	-22.994	-18.811	-22.642
Net financials	-8.693	-3.011	-2.462	-1.537	-1.977
Net profit/loss for the year	-18.145	-15.941	-22.994	-18.811	-22.642
Balance sheet					
Balance sheet total	44.130	54.778	56.819	72.046	88.519
Equity	-88.634	-70.523	-54.715	-31.563	-13.066
Investment in property, plant and equipment	5.874	1.252	1.169	1.764	1.819
Number of employees	79	87	93	97	98
Ratios					
Return on assets	-21,4%	-23,6%	-40,5%	-26,1%	-25,6%
Solvency ratio	-200,8%	-128,7%	-96,3%	-43,8%	-14,8%
Return on equity	22,8%	25,5%	53,3%	84,3%	346,6%

The ratios have been prepared in accordance with the definitions described under accounting policies.

Management's Review

Principal activities

The Company's purpose is, directly or indirectly through shareholdings in other companies, to perform repair and overhaul of aircraft components and sale of assets and expendables for commercial aircrafts.

Profit/loss for the year

The Company's income statement for 2020 shows a loss of EUR 18,1 million (2019: loss of EUR 15,9 million). Equity in the Company's balance sheet at 31 December 2020 came in at EUR -88.6 million against EUR -71 million in 2019.

Development in activities and financial position

The company has in place a long term contract with a leading cargo airline carrier for another 3 years. The contract is expected to contribute considerably to the overall revenue. In 2020, the company has signed an agreement with a Major Airline on a MRO program for Boeing 737 and Airbus 330. The MRO program contract duration is 6 years with start-up on April 1, 2020. The contract was considered to become a significant contributor to the yearly revenue, although the impact on COVID has delayed some of the scheduled removals.

The strategy focusing on MRO activities has proved successful, and the company expects the development from MRO activities to be increasing in the coming years, where the company's other activities will be kept at the same level or be wound up.

Profitability improvement activities have primarily comprised focus on reducing man-hours spent, material consumption in the MRO business and process improvements.

Activities related to cost reduction activities have in the last years mainly been focusing on reducing inventory and dismantling the storage facilities in Copenhagen, which has been closed in 2020.

Investments

The Company had an equity investment in the wholly-owned subsidiary ST Engineering Aerospace Rotables Limited (ARL). The investment was measured at the recoverable amount, EUR 7.0 million at 31 December 2019.

While facing COVID-19, ARL's largest customer, Flybe, entered into administration on 5 March 2020. ARL consequently lost a significant income stream, could not recover. STEAS has written down the investments in Dec 2020.

Apart from investments in ordinary operations, no significant investments were made in 2020.

Management's Review

Capital resources

The Company is financed by intra-group credit facilities and the shareholder has confirmed, through a letter of support, that they will provide funds if necessary for a period of at least 2021.

In the opinion of the Board of Directors and the Managing Director, the Company's capital resources are adequate.

Uncertainty regarding recognition and measurement

In the financial statements, no deferred tax asset was recognised at 31 December 2020 (unchanged from previous year). The Company has realized operating losses for many years but is expected to be profitable going forward 2021.

Unusual events

In 2020, the aviation industry together with the rest of the world, is still struggling with the effects of COVID 19 pandemic and this has impacted the aero industry ever since its origin. It has impacted STEAS result for 2020, and we expect to still have consequences impacting the industry.

Branches

Headquarter and administration is in Copenhagen, Denmark.

Our main branch for STEA Solutions Aerostructures MRO capabilities is centralised in our Stockholm-based facility. Our team of aerostructures specialists have through dedication, innovation, and experience provided quality MRO services to the aviation community across the globe.

External environment

The external environment was impacted by the unprecedented pandemic, and among the toughest crises that many businesses had to manage, likewise for ST Engineering Aerospace Solutions. It upended the plans we had laid out for 2020, and put to test our Business Continuity plans.

The world today is not quite the same as before the pandemic. We are surrounded by more uncertainties, a wider drive for digital transformation enabled by technological advances, greater need for workforce competency to be better prepared for sustainable solutions.

Management's Review

Financial risks

The Company's activities are exposed to currency risk, interest rate risk and credit risk. Interest rate risk has been reduced as a consequence of the reduced external financing.

The Managing Director is responsible for outlining the objectives and underlying principles of financial risk management for the Company. On this basis, policies have been implemented with regard to risk identification and measurement, exposure of limits and hedging strategies, handling of financial risks and exposure measurement against limits set.

Currency risks

Currency risk is primarily related to exposures to DKK, SEK and USD in connection with the Company's operations. The Company manages this risk by entering into forward exchange contracts.

Outlook

The company is a significant player in the MRO market, the company has proven its strategy focus on the MRO market. It is our belief that our business platform is strong but we have no intention of stopping here. The Company will continue to focus on developing new product lines and on consolidating existing product lines.

In 2021, the Company will continue to invest in new repair capabilities that will become key products in the aviation industry for the next 15-20 years. On this basis, the Company plans to become a significant and competitive player in the industry going forward. Planned investments include the continuation of the capability development of new generation aircraft products.

The Company is at a stage where it has reduced its cost structure and developed its sales activities to a level where it is possible to take market shares from competitors and to secure a steady growth. The market for aircraft maintenance has been impacted by Corona virus and it is management's assessment that the whole aviation industry will still be affected with a reduced capacity until 2024.

Our overall expectations is a positive result of MEUR 2 for the year 2021.

Subsequent events

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

Income Statement 1 January - 31 December

	Note	2020 TEUR	2019 TEUR
Gross profit/loss		2.343	-4.140
Staff expenses	3	-6.545	-6.269
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-2.550	-2.521
Other operating expenses	5	-2.700	0
Profit/loss before financial income and expenses	5	-9.452	-12.930
Income from investments in subsidiaries	5	-7.000	0
Financial income	6	1	0
Financial expenses	7	-1.694	-3.011
Profit/loss before tax		-18.145	-15.941
Tax on profit/loss for the year		0	0
Net profit/loss for the year		-18.145	-15.941

Balance Sheet 31 December

Assets

	Note	2020 TEUR	2019 TEUR
Development projects		96	93
Intangible assets	8	96	93
Lease assets		5.836	2.702
Plant and machinery		2.935	3.000
Other fixtures and fittings, tools and equipment		30	36
Rotables		6.661	10.185
Leasehold improvements		1.994	2.095
Property, plant and equipment in progress		679	241
Property, plant and equipment	9	18.135	18.259
Investments in subsidiaries	10	0	7.000
Fixed asset investments		0	7.000
Fixed assets		18.231	25.352
Inventories	11	2.867	5.323
Trade receivables		1.844	4.148
Receivables from group enterprises		14.023	16.316
Other receivables		5.245	1.854
Receivables		21.112	22.318
Cash at bank and in hand		1.920	1.785
Currents assets		25.899	29.426
Assets		44.130	54.778

Balance Sheet 31 December

Liabilities and equity

	Note	2020 TEUR	2019 TEUR
Share capital	12	60.912	60.912
Reserve for hedging transactions		82	48
Retained earnings		-149.628	-131.483
Equity		-88.634	-70.523
Lease obligations		4.638	1.330
Payables to group enterprises		100.370	98.956
Other payables		176	0
Long-term debt	14	105.184	100.286
Lease obligations	14	1.253	1.361
Trade payables		1.942	1.654
Payables to group enterprises	14	19.605	17.091
Other payables	14	4.780	4.909
Short-term debt		27.580	25.015
Debt		132.764	125.301
Liabilities and equity		44.130	54.778
Going concern	1		
Subsequent events	2		
Distribution of profit	13		
Contingent assets	16		
Related parties	17		
Accounting Policies	18		

Statement of Changes in Equity

	Share capital	Reserve for hedging transactions	Retained earnings	Total
	TEUR	TEUR	TEUR	TEUR
Equity at 1 January	60.912	48	-131.483	-70.523
Transfers, reserves	0	34	0	34
Net profit/loss for the year	0	0	-18.145	-18.145
Equity at 31 December	60.912	82	-149.628	-88.634

Notes to the Financial Statements

1 Going concern

The Company's equity is negative with the amount of EUR 89 million at December 2020. The Company's assets amounts to EUR 40 million and the liabilities amounts to EUR 128 million. The shareholder has provided a support letter in which further funding is confirmed necessary if required to continue the Company's operations and meet its obligation for at least the entire financial year 2021.

2 Subsequent events

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

3 Staff expenses

	<u>2020</u> TEUR	<u>2019</u> TEUR
Wages and salaries	5.005	4.804
Pensions	458	503
Other social security expenses	795	803
Other staff expenses	<u>287</u>	<u>159</u>
	<u>6.545</u>	<u>6.269</u>
Average number of employees	<u>79</u>	<u>87</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Depreciation of property, plant and equipment	<u>2.550</u>	<u>2.521</u>
	<u>2.550</u>	<u>2.521</u>

Notes to the Financial Statements

	2020 <u>TEUR</u>	2019 <u>TEUR</u>
5 Special items		
Write-downs of current assets, that exceed normal write-downs	-2.700	0
Impairment of subsidiaries	-7.000	0
Covid-19 salary compensation received	455	0
Covid compensation is included in Gross Profit	<u>-9.245</u>	<u>0</u>
6 Financial income		
Other financial income	<u>1</u>	<u>0</u>
	<u>1</u>	<u>0</u>
7 Financial expenses		
Interest paid to group enterprises	1.481	2.299
Other financial expenses	57	90
Exchange adjustments, expenses	<u>156</u>	<u>622</u>
	<u>1.694</u>	<u>3.011</u>
8 Intangible assets		Development projects <u>TEUR</u>
Cost at 1 January		93
Additions for the year		<u>3</u>
Cost at 31 December		<u>96</u>
Transfers for the year		<u>0</u>
Revaluations at 31 December		<u>0</u>
Impairment losses and amortisation at 1 January		<u>0</u>
Impairment losses and amortisation at 31 December		<u>0</u>
Carrying amount at 31 December		<u>96</u>

Notes to the Financial Statements

9 Property, plant and equipment

	Lease assets	Plant and machinery	Other fixtures and fittings, tools and equipment	Rotables	Leasehold improvements	Property, plant and equipment in progress
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost at 1 January	3.933	5.828	320	19.885	2.503	241
Additions for the year	4.794	339	15	275	13	438
Disposals for the year	0	-1.646	0	-5.743	0	0
Cost at 31 December	8.727	4.521	335	14.417	2.516	679
Impairment losses and depreciation at 1 January	1.291	2.826	284	9.700	349	0
Depreciation for the year	1.339	266	21	750	173	0
Reversal of impairment and depreciation of sold assets	261	-1.506	0	-2.694	0	0
Impairment losses and depreciation at 31 December	2.891	1.586	305	7.756	522	0
Carrying amount at 31 December	5.836	2.935	30	6.661	1.994	679

10 Investments in subsidiaries

	2020 TEUR	2019 TEUR
Cost at 1 January	7.000	18.000
Cost at 31 December	7.000	18.000
Value adjustments at 1 January	0	0
Revaluations for the year, net	-7.000	-11.000
Value adjustments at 31 December	-7.000	-11.000
Carrying amount at 31 December	0	7.000

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Airline Rotables (UK Holdings) Limited	Stansted, UK	3.079.680	100%	-13.076.099	-7.877.669

Notes to the Financial Statements

	<u>2020</u> TEUR	<u>2019</u> TEUR
11 Inventories		
Raw materials and consumables	2.277	2.076
Work in progress	590	1.978
Finished goods and goods for resale	<u>0</u>	<u>1.269</u>
	<u>2.867</u>	<u>5.323</u>

12 Equity

The share capital consists of 4,563,966 shares of a nominal value of TEUR 100. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

13 Distribution of profit

Retained earnings	<u>-18.145</u>	<u>-15.941</u>
	<u>-18.145</u>	<u>-15.941</u>

14 Long-term debt

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

The debt falls due for payment as specified below:

Lease obligations

Between 1 and 5 years	<u>4.638</u>	<u>1.330</u>
Long-term part	4.638	1.330
Within 1 year	<u>1.253</u>	<u>1.361</u>
	<u>5.891</u>	<u>2.691</u>

Notes to the Financial Statements

14 Long-term debt (continued)

	2020	2019
	TEUR	TEUR
Payables to group enterprises		
Between 1 and 5 years	100.370	98.956
Long-term part	100.370	98.956
Other short-term debt to group enterprises	19.605	17.091
	119.975	116.047
Other payables		
Between 1 and 5 years	176	0
Long-term part	176	0
Other short-term payables	4.780	4.909
	4.956	4.909

15 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to: tEUR 82

16 Contingent assets

Contingent assets

The unrecognised deferred tax asset amounted to EUR 56 million at 31 December 2020 (31 December 2019: EUR 54 million). The deferred tax asset primarily relates to tax losses carried forward.

17 Related parties

	Basis
Controlling interest	
ST Engineering Aersospace Ltd.	Immediate parent

Notes to the Financial Statements

17 Related parties (continued)

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

ST Engineering Aerospace Ltd.

Consolidated Financial Statements

The Company is included in the Group annual report of the Parent Company of the largest and smallest group:

<u>Name</u>	<u>Place of registered office</u>
ST Engineering Ltd.	Company Registration Number 1981 05870H 540 Airport Road, Paya Lebar Singapore 539938

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of ST Engineering Aerospace Solutions A/S for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Taking into account the true and fair view of the annual report, certain reclassifications have been made to the balance sheet and notes. Comparative figures have been adjusted accordingly.

The Financial Statements for 2020 are presented in TEUR.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of ST Engineering Ltd., the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of , the Company has not prepared a cash flow statement.

Recognition and measurement

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

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

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

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

Lease assets

On initial recognition, lease assets are measured at the amount of the initial measurement of the lease liabilities, any lease payments made before the commencement date less any lease incentives received, and any initial direct costs incurred by the lessee.

Notes to the Financial Statements

18 Accounting Policies (continued)

Subsequently, lease assets are measured at cost less accumulated depreciation and impairment losses.

Lease assets are depreciated over the lower of the lease term and the useful life of the underlying assets.

Depreciation begins at the commencement date. Lease assets are written down to the lower of recoverable amount and carrying amount. Lease assets are adjusted upon remeasurement of the lease liabilities; see above in the lease liability section

Lease assets are recognised as fixed assets within the asset item in which the underlying assets of the lease would be recognised if the Company owned them.

Lease liabilities

On initial recognition, lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease.

On subsequent measurement, lease liabilities are adjusted for accrued interest and repayments made. Lease liabilities are remeasured and the corresponding lease assets are similarly adjusted when there is a change in the lease term or there is a lease modification that is not accounted for as a separate lease.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

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

Derivative financial instruments

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

Changes in the fair values of derivative financial instruments are recognised in the income statement

Notes to the Financial Statements

18 Accounting Policies (continued)

unless the derivative financial instrument is designated and qualify as hedge accounting.

Income Statement

Revenue

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

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

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

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

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

Other external expenses

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

Gross profit/loss

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

Notes to the Financial Statements

18 Accounting Policies (continued)

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

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

Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

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

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

Balance Sheet

Intangible assets

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Notes to the Financial Statements

18 Accounting Policies (continued)

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

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

Aircraft components	8-25 years
Leasehold improvements	3-20 years
Plant and machinery	2-15 years
Other fixtures and fittings, tools and equipment	2-3 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

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

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Inventories

Inventories are measured at the lower of cost based on weighted average prices and net realisable value.

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

Notes to the Financial Statements

18 Accounting Policies (continued)

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

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

Equity

Deferred tax assets and liabilities

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

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

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

Current tax receivables and liabilities

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

Notes to the Financial Statements

18 Accounting Policies (continued)

Financial debts

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

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

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

Financial Highlights

Explanation of financial ratios

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