
ALPHA OFFSHORE SERVICE A/S

Farvervej 1, DK-7600 Struer

Annual Report for 1 January - 31 December 2020

CVR No 30 49 33 11

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
8 /4 2021

Mikkel Jensby Lund
Chairman of the General
Meeting



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 January - 31 December	9
Balance Sheet 31 December	10
Statement of Changes in Equity	12
Cash Flow Statement 1 January - 31 December	13
Notes to the Financial Statements	14

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 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 and cash flows for 2020.

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

Struer, 8 April 2021

Executive Board

Mikkel Jensby Lund

Board of Directors

Stewart Andrew Allan Mitchell
Chairman

Charles Edward Topp

Neil Austin Johnson

Eskil Bielefeldt

Mikkel Jensby Lund

Independent Auditor's Report

To the Shareholders 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 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 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 2020, 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.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

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

In preparing the Financial Statements, Management is responsible for assessing the 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

Independent Auditor's Report

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.

Holstebro, 8 April 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Poul Spencer Poulsen
statsautoriseret revisor
mne23324

Hans Jørgen Andersen
statsautoriseret revisor
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
Charles Edward Topp
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:

	2020 TEUR	2019 TEUR	2018 TEUR	2017 TEUR	2016 TEUR
Key figures					
Profit/loss					
Operating profit/loss	5.731	5.024	5.765	4.216	2.792
Profit/loss before financial income and expenses	5.731	5.024	5.763	4.209	2.788
Net financials	-276	-93	-36	-149	58
Net profit/loss for the year	4.241	3.844	4.465	3.160	2.217
Balance sheet					
Balance sheet total	15.127	17.382	13.161	9.000	7.224
Equity	5.438	13.003	10.034	7.527	4.367
Cash flows					
Cash flows from:					
- operating activities	6.678	2.585	4.938	2.730	519
- investing activities	-254	-317	-273	-172	-126
including investment in property, plant and equipment	-254	-317	-273	-172	-126
- financing activities	-7.469	-801	-1.178	-1.106	-1.170
Change in cash and cash equivalents for the year	-1.045	1.467	3.487	1.452	-777
Number of employees and contractors	192	167	186	123	90
Ratios					
Return on assets	37,9%	28,9%	43,8%	46,8%	38,6%
Solvency ratio	35,9%	74,8%	76,2%	83,6%	60,5%
Return on equity	46,0%	33,4%	50,9%	53,1%	56,4%

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

The Financial Statements of ALPHA OFFSHORE SERVICE A/S for 2020 have 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 2020 shows a profit of TEUR 4,241, and at 31 December 2020 the balance sheet of the Company shows equity of TEUR 5,438.

The Company continued to operate 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 DKK exchange rate risk towards EUR 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 euro.

Targets and expectations for the year ahead

The Board believe the Company is well positioned to capitalize 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.

The Company's outlook for the future will potentially be affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak. It is, however, too early yet to give an opinion as to the extent of the implications on the Company's outlook.

Management's Review

Unusual events

The financial position at 31 December 2020 of the Company and the results of the activities and cash flows of the Company for the financial year for 2020 have not been affected by any unusual events.

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		19.046	17.214
Staff expenses	1	-13.056	-11.957
Profit/loss before depreciation		5.990	5.257
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-259	-233
Profit/loss before financial income and expenses		5.731	5.024
Financial expenses	3	-276	-93
Profit/loss before tax		5.455	4.931
Tax on profit/loss for the year	4	-1.214	-1.087
Net profit/loss for the year		4.241	3.844

Balance Sheet 31 December

Assets

	Note	2020 TEUR	2019 TEUR
Other fixtures and fittings, tools and equipment		418	423
Property, plant and equipment	5	418	423
Fixed assets		418	423
Inventories		43	79
Trade receivables		7.905	8.545
Contract work in progress		823	1.388
Receivables from group enterprises		252	0
Other receivables		187	384
Prepayments	6	41	60
Receivables		9.208	10.377
Cash at bank and in hand		5.458	6.503
Currents assets		14.709	16.959
Assets		15.127	17.382

Balance Sheet 31 December

Liabilities and equity

	Note	2020 TEUR	2019 TEUR
Share capital		134	134
Retained earnings		5.304	6.063
Proposed dividend for the year		0	6.806
Equity		5.438	13.003
Provision for deferred tax	8	79	88
Provisions		79	88
Payables to group enterprises		6.438	1.643
Long-term debt	9	6.438	1.643
Credit institutions		31	27
Trade payables		1.490	1.316
Payables to group enterprises	9	42	47
Payables to group enterprises relating to corporation tax		287	180
Other payables		1.322	1.066
Deferred income	10	0	12
Short-term debt		3.172	2.648
Debt		9.610	4.291
Liabilities and equity		15.127	17.382
Distribution of profit	7		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TEUR	TEUR	TEUR	TEUR
Equity at 1 January	134	6.063	6.806	13.003
Ordinary dividend paid	0	0	-6.806	-6.806
Extraordinary dividend paid	0	-5.000	0	-5.000
Net profit/loss for the year	0	4.241	0	4.241
Equity at 31 December	134	5.304	0	5.438

Cash Flow Statement 1 January - 31 December

	Note	2020 TEUR	2019 TEUR
Net profit/loss for the year		4.241	3.844
Adjustments	11	1.749	1.411
Change in working capital	12	1.870	-1.538
Cash flows from operating activities before financial income and expenses		7.860	3.717
Financial expenses		-73	-100
Cash flows from ordinary activities		7.787	3.617
Corporation tax paid		-1.109	-1.032
Cash flows from operating activities		6.678	2.585
Purchase of property, plant and equipment		-254	-317
Cash flows from investing activities		-254	-317
Repayment of loans from credit institutions		0	-35
Raising of loans from credit institutions		3	0
Raising of loans from group enterprises		4.334	107
Dividend paid		-11.806	-873
Cash flows from financing activities		-7.469	-801
Change in cash and cash equivalents		-1.045	1.467
Cash and cash equivalents at 1 January		6.503	5.036
Cash and cash equivalents at 31 December		5.458	6.503
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		5.458	6.503
Cash and cash equivalents at 31 December		5.458	6.503

Notes to the Financial Statements

	2020	2019
	TEUR	TEUR
1 Staff expenses		
Wages, salaries and contractors	12.643	11.556
Pensions	306	284
Other social security expenses	96	104
Other staff expenses	11	13
	13.056	11.957
Average number of employees and contractors	192	167
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	259	233
	259	233
3 Financial expenses		
Interest paid to group enterprises	209	69
Other financial expenses	18	2
Exchange adjustments, expenses	49	22
	276	93
4 Tax on profit/loss for the year		
Current tax for the year	1.223	1.064
Deferred tax for the year	-9	23
	1.214	1.087

Notes to the Financial Statements

5 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	TEUR
Cost at 1 January	968
Additions for the year	<u>254</u>
Cost at 31 December	<u>1.222</u>
Impairment losses and depreciation at 1 January	545
Depreciation for the year	<u>259</u>
Impairment losses and depreciation at 31 December	<u>804</u>
Carrying amount at 31 December	<u>418</u>
Depreciated over	<u>3-5 years</u>

6 Prepayments

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

	2020	2019
	TEUR	TEUR
7 Distribution of profit		
Extraordinary dividend paid	5.000	0
Proposed dividend for the year	0	6.806
Retained earnings	<u>-759</u>	<u>-2.962</u>
	<u>4.241</u>	<u>3.844</u>

8 Provision for deferred tax

Provision for deferred tax at 1 January	88	65
Amounts recognised in the income statement for the year	<u>-9</u>	<u>23</u>
Provision for deferred tax at 31 December	<u>79</u>	<u>88</u>

Notes to the Financial Statements

9 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:

	2020 TEUR	2019 TEUR
Payables to group enterprises		
After 5 years	6.438	1.643
Long-term part	6.438	1.643
Other short-term debt to group enterprises	42	47
	6.480	1.690

10 Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

11 Cash flow statement - adjustments

Financial expenses	276	93
Depreciation, amortisation and impairment losses, including losses and gains on sales	259	233
Tax on profit/loss for the year	1.214	1.087
Other adjustments	0	-2
	1.749	1.411

12 Cash flow statement - change in working capital

Change in inventories	36	-6
Change in receivables	1.421	-2.662
Change in trade payables, etc	413	1.130
	1.870	-1.538

Notes to the Financial Statements

	2020 TEUR	2019 TEUR
13 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	102	128
Between 1 and 5 years	191	277
	293	405
Obligation for operating leases. Expected fair values at the expiry of contracts	15	13
Rental commitments, non-termination period of 3 months. (3 months).	12	11

Other contingent liabilities

The company are involved in various contractual relationships as a part of ordinary course of business. 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 will not have a material adverse effect on our financial position, results of operations or cash flows.

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Sparrows Denmark ApS, which is the management company of the joint taxation purposes. Moreover, the Danish 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

14 Related parties

	<u>Basis</u>
Controlling interest	
Sparrows Offshore Services Ltd.	Ultimate owner
Sparrows Denmark ApS	Owner

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.

Consolidated Financial Statements

The company is included in the consolidated report for the parent company

<u>Name</u>	<u>Place of registered office</u>
Hawk Debtco Limited	Aberdeen, Scotland
Sparrows Denmark ApS	Denmark

The Group Annual Report of Hawk Debtco Limited may be obtained at the following address:

13 Queen's Road, Aberdeen, AB15 4YL

The Group Annual Report of Sparrows Denmark ApS may be obtained at the following address:

Farvervej 1, 7600 Struer

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of ALPHA OFFSHORE SERVICE 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 Financial Statements for 2020 are presented in TEUR.

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.

Translation policies

EUR is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of 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.

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

Notes to the Financial Statements

15 Accounting Policies (continued)

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

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of 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 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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 interests.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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 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.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

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 property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Notes to the Financial Statements

15 Accounting Policies (continued)

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".

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

Notes to the Financial Statements

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