

FläktGroup A/S

Nydamsvej 2
8362 Hørning

CVR no. 29 63 74 90

Annual report 2018

The annual report was presented and approved at the
Company's annual general meeting on

22 May 2019

chairman

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FläktGroup A/S
Annual report 2018
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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of FläktGroup A/S for the financial year 1 January – 31 December 2018.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Hørning, 22 May 2019
Executive Board:

Martin Olsen

Board of Directors:

Torsten Søndergaard
Chairman

Carl Fredrik Sverdrup

Martin Olsen

Independent auditor's report

To the shareholders of FläktGroup A/S

Opinion

We have audited the financial statements of FläktGroup A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

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

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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made 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 company 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.

Independent auditor's report

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

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

Aarhus, 22 May 2019

KPMG

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

Michael Stenskrog
State Authorised
Public Accountant
mne26819

Michael E. K. Rasmussen
State Authorised
Public Accountant
mne41364

FläktGroup A/S
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Management's review

Company details

FläktGroup A/S
Nydamsvej 2
8362 Hørning

Telephone: +45 70 22 26 22
Website: <https://www.flaktgroup.com/dk/>

CVR no.: 29 63 74 90
Financial year: 1 January – 31 December

Board of Directors

Torsten Søndergaard, Chairman
Carl Fredrik Sverdrup
Martin Olsen

Executive Board

Martin Olsen

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
DK-8210 Aarhus V
Danmark

Management's review

Operating review

Principal activities

The main activity of the Company is to engage in sale of heating, ventilation and air conditioning products ("HVAC products") and solutions.

Progress in financial activities and related actions

The Company's income statement for 2018 shows a net loss DKK 10,734 thousand, and equity at 31 December 2018 was negative at DKK 2,989 thousand.

The Company has lost more than 50% of its contributed capital and is thus subject to the provisions on loss of capital under the Danish Companies Act.

It is Management's expectation that the capital can be restored over operations going forward and new capital.

On 2 April 2019, the owners decided to contribute new capital to restore the contributed capital. The new contributed capital amounts to a nominal amount of DKK 1 and is paid by debt conversion of DKK 8,000 thousand.

The Company has received a letter of support from the Parent Company, Fläkt Woods Luxembourg Sàrl, covering 12 months from the balance sheet date.

The level of activity reached was lower than expected. For 2018, FläktGroup A/S experienced a high employee turnover as well as a change in Management. Furthermore, the market was affected by increased competition within certain areas.

In the light of these developments, results for the year were not satisfactory.

Material events after the reporting date

No events have occurred after the reporting date that may materially affect the financial position of the Company.

Outlook

FläktGroup A/S expects an increased level of activity despite challenging market conditions. Operating results for 2019 are expected to be up on 2018.

Financial statements 1 January – 31 December

Income statement

DKK	Note	2018	2017
Gross profit		5,513,479	8,458,753
Staff costs	2	-17,039,915	-16,118,842
Depreciation, amortisation and impairment losses		-607,107	-817,230
Operating profit/loss		-12,133,543	-8,477,319
Financial income	3	56,218	44,514
Financial expenses	4	-101,120	-226,814
Profit/loss before tax		-12,178,445	-8,659,619
Tax on profit/loss for the year		1,444,398	1,833,401
Profit/loss for the year		-10,734,047	-6,826,218
Proposed distribution of loss			
Retained earnings		-10,734,047	-6,826,218

Financial statements 1 January – 31 December

Balance sheet

DKK	Note	31/12 2018	31/12 2017
ASSETS			
Fixed assets			
Intangible assets			
Software		<u>117,601</u>	<u>50,833</u>
Plant and equipment			
Fixtures and fittings, tools and equipment		573,166	1,060,667
Leasehold improvements		<u>287,875</u>	<u>347,831</u>
		<u>861,041</u>	<u>1,408,498</u>
Investments			
Deposits		<u>176,222</u>	<u>163,184</u>
Total fixed assets		<u>1,154,864</u>	<u>1,622,515</u>
Current assets			
Inventories			
Finished goods and goods for resale		<u>2,146,774</u>	<u>3,063,162</u>
Receivables			
Trade receivables		12,393,584	14,686,740
Receivables from group entities		0	3,988,980
Other receivables		116,053	85,464
Deferred tax asset		3,000,000	1,555,602
Corporation tax		0	346,000
Prepayments		<u>196,435</u>	<u>178,811</u>
		<u>15,706,072</u>	<u>20,841,597</u>
Cash at bank and in hand		<u>10,000</u>	<u>345,342</u>
Total current assets		<u>17,862,846</u>	<u>24,250,101</u>
TOTAL ASSETS		<u>19,017,710</u>	<u>25,872,616</u>

Financial statements 1 January – 31 December

Balance sheet

DKK	Note	31/12 2018	31/12 2017
EQUITY AND LIABILITIES			
Equity			
Contributed capital	5	500,000	500,000
Retained earnings		-3,489,251	7,244,796
Total equity		<u>-2,989,251</u>	<u>7,744,796</u>
Provisions			
Other provisions		500,000	112,302
Total provisions		<u>500,000</u>	<u>112,302</u>
Liabilities other than provisions			
Current liabilities other than provisions			
Banks, current liabilities		693,926	37,420
Prepayments received from customers		2,316,805	459,910
Trade payables		2,972,214	3,764,828
Payables to group entities		10,128,821	10,223,572
Other payables		5,395,195	3,529,788
		<u>21,506,961</u>	<u>18,015,518</u>
Total liabilities other than provisions		<u>21,506,961</u>	<u>18,015,518</u>
TOTAL EQUITY AND LIABILITIES		<u><u>19,017,710</u></u>	<u><u>25,872,616</u></u>

Financial statements 1 January – 31 December

Statement of changes in equity

DKK	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	500,000	7,244,796	7,744,796
Transferred over the distribution of loss	0	-10,734,047	-10,734,047
Equity at 31 December 2018	500,000	-3,489,251	-2,989,251

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of FläktGroup A/S for 2018 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in of specific provisions for reporting class C.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Revenue

Income from the sale of goods is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received. The date of transfer of the most significant benefits and risks is determined using standard Incoterms ® 2010.

Cost of sales

Cost of sales comprises costs incurred to generate revenue for the year. This item also comprises direct costs for goods for resale and changes to inventory of goods for resale.

Other operating costs

Other operating costs comprise items secondary to the activities of the entity, including losses on the disposal of intangible assets and property, plant and equipment.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Gross Profit

Pursuant to Section 32 of the Danish Financial Statements Act, the Company has decided only to disclose gross profit.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees, excluding reimbursements from public authorities.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

Tax for the year comprises current corporation tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible assets

Software

Software are measured at cost, wages, salaries and amortisation directly and indirectly attributable to software activities, less accumulated amortisation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are 3 years.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Fixtures and fittings, tools and equipment	4-8 years
Leasehold improvements	10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Leases

On initial recognition, leases for fixed assets that transfer substantially all risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet at the lower of fair value and the net present value of future lease payments. When calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently treated as the Company's other fixed assets.

The capitalised lease obligation is recognised in the balance sheet as a liability at amortised cost, allowing the interest element of the lease payment to be recognised in the income statement over the term of the lease.

All other leases are operating leases. Payments relating to operating leases and other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed as contractual obligations and contingencies, etc.

Investments

Other receivables and deposits are recognised at amortised cost.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the weighted average method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments and deferred income

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Provisions

Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at value in use.

Provisions are recognised based on the Company's experience with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Financial statements 1 January – 31 December

Notes

DKK	<u>2018</u>	<u>2017</u>
2 Staff costs		
Wages and salaries	16,069,939	14,472,435
Pensions	2,112,436	2,319,513
Other social security costs	332,851	304,635
Other staff costs	<u>43,329</u>	<u>0</u>
	<u><u>18,558,555</u></u>	<u><u>17,096,583</u></u>
Staff costs are recognised in the financial statements as follows:		
Cost of sales	1,518,640	977,741
Staff costs	<u>17,039,915</u>	<u>16,118,842</u>
	<u><u>18,558,555</u></u>	<u><u>17,096,583</u></u>
Average number of full-time employees	<u>27</u>	<u>28</u>
3 Financial income		
Interest income from group entities	<u>56,218</u>	<u>44,514</u>
	<u><u>56,218</u></u>	<u><u>44,514</u></u>
4 Financial expenses		
Interest expense to group entities	58,148	872
Other financial costs	<u>42,972</u>	<u>225,942</u>
	<u><u>101,120</u></u>	<u><u>226,814</u></u>

5 Equity

The Company has lost more than 50% of its contributed capital and is thus subject to the provisions on loss of capital under the Danish Companies Act. It is Management's expectation that the capital can be restored over operations going forward and new capital.

On 2 April 2019, the owners decided to contribute new capital to restore contributed capital. The new contributed capital amounts to a nominal amount of DKK 1 and is paid by debt conversion of DKK 8,000 thousand.

The Company has received a letter of support from the Parent Company, Fläkt Woods Luxembourg Sàrl, covering 12 months from the balance sheet date.

6 Contractual obligations, contingencies, etc.

Contingent assets

The Company has a non-recognised tax asset of DKK 1,231 thousand.

Financial statements 1 January – 31 December

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Contingent liabilities

FläktGroup A/S is a party to a pending lawsuit. In Management's opinion, apart from the liabilities recognised in the balance sheet at 31 December 2018, the outcome of the lawsuit will not affect the Company's financial position.

7 Mortgages and collateral

Security for the engagement with Sydbank is a registered all moneys mortgage of DKK 4,000 thousand on claims with a book value of DKK 12,394 thousand at the balance sheet date.

8 Related party disclosures

FläktGroup A/S' related parties comprise the following:

Control

FläktGroup A/S is part of the consolidated financial statements of Fläkt Woods Luxembourg Sàrl, 1A, Rue Thomas Edison L- 1445 Strassen Luxembourg which is the smallest group in which the Company is included as a subsidiary.