
Alpha Offshore Service A/S

Farvervej 1, DK-7600 Struer

Annual Report for 1 January - 31 December 2018

CVR No 30 49 33 11

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
29/4 2019

Mikkel Jensby Lund
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 Alpha Offshore Service A/S for the financial year 1 January - 31 December 2018.

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 2018 of the Company and of the results of the Company operations and cash flows for 2018.

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

Struer, 29 April 2019

Executive Board

Mikkel Jensby Lund

Board of Directors

Stewart Andrew Allan Mitchell
Chairman

Steven Louis Bertone

Neil Austin Johnson

Eskil Bielefeldt

Mikkel Jensby Lund

Independent Auditor's Report

To the Shareholder of Alpha Offshore Service 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 2018 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Alpha Offshore Service A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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.

Holstebro, 29 April 2019

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Poul Spencer Poulsen
State Authorised Public Accountant
mne23324

Hans Jørgen Andersen
State Authorised Public Accountant
mne30211

Company Information

The Company

Alpha Offshore Service A/S
Farvervej 1
DK-7600 Struer
E-mail: mail@alphaoffshore.dk

CVR No: 30 49 33 11
Financial period: 1 January - 31 December
Municipality of reg. office: Struer

Board of Directors

Stewart Andrew Allan Mitchell, Chairman
Steven Louis Bertone
Neil Austin Johnson
Eskil Bielefeldt
Mikkel Jensby Lund

Executive Board

Mikkel Jensby Lund

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Hjaltvej 16
DK-7500 Holstebro

Bankers

Danske Bank
Business center Midtjylland
Dalgasgade 27, 1 sal
7400 Herning

Financial Highlights

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

	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK
Key figures					
Profit/loss					
Operating profit/loss	43.047	31.477	20.848	19.653	13.709
Profit/loss before financial income and expenses	43.035	31.429	20.816	19.653	13.709
Net financials	-272	-1.114	430	1.096	315
Net profit/loss for the year	33.339	23.594	16.555	15.865	10.580
Balance sheet					
Balance sheet total	98.281	67.198	53.939	41.177	24.652
Equity	74.916	56.200	32.606	26.051	20.186
Cash flows					
Cash flows from:					
- operating activities	36.905	20.385	3.876	0	0
- investing activities	-2.040	-1.286	-940	0	0
including investment in property, plant and equipment	-2.074	-1.286	-940	0	0
- financing activities	-8.795	-8.260	-8.736	0	0
Change in cash and cash equivalents for the year	26.070	10.839	-5.800	0	0
Number of employees	186	123	90	52	0
Ratios					
Return on assets	43,8%	46,8%	38,6%	47,7%	55,6%
Solvency ratio	76,2%	83,6%	60,4%	63,3%	81,9%
Return on equity	50,9%	53,1%	56,4%	68,6%	71,0%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Financial Statements of Alpha Offshore Service A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

Our key activities are the supply of Engineering Personnel and Inspection Services to the Renewable and Energy Sector, primarily the provision of Offshore and Onshore Wind Turbine Contract Personnel and Supervisors, wherever their experience and expertise are needed, anywhere in the World.

Development in the year

The income statement of the Company for 2018 shows a profit of TDKK 33,339, and at 31 December 2018 the balance sheet of the Company shows equity of TDKK 74,916.

The Company continued its expansion in the growing Renewables market, providing incremental Engineering and Inspection personnel across a range of Customers within the Renewables and Energy sector.

Special risks - Foreign exchange risks

Exchange rate fluctuations are external factors that may occur at any time. The foreign exchange risk is most significant in USD and GBP, while the EUR exchange rate risk is regarded as low due to Denmark's fixed-rate policy vis-à-vis the euro.

The cash flow and income statement would be negatively impacted if the local currency value in key sales regions depreciated against the Danish krone

Targets and expectations for the year ahead

The Board believe the Company is well positioned to capitalise on the growing onshore and offshore Renewables and Energy markets, and will continue to expand its service offerings to its existing customer base, whilst also seeking to expand into new geographies and customers within the same Renewables and Energy sector.

Unusual events

The financial position at 31 December 2018 of the Company and the results of the activities and cash flows of the Company for the financial year for 2018 have not been affected by any unusual events.

Management's Review

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	2018 TDKK	2017 TDKK
Gross profit/loss		142.146	102.048
Staff expenses	1	-97.886	-69.603
Profit/loss before depreciation		44.260	32.445
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-1.213	-968
Other operating expenses		-12	-48
Profit/loss before financial income and expenses		43.035	31.429
Financial income	3	214	164
Financial expenses	4	-486	-1.278
Profit/loss before tax		42.763	30.315
Tax on profit/loss for the year	5	-9.424	-6.721
Net profit/loss for the year		33.339	23.594

Balance Sheet 31 December

Assets

	Note	2018 TDKK	2017 TDKK
Other fixtures and fittings, tools and equipment		2.522	1.706
Property, plant and equipment	6	2.522	1.706
Fixed assets		2.522	1.706
Inventories		549	394
Trade receivables		48.249	48.321
Contract work in progress		6.825	3.311
Other receivables		2.202	1.079
Corporation tax		0	224
Prepayments	7	330	635
Receivables		57.606	53.570
Current asset investments	8	0	690
Cash at bank and in hand		37.604	10.838
Currents assets		95.759	65.492
Assets		98.281	67.198

Balance Sheet 31 December

Liabilities and equity

	Note	2018 TDKK	2017 TDKK
Share capital		1.000	1.000
Retained earnings		67.394	52.419
Proposed dividend for the year		6.522	2.781
Equity		74.916	56.200
Provision for deferred tax	10	483	365
Provisions		483	365
Payables to group enterprises		10.172	6.000
Long-term debt	11	10.172	6.000
Credit institutions		468	461
Trade payables		2.664	2.124
Payables to group enterprises	11	1.648	0
Corporation tax		1.108	0
Other payables		6.822	2.048
Short-term debt		12.710	4.633
Debt		22.882	10.633
Liabilities and equity		98.281	67.198
Distribution of profit	9		
Contingent assets, liabilities and other financial obligations	14		
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Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	1.000	52.419	2.781	56.200
Ordinary dividend paid	0	0	-2.781	-2.781
Extraordinary dividend paid	0	-11.842	0	-11.842
Net profit/loss for the year	0	26.817	6.522	33.339
Equity at 31 December	1.000	67.394	6.522	74.916

Cash Flow Statement 1 January - 31 December

	Note	2018 TDKK	2017 TDKK
Net profit/loss for the year		33.339	23.594
Adjustments	12	10.921	8.851
Change in working capital	13	899	-713
Cash flows from operating activities before financial income and expenses		45.159	31.732
Financial income		208	132
Financial expenses		-488	-1.248
Cash flows from ordinary activities		44.879	30.616
Corporation tax paid		-7.974	-10.231
Cash flows from operating activities		36.905	20.385
Purchase of property, plant and equipment		-2.074	-1.286
Sale of property, plant and equipment		34	0
Cash flows from investing activities		-2.040	-1.286
Repayment of loans from credit institutions		7	-6.121
Repayment of payables to group enterprises		5.821	-2.139
Dividend paid		-14.623	0
Cash flows from financing activities		-8.795	-8.260
Change in cash and cash equivalents		26.070	10.839
Cash and cash equivalents at 1 January		11.528	683
Exchange adjustment of current asset investments		6	6
Cash and cash equivalents at 31 December		37.604	11.528
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		37.604	10.838
Current asset investments		0	690
Cash and cash equivalents at 31 December		37.604	11.528

Notes to the Financial Statements

	<u>2018</u> TDKK	<u>2017</u> TDKK
1 Staff expenses		
Wages, salaries and contractors	95.518	66.204
Pensions	1.868	3.004
Other social security expenses	362	318
Other staff expenses	138	77
	<u>97.886</u>	<u>69.603</u>
Average number of employees and contractors	<u>186</u>	<u>123</u>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation of property, plant and equipment	1.213	968
	<u>1.213</u>	<u>968</u>
3 Financial income		
Other financial income	33	41
Exchange gains	181	123
	<u>214</u>	<u>164</u>
4 Financial expenses		
Interest paid to group enterprises	331	159
Other financial expenses	155	114
Exchange loss	0	1.005
	<u>486</u>	<u>1.278</u>

Notes to the Financial Statements

	2018 <u>TDKK</u>	2017 <u>TDKK</u>
5 Tax on profit/loss for the year		
Current tax for the year	9.306	6.559
Deferred tax for the year	<u>118</u>	<u>162</u>
	<u>9.424</u>	<u>6.721</u>

6 Property, plant and equipment

	<u>Other fixtures and fittings, tools and equipment</u> TDKK
Cost at 1 January	3.826
Additions for the year	2.074
Disposals for the year	<u>-1.037</u>
Cost at 31 December	<u>4.863</u>
Impairment losses and depreciation at 1 January	2.119
Depreciation for the year	1.213
Impairment and depreciation of sold assets for the year	<u>-991</u>
Impairment losses and depreciation at 31 December	<u>2.341</u>
Carrying amount at 31 December	<u>2.522</u>
Depreciated over	<u>3-5 years</u>

7 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and leases.

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
8 Current asset investments		
Shares	0	690
	0	690
9 Distribution of profit		
Extraordinary dividend paid	11.842	0
Proposed dividend for the year	6.522	2.781
Retained earnings	14.975	20.813
	33.339	23.594
10 Provision for deferred tax		
Provision for deferred tax at 1 January	365	203
Amounts recognised in the income statement for the year	118	162
Provision for deferred tax at 31 December	483	365
11 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:		
Payables to group enterprises		
After 5 years	10.172	6.000
Long-term part	10.172	6.000
Other short-term debt to group enterprises	1.648	0
	11.820	6.000

Notes to the Financial Statements

	<u>2018</u> TDKK	<u>2017</u> TDKK
12 Cash flow statement - adjustments		
Financial income	-214	-164
Financial expenses	486	1.278
Depreciation, amortisation and impairment losses, including losses and gains on sales	1.225	1.016
Tax on profit/loss for the year	9.424	6.721
	<u>10.921</u>	<u>8.851</u>
13 Cash flow statement - change in working capital		
Change in inventories	-155	-192
Change in receivables	-4.261	-1.730
Change in trade payables, etc	5.315	1.209
	<u>899</u>	<u>-713</u>

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
14 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with bankers: The company has signed a negative pledge clause.		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	424	623
Between 1 and 5 years	506	807
	930	1.430
Obligation for operating leases. Expected fair values at the expiry of contracts	96	96
Rental commitments, non-termination period of 3 months. (3 months).	84	84
Deposit obligation regarding rentals	0	84

Other contingent liabilities

The company are involved in various contractual relationships. As a part of our ordinary course of business, there are a limited number of disputes and potential claims. Management is unable to predict the ultimate outcome of these because of their inherent uncertainty. However, management believes that the most probable, ultimate resolution of these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

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

Notes to the Financial Statements

15 Related parties

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. There have been no transactions with the Supervisory Board, the Executive Board, senior officers, significant shareholders, group enterprises or other related parties, except for intercompany transactions and normal management remuneration.

Notes to the Financial Statements

16 Accounting Policies

The Annual Report of Alpha Offshore Service A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in TDKK.

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.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

16 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

16 Accounting Policies (continued)

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, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages.

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.

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.

Notes to the Financial Statements

16 Accounting Policies (continued)

Balance Sheet

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. All indirectly attributable borrowing expenses are recognised in the income statement.

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:

Other fixtures and fittings, tools and equipment	3-5	years
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Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,500 are expensed in the year of acquisition.

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.

Inventories

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

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

The cost of raw materials and consumables equals landed cost.

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 indi-

Notes to the Financial Statements

16 Accounting Policies (continued)

rect 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.

Contract work in progress

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

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

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

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

Prepayments

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

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Notes to the Financial Statements

16 Accounting Policies (continued)

Equity

Dividend

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

Deferred tax assets and liabilities

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

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

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

Current tax receivables and liabilities

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

Financial debts

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

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

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

Notes to the Financial Statements

16 Accounting Policies (continued)

Cash Flow Statement

The cash flow statement shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand" and "Current asset investments". "Current asset investments" consist of short-term securities with an insignificant risk of value changes that can readily be turned into cash.

The cash flow statement cannot be immediately derived from the published financial records.

Notes to the Financial Statements

16 Accounting Policies (continued)

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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$