
Badelement A/S

Levysgade 14, st., DK-8700 Horsens

Annual Report for 1 January - 31 December 2020

CVR No 31 75 24 69

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
30/1 2021

Henning Jørgensen
Chairman of the General
Meeting



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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 2020.

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

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

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

Horsens, 30 January 2021

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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

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

Basis for opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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.

Trekantområdet, 30 January 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild
statsautoriseret revisor
mne33262

Henrik Forthoft Lind
statsautoriseret revisor
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:

	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK
Key figures					
Profit/loss					
Revenue	436.888	465.635	360.136	360.397	278.494
Gross profit/loss	40.655	45.594	35.189	57.946	48.552
Operating profit/loss	17.600	23.905	16.885	39.944	35.927
Profit/loss before financial income and expenses	17.600	23.963	16.980	39.944	35.927
Net financials	6.961	6.547	3.600	3.876	5.539
Net profit/loss for the year	21.030	25.657	17.270	35.127	33.704
Balance sheet					
Balance sheet total	157.252	159.188	176.004	141.514	106.307
Equity	63.248	69.658	60.972	63.122	46.634
Investment in property, plant and equipment	0	13	918	903	1.687
Number of employees	50	49	47	38	22
Ratios					
Gross margin	9,3%	9,8%	9,8%	16,1%	17,4%
Profit margin	4,0%	5,1%	4,7%	11,1%	12,9%
Return on assets	11,2%	15,1%	9,6%	28,2%	33,8%
Solvency ratio	40,2%	43,8%	34,6%	44,6%	43,9%
Return on equity	31,6%	39,3%	27,8%	64,0%	83,2%

For definitions, see under accounting policies.

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 2020 shows a profit of TDKK 21,030, and at 31 December 2020 the balance sheet of the Company shows equity of TDKK 63,248.

The company has managed to keep production stable despite the Covid -19 challenges.

2020 revenues and margins has decreased due to change in product mix and competition. Current levels are expected in the coming year.

Expectations for 2020 was an increase in revenue of 3-5 %, and an expectation of profit to be on level with 2017.

Revenue and profit did not meet the expectations due to organisational changes and covid-19.

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 EUR, NOK 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.

Management's Review

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.

Statement of corporate social responsibility

The company produces pre fabricated Bath rooms 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 50 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 labor market, the Company has assessed that laying down policies on environmental, climate, social matters and labor 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

Management's Review

future to maintain this stability and continuity on the Board of Directors.

No new members joined the Board of Directors in 2020, which means that the female representation on the Board of Directors remains 0% as in 2019.

As the number of employees of the Company does not exceed 50, the exemption rule of the Danish Financial Statements Act is applied; thus, the gender representation at other management levels is not disclosed.

Expectations

Expectations for 2021 is an increase in revenues of 3-5%. Expectation on profit is an increase compared to 2020, and earnings on the same level of 2020.

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 TDKK	2019 TDKK
Revenue	1	436.888	465.635
Other operating income		0	58
Expenses for raw materials and consumables		-374.237	-397.399
Other external expenses		-21.996	-22.700
Gross profit/loss		40.655	45.594
Staff expenses	2	-21.611	-20.409
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-1.444	-1.222
Profit/loss before financial income and expenses		17.600	23.963
Income from investments in subsidiaries		8.589	8.449
Financial income	3	359	388
Financial expenses		-1.987	-2.290
Profit/loss before tax		24.561	30.510
Tax on profit/loss for the year	4	-3.531	-4.853
Net profit/loss for the year		21.030	25.657

Balance Sheet 31 December

Assets

	Note	2020 TDKK	2019 TDKK
Development projects in progress		2.950	3.408
Intangible assets	5	2.950	3.408
Other fixtures and fittings, tools and equipment		724	1.238
Property, plant and equipment	6	724	1.238
Investments in subsidiaries	7	39.711	34.398
Deposits		304	305
Fixed asset investments		40.015	34.703
Fixed assets		43.689	39.349
Inventories		398	200
Trade receivables		73.947	75.088
Contract work in progress	8	27.722	13.366
Receivables from group enterprises		10.935	26.046
Other receivables	14	174	4.831
Prepayments	9	308	292
Receivables		113.086	119.623
Cash at bank and in hand		79	16
Currents assets		113.563	119.839
Assets		157.252	159.188

Balance Sheet 31 December

Liabilities and equity

	Note	2020 TDKK	2019 TDKK
Share capital		500	500
Reserve for net revaluation under the equity method		34.504	31.779
Reserve for development costs		2.301	2.658
Reserve for fair value adjustments		-4.352	0
Retained earnings		9.795	14.221
Proposed dividend for the year		20.500	20.500
Equity		63.248	69.658
Provision for deferred tax	11	6.456	6.281
Provisions relating to investments in group enterprises		0	686
Other provisions	12	6.141	7.253
Provisions		12.597	14.220
Other payables		1.824	642
Long-term debt	13	1.824	642
Credit institutions		23.035	20.327
Trade payables		8.064	14.934
Contract work in progress, liabilities	8	15.447	17.921
Payables to group enterprises		20.815	6.767
Corporation tax		2.097	9.175
Other payables	13	10.125	5.544
Short-term debt		79.583	74.668
Debt		81.407	75.310
Liabilities and equity		157.252	159.188
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	15		
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Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Reserve for fair value adjustments	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	500	31.779	2.658	0	14.221	20.500	69.658
Exchange adjustments	0	-2.033	0	0	0	0	-2.033
Ordinary dividend paid	0	0	0	0	0	-20.500	-20.500
Fair value adjustment of hedging instruments, beginning of year	0	0	0	-5.580	0	0	-5.580
Tax on adjustment of hedging instruments for the year	0	0	0	1.228	0	0	1.228
Development costs for the year	0	0	368	0	0	0	368
Depreciation, amortisation and impairment for the year	0	0	-725	0	0	0	-725
Net profit/loss for the year	0	4.758	0	0	-4.426	20.500	20.832
Equity at 31 December	500	34.504	2.301	-4.352	9.795	20.500	63.248

Notes to the Financial Statements

	2020 <u>TDKK</u>	2019 <u>TDKK</u>
1 Revenue		
Geographical segments		
Revenue, Denmark	415.599	460.755
Revenue, exports	<u>21.289</u>	<u>4.880</u>
	<u>436.888</u>	<u>465.635</u>
2 Staff expenses		
Wages and salaries	18.239	17.120
Pensions	2.345	2.149
Other social security expenses	529	554
Other staff expenses	<u>498</u>	<u>586</u>
	<u>21.611</u>	<u>20.409</u>
Including remuneration to the Executive Board	<u>2.980</u>	<u>4.067</u>
Average number of employees	<u>50</u>	<u>49</u>
Remuneration to the executive board is included in management fee recognised as other external costs.		
3 Financial income		
Interest received from group enterprises	<u>359</u>	<u>388</u>
	<u>359</u>	<u>388</u>

Notes to the Financial Statements

	2020 <u>TDKK</u>	2019 <u>TDKK</u>
4 Tax on profit/loss for the year		
Current tax for the year	2.129	5.252
Deferred tax for the year	1.402	517
	<u>3.531</u>	<u>5.769</u>
which breaks down as follows:		
Tax on profit/loss for the year	3.531	4.853
Tax on changes in equity	0	916
	<u>3.531</u>	<u>5.769</u>

5 Intangible assets

	<u>Development projects in progress</u> TDKK
Cost at 1 January	4.021
Additions for the year	472
Cost at 31 December	<u>4.493</u>
Impairment losses and amortisation at 1 January	613
Amortisation for the year	930
Impairment losses and amortisation at 31 December	<u>1.543</u>
Carrying amount at 31 December	<u>2.950</u>

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

Notes to the Financial Statements

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment <u>TDKK</u>
Cost at 1 January	<u>3.601</u>
Cost at 31 December	<u>3.601</u>
Impairment losses and depreciation at 1 January	2.363
Depreciation for the year	<u>514</u>
Impairment losses and depreciation at 31 December	<u>2.877</u>
Carrying amount at 31 December	<u>724</u>

Notes to the Financial Statements

	2020 TDKK	2019 TDKK
7 Investments in subsidiaries		
Cost at 1 January	-638	1.857
Additions for the year	0	76
Cost at 31 December	-638	1.933
Value adjustments at 1 January	31.779	23.089
Exchange adjustment	-1.962	257
Net profit/loss for the year	10.532	8.433
Value adjustments at 31 December	40.349	31.779
Equity investments with negative net asset value transferred to provisions	0	686
Carrying amount at 31 December	39.711	34.398

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%	39.570	7.820
Bad Element Norge	Norway	38	100%	140	769

	2020 TDKK	2019 TDKK
8 Contract work in progress		
Selling price of work in progress	208.531	113.187
Payments received on account	-196.256	-117.742
	12.275	-4.555
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	27.722	13.366
Prepayments received recognised in debt	-15.447	-17.921
	12.275	-4.555

Notes to the Financial Statements

9 Prepayments

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

	2020 TDKK	2019 TDKK
10 Distribution of profit		
Proposed dividend for the year	20.500	20.500
Reserve for net revaluation under the equity method	5.313	8.412
Reserve for development costs	-357	699
Retained earnings	-4.426	-3.954
	21.030	25.657

11 Provision for deferred tax

Provision for deferred tax at 1 January	6.281	4.846
Amounts recognised in the income statement for the year	1.402	517
Amounts recognised in equity for the year	-1.227	918
Provision for deferred tax at 31 December	6.456	6.281
Property, plant and equipment	-48	-4
Contract work in progress	5.953	4.408
Software	648	750
Tax regarding hedges	-164	1.063
Prepayments	67	64
	6.456	6.281

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.

Other provisions	6.141	7.253
	6.141	7.253

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:

	<u>2020</u> TDKK	<u>2019</u> TDKK
Other payables		
Between 1 and 5 years	1.824	642
Long-term part	1.824	642
Other short-term payables	10.125	5.544
	<u>11.949</u>	<u>6.186</u>

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 -749.

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 address, 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 580 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 receivables with a carrying value of TDKK 75.069.
- Shares in subsidiaries with a carrying value of TDKK 39.711

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 un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

16 Related parties

	<u>Basis</u>
Controlling interest	
Baldo Acquisition ApS	Parent

Consolidated Financial Statements

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

<u>Name</u>	<u>Place of registered office</u>
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 2020 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 2020 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 feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there 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 5 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
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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	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$