Badelement A/S

Levysgade 14, st., DK-8700 Horsens

Annual Report for 1 January - 31 December 2019

CVR No 31 75 24 69

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 30/1 2020

Henning Jørgensen
Chairman of the General Meeting

Contents

Management's Statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Badelement A/S for the financial year 1 January - 31 December 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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

Horsens, 30 January 2020

Executive Board

Hans Henrik Nielsen CEO	Henning Jørgensen	Lise Jørgensen

Supervisory Board

Peter Schulz	Wolfgang Ziegler	Stefan Andreas Walter Happak

Independent Auditor’s Report

To the Shareholder of Badelement 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 2019 and of the results of the Company’s operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Badelement A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies (”the Financial Statements”).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the ”Auditor’s responsibilities for the audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management’s Review
Management is responsible for Management’s Review.

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

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

Moreover, it is our responsibility to consider whether Management’s Review provides the information required under the Danish Financials 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 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.

Trekantområdet, 30 January 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Ulrik Ræbild statsautoriseret revisor mne33262	Henrik Forthoft Lind statsautoriseret revsior mne34169

Company Information

The Company	Badelement A/S Levysgade 14, st. DK-8700 Horsens Telephone: + 45 6599 9897 CVR No: 31 75 24 69 Financial period: 1 January - 31 December Municipality of reg. office: Horsens
Supervisory Board	Peter Schulz Wolfgang Ziegler Stefan Andreas Walter Happak
Executive Board	Hans Henrik Nielsen Henning Jørgensen Lise Jørgensen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Herredsvej 32 DK-7100 Vejle
Lawyers	Ladegaard, Rasmussen & Partnere Løvenørnsgade 17 8700 Horsens
Bankers	Nykredit Bank A/S Domkirkepladsen 1 8100 Århus C

Financial Highlights

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

	2019	2018	2017	2016	2015
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	465.635	360.136	360.397	278.494	161.313
Gross profit/loss	45.595	35.189	57.946	48.552	24.162
Operating profit/loss	23.906	16.885	39.944	35.927	15.820
Profit/loss before financial income and expenses	23.964	16.980	39.944	35.927	15.820
Net financials	6.547	3.600	3.876	5.539	1.540
Net profit/loss for the year	25.658	17.270	35.127	33.704	17.360
Balance sheet					
Balance sheet total	159.188	176.004	141.514	106.307	111.085
Equity	69.659	60.972	63.122	46.634	34.397
Investment in property, plant and equipment	13	918	903	1.687	306
Number of employees	49	47	38	22	13
Ratios					
Gross margin	9,8%	9,8%	16,1%	17,4%	15,0%
Profit margin	5,1%	4,7%	11,1%	12,9%	9,8%
Return on assets	15,1%	9,6%	28,2%	33,8%	14,2%
Solvency ratio	43,8%	34,6%	44,6%	43,9%	31,0%
Return on equity	39,3%	27,8%	64,0%	83,2%	62,1%

For definitions, see under accounting policies.

In connection with correction of the comparative figures in 2017, the financial highlights 2015 have not been restated.

Management's Review

Key activities

Key activities consist of trading and advisory in connection to selling bathroom pods and related activities.

Development in the year

The income statement of the Company for 2019 shows a profit of TDKK 25,658, and at 31 December 2019 the balance sheet of the Company shows equity of TDKK 69,659.

Expectations for 2019 was an increase in revenue and profit in line with the realized profit for 2017. Revenues increase significantly supported by projects carry over from 2018. Profit increased due to higher volume.

During the year inventories was transfered to the production entity in Poland, the subsidiary Badelement Poland Sp. Z.o.o.

Special risks

The company's special risks relates to competing companies on the market.

The company is not exposed to changes in interest rates because of its operations, investments and financing. It is management's policy not to speculate in financial movements.

The company has substantial trading in Euro and mainly Polish Zloty that exposes to currency risks. The company hedges currency risks through forward exchange contracts covering the coming years.

Credit risks primarily relates to the customers' ability to pay. Advance payments from customers and payment plans are made to mitigate the risk.

Foreign operations

The company has one subsidiary in Poland, Badelement Poland Sp. Z.o.o., and one in Norway, Badelement Norge AS.

External environment

The company's management is aware of environmental effects from production and it is a continuous focus to reduce environmental effects from production.

Intellectual capital resources

It is important to management of the company to maintain focus on delivering high quality products; hence, production resources involve automated processes and a well-educated work force to maintain a high level of competencies.

Management's Review

Statement of corporate social responsibility

The company produces pre-fabricated showers for installation into primarily new buildings. Production takes place mainly in a Polish subsidiary using sub-components from a number of sub-suppliers. Other functions such as sales, design, procurement, deliveries to construction sites and service are performed in Denmark. The Company employs 49 people, and its primary market for pre-fabricated showers is the Danish building sector. The German private-equity fund Findos has owned 80% of the Company since 2017.

The Company operates in highly regulated markets where comparatively clear CSR guidelines are laid down by legislation and voluntary agreements. Thus, collective agreements between employees and employers regulate many aspects regarding labour. Environmental matters are moreover often regulated through municipal environmental approvals, and health and safety are protected under occupational health and safety legislation. Furthermore, national anti-discrimination rules exist to protect against discrimination. Finally, corruption is addressed by the Danish Criminal Code. The Company complies with these rules. In the Company's opinion, the risk of having a significant negative impact on the environment and climate, human rights, social matters and labour as well as being exposed to corruption and bribery is therefore very limited.

Based on its business model and the fact that the most important market to the Company is Denmark, the Company has not considered the risk of negatively affecting human rights prevalent to such an extent that policies are required. The Company is not of the opinion either that its potential exposure to corruption and bribery is prevalent to such an extent that a policy is required. Based on the extensive local and national environmental and climate regulations and the voluntary agreements in the labour market, the Company has assessed that laying down policies on environmental, climate, social matters and labour will not create any additional value, neither to the Company nor to society.

Statement on gender composition

The Board of Directors consists of a total of three members. It is the Company's target to have at least one woman on the Board of Directors by 2023.

So far, the Company has employed, and will continue to employ, the most suitable board members, executives and other employees irrespective of their gender, race or religion. This practice is supported by the Company's recruitment and staff policies.

The Company has a long-term strategy and longterm objectives. The members of the Board of Directors are recruited with this in mind to ensure a long-lasting attachment to the Group. Efforts will be made in future to maintain this stability and continuity on the Board of Directors.

No new members joined the Board of Directors in 2019, which means that the female representation on the Board of Directors remains 0% as in 2018.

As the number of employees of the Company does not exceed 50, the exemption rule of the Danish

Management's Review

Financial Statements Act is applied; thus, the gender representation at other management levels is not disclosed.

Expectations

Expectations for 2020 is an increase in revenues of 3-5%. Expectation on profit is an increase compared to 2019 to get back to the level of 2017.

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	2019	2018
		TDKK	TDKK
Revenue	1	**465.635**	**360.136**
Other operating income		58	202
Expenses for raw materials and consumables		-397.399	-307.017
Other external expenses		-22.699	-18.132
Gross profit/loss		**45.595**	**35.189**
Staff expenses	2	-20.409	-17.629
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-1.222	-473
Other operating expenses		0	-107
Profit/loss before financial income and expenses		**23.964**	**16.980**
Income from investments in subsidiaries		8.449	4.984
Financial income	3	388	361
Financial expenses		-2.290	-1.745
Profit/loss before tax		**30.511**	**20.580**
Tax on profit/loss for the year	4	-4.853	-3.310
Net profit/loss for the year		**25.658**	**17.270**

Balance Sheet 31 December

Assets

	Note	2019	2018
		TDKK	TDKK
Development projects in progress		3.408	2.512
Intangible assets	5	**3.408**	**2.512**
Other fixtures and fittings, tools and equipment		1.238	1.832
Property, plant and equipment	6	**1.238**	**1.832**
Investments in subsidiaries	7	34.398	24.946
Deposits		305	290
Fixed asset investments		**34.703**	**25.236**
Fixed assets		**39.349**	**29.580**
Raw materials and consumables		200	19.311
Prepayments for goods		0	1.290
Inventories		**200**	**20.601**
Trade receivables		75.088	76.880
Contract work in progress	8	13.366	22.961
Receivables from group enterprises		26.046	24.103
Other receivables	14	4.831	729
Prepayments	9	292	198
Receivables		**119.623**	**124.871**
Cash at bank and in hand		**16**	**952**
Currents assets		**119.839**	**146.424**
Assets		**159.188**	**176.004**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		TDKK	TDKK
Share capital		500	500
Reserve for net revaluation under the equity method		31.779	23.090
Reserve for development costs		2.658	1.959
Retained earnings		14.222	14.923
Proposed dividend for the year		20.500	20.500
Equity		**69.659**	**60.972**
Provision for deferred tax	11	6.281	4.846
Provisions relating to investments in group enterprises		686	0
Other provisions	12	7.253	3.722
Provisions		**14.220**	**8.568**
Other payables		642	0
Long-term debt	13	**642**	**0**
Credit institutions		20.327	20.919
Trade payables		14.934	20.073
Contract work in progress, liabilities	8	17.921	31.493
Payables to group enterprises		6.767	21.404
Corporation tax		9.175	6.204
Other payables	13	5.543	6.371
Short-term debt		**74.667**	**106.464**
Debt		**75.309**	**106.464**
Liabilities and equity		**159.188**	**176.004**
Distribution of profit	10		
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Statement of Changes in Equity

	Share capital	Reserve for net revalua-tion under the equity method	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	500	23.090	1.959	14.923	20.500	60.972
Exchange adjustments	0	277	0	0	0	277
Ordinary dividend paid	0	0	0	0	-20.500	-20.500
Revaluation for the year	0	8.412	0	0	0	8.412
Fair value adjustment of hedging instruments, end of year	0	0	0	4.168	0	4.168
Tax on adjustment of hedging instruments for the year	0	0	0	-916	0	-916
Development costs for the year	0	0	1.310	0	0	1.310
Depreciation, amortisation and impairment for the year	0	0	-611	0	0	-611
Net profit/loss for the year	0	0	0	-3.953	20.500	16.547
Equity at 31 December	**500**	**31.779**	**2.658**	**14.222**	**20.500**	**69.659**

Notes to the Financial Statements

		2019	2018
		TDKK	TDKK
1	**Revenue**		
	Geographical segments		
	Revenue, Denmark	460.755	360.136
	Revenue, exports	4.880	0
		465.635	**360.136**
2	**Staff expenses**		
	Wages and salaries	17.120	15.899
	Pensions	2.149	2.007
	Other social security expenses	554	506
	Other staff expenses	586	707
		20.409	**19.119**
	Transfer to production wages	0	-1.490
		20.409	**17.629**
	Including remuneration to the Executive Board	**4.067**	**3.471**
	Average number of employees	**49**	**47**

Remuneration to the excecutive board is included in management fee recognised as other external costs.

		2019	2018
3	**Financial income**		
	Interest received from group enterprises	388	361
		388	**361**

Notes to the Financial Statements

4 Tax on profit/loss for the year

	2019	2018
	TDKK	TDKK
Current tax for the year	4.336	5.903
Deferred tax for the year	1.433	-2.647
Adjustment of tax concerning previous years	0	-247
	5.769	**3.009**
which breaks down as follows:		
Tax on profit/loss for the year	4.853	3.310
Tax on changes in equity	916	-301
	5.769	**3.009**

5 Intangible assets

	Development projects in progress
	TDKK
Cost at 1 January	2.513
Additions for the year	1.508
Cost at 31 December	4.021
Amortisation for the year	613
Impairment losses and amortisation at 31 December	613
Carrying amount at 31 December	**3.408**

Development projects realte to the development and implementation of a new ERP system. The project is progressing according to plan through the use of the ressources allocated by management to the development.

Notes to the Financial Statements

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	TDKK
Cost at 1 January	3.588
Additions for the year	13
Cost at 31 December	3.601
Impairment losses and depreciation at 1 January	1.754
Depreciation for the year	609
Impairment losses and depreciation at 31 December	2.363
Carrying amount at 31 December	**1.238**

Notes to the Financial Statements

		2019	2018
		TDKK	TDKK
7	**Investments in subsidiaries**		
	Cost at 1 January	1.857	1.857
	Additions for the year	76	0
	Cost at 31 December	1.933	1.857
	Value adjustments at 1 January	23.089	18.460
	Exchange adjustment	257	-355
	Net profit/loss for the year	8.433	4.984
	Value adjustments at 31 December	31.779	23.089
	Equity investments with negative net asset value transferred to provisions	686	0
	Carrying amount at 31 December	**34.398**	**24.946**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Bad Element Polska Sp. z.o.o	Poland	380	100%	34.360	9.156
Bad Element Norge	Norway	38	100%	-686	-723

		2019	2018
		TDKK	TDKK
8	**Contract work in progress**		
	Selling price of work in progress	113.187	140.385
	Payments received on account	-117.742	-148.917
		-4.555	**-8.532**
	Recognised in the balance sheet as follows:		
	Contract work in progress recognised in assets	13.366	22.961
	Prepayments received recognised in debt	-17.921	-31.493
		-4.555	**-8.532**

Notes to the Financial Statements

9 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

10 Distribution of profit

	2019 TDKK	2018 TDKK
Extraordinary dividend paid	0	9.000
Proposed dividend for the year	20.500	20.500
Reserve for net revaluation under the equity method	8.412	4.984
Reserve for development costs	699	1.959
Retained earnings	-3.953	-19.173
	25.658	**17.270**

11 Provision for deferred tax

	2019 TDKK	2018 TDKK
Property, plant and equipment	-4	38
Contract work in progress	4.408	4.065
Software	750	553
Tax regarding hedges	1.063	146
Prepayments	64	44
	6.281	**4.846**

12 Other provisions

The Company provides warranty of 5 years on finished and delivered bathroom pods. Based on previous experience in respect of the level of repairs and returns, other provisions have been recognised for expected warranty claims.

	2019 TDKK	2018 TDKK
Other provisions	7.253	3.722
	7.253	**3.722**

Notes to the Financial Statements

13 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:

	2019	2018
	TDKK	TDKK
Other payables		
Between 1 and 5 years	642	0
Long-term part	642	0
Other short-term payables	5.543	6.371
	6.185	**6.371**

14 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts have been concluded to hedge future purchase of goods in PLN. At the balance sheet date, the fair value of derivative financial instruments amounts to TDKK 4.168.

Notes to the Financial Statements

15 Contingent assets, liabilities and other financial obligations

Contingent liabilities

The company has signed a rental contract of rooms on the company adress, Levysgade 14 st., 8700 Horsens. The rental contract contains following conditions:
The lease have a notice of 6 months. The rent represents in total TDKK 557 per year.

Following assets provide security for banks:
- Company charge of nominally TDKK 5.000 provide security in property, plant and equipment, inventories and trade recievables with a carrying value of TDKK 76.526.
- Shares in subsidiaries with a carrying value of TDKK 34.360

The company has provided a support letter for the subsidiary Bad Element Polska SP Z.o.o. This letter commits the company to support the subsidiary financially in the coming financial year if necessary.

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 Baldo Aquisition 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

16 Related parties

	Basis
Controlling interest	
Baldo Acquisition ApS	Parent

Consolidated Financial Statements

The company is included in the consolidated financial statements of the parent company.

Name	Place of registered office
Baldo Acquisition ApS	Horsens

The Group Annual Report of Baldo Acquisition ApS may be obtained at the following address:

Levysgade 14, st.
DK-8700 Horsens

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of Badelement A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Baldo Acquisition ApS, the Company has not prepared consolidated financial statements.

Cash flow statement

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

Recognition and measurement

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

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

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

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

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.

Notes to the Financial Statements

17 Accounting Policies (continued)

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

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

Derivative financial instruments

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

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

Notes to the Financial Statements

17 Accounting Policies (continued)

Income Statement

Revenue

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.

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

Expenses for raw materials and consumables

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

Other external expenses

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

Gross profit/loss

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

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and 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.

Notes to the Financial Statements

17 Accounting Policies (continued)

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

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

Tax on profit/loss for the year

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

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

Balance Sheet

Intangible assets

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasiblity, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, marked or use the project, are recognised as intangible assets provided that the cost can be measured reliable and that here is sufficient assurance that future earnings can cover production costs, selling costs, administrative expenses as well as development costs. Other development costs are recognised in the income statement.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding years.

Notes to the Financial Statements

17 Accounting Policies (continued)

Property, plant and equipment

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

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

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	5 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

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

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item“Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments consist of kapital in subsidiaries.

Notes to the Financial Statements

17 Accounting Policies (continued)

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.

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 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.

Equity

Dividend

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

Notes to the Financial Statements

17 Accounting Policies (continued)

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work.

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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