

**Bach Composite Industry
A/S**
Erhvervsvej 9
7760 Hurup Thy
Central Business Registration No
32091180

Annual report 2016

The Annual General Meeting adopted the annual report on 29.03.2017

Chairman of the General Meeting



Name: Søren Friis Knudsen

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Entity details

Entity

Bach Composite Industry A/S
Erhvervsvej 9
7760 Hurup Thy

Central Business Registration No: 32091180
Registered in: Thisted
Financial year: 01.01.2016 - 31.12.2016

Website: www.bach-ci.com
E-mail: info@bach-ci.com

Board of Directors

Søren Friis Knudsen, Chairman
Jesper Wadum Nielsen, Vice-Chairman
Jacob Østergaard Bergenholtz
Peter Thostrup
Jan Lythcke-Jørgensen
Peter Lynghøj Johansen
Per Isachsen, Employee Representative
Erik Mortensen, Employee Representative

Executive Board

Geert Winther Skovsgaard, Chief Executive Officer
Esben Refsgaard Trier Lund, Chief Financial Officer
Niels Bach, Chief Operations Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Bach Composite Industry A/S for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Hurup, 29.03.2017


Executive Board



Geert Winther Skovsgaard
Chief Executive Officer




Esben Refsgaard Trier Lund
Chief Financial Officer




Niels Bach
Chief Operations Officer

Board of Directors



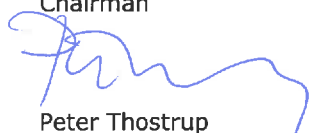
Søren Friis Knudsen
Chairman



Jesper Wadum Nielsen
Vice-Chairman



Jacob Østergaard Bergenholtz




Peter Thostrup




Jan Lythcke-Jørgensen



Peter Lynghøj Johansen



Per Isachsen
Employee Representative



Erik Mortensen
Employee Representative

Independent auditor's report

To the shareholders of Bach Composite Industry A/S

Opinion

We have audited the financial statements of Bach Composite Industry A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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.

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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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.

Independent auditor's report

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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

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

Aarhus, 29.03.2017

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jacob Nørmark
State Authorised Public Accountant

Management commentary

	2016	2015	2014	2013	2012
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Gross profit	21,300	21,102	20,059	15,898	28,565
Operating profit/loss	(11,838)	322	5,514	2,933	15,343
Net financials	(511)	424	(839)	(2,461)	(4,446)
Profit/loss for the year	(9,687)	610	3,607	26	8,173
Total assets	117,925	105,608	123,290	106,442	84,631
Equity	29,137	38,824	7,126	3,519	3,493
Employees in average	99	117	64	33	39
Ratios					
Return on equity (%)	0.0	2.7	67.8	0.7	0.0
Equity ratio (%)	24.7	36.8	5.8	3.3	4.1

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

As in prior years, the Company's primary activity is to develop and manufacture components from composites. Products are sold primarily as OEM deliverables to strategical customer segments in the wind energy sector.

Development in activities and finances

The underlying trend in the market for renewable energy sources is strong, which was supported by signing of COP 20 in Paris in late 2015 and the long term forecast for wind energy is positive. Furthermore, the cost of energy from renewable energy sources is continuously becoming more competitive compared to fossil fuels and in the past years cost per kWh for wind energy projects have decreased significantly.

In terms of overall installations, the market for wind energy measured as annual grid connected capacity decreased about by 13% compared to 2015 which was the strongest year ever for wind energy installations. This was primarily due to contraction in the Chinese market.

In 2016 the Company has completed a number of new customer projects and this along with a satisfactorily order entry secured an acceptable overall activity level.

Increased integration between supplier's and customer's technology departments, the platform owners, and the shared teams created a number of cost optimized solutions with a high degree of intelligent logistic advantages, build into the products.

Early supplier involvement in designing future wind turbine platforms plays an important role for the preferred suppliers of this industry going forward, along with the design for manufacturing approach in early stages of the lifecycle of the products.

The Company is continuously focusing on optimizing and aligning production capacity and global footprint as well as implementing new production technology and improving productivity in all factories. During the year a production line was closed down in Hurup, Denmark. This had a significant impact on earnings for the year due to one-off extraordinary costs, and the Company is now well positioned to service customer demand from the main production facilities in Lithuania, China and Spain.

Performance for the year

The financial statements for the year show a loss before tax of DKK 12.3m. This is primarily due to a provision of DKK 13.8m relating to future lease commitments on production facilities in Denmark, where production was ceased during 2016. The financial results of the company are therefore considered acceptable.

Currency risks

The Company's overall currency exposure is primarily to USD. No systematic hedging transactions are made in this respect.

Management commentary

Interest-rate risks

It is estimated that fluctuations in interest rates do not pose a significant risk to the Company's earnings. Therefore, no hedging transactions have been made in this respect.

Environmental performance

The Company continues to work actively with quality and environmental management. Quality management certification under ISO 9001, environmental management certification under ISO 14001 and occupational, health and safety management certification under OHSAS 18001 are maintained in one management system. These certifications form part of the Group's overall strategy for quality, environmental and occupational, health and safety management.

Intellectual capital resources

The Company has solid and up-to-date knowledge about composites and ways of using them.

Research and development activities

In 2016, the Company capitalized DKK 3.4m relevant to a number of development projects.

Outlook

Strong underlying trends towards wind as one of the most cost competitive renewable energy source are considered very positive. The wind energy industry has now matured to a point where it is a recognizable share of the world's energy supply with a share that is expected to increase further as the world's energy demand grows.

At the same time the wind energy industry is expected to deliver even more cost efficient and innovative energy solution to decrease LCOE (Levelized Cost of Energy) and the major OEM's of the Industry is looking to create scale to support the race for the lowest cost. In return they are seeking long term partners to match their own league and deliver innovative platform based solutions worldwide. It is expected that the development seen in recent years in respect to the decrease in prices for installations will continue over the next years driving further innovation to optimize cost in the entire supply chain. The global market in terms of installed GW is expected to grow over the next years.

Emerging markets will during the coming years become increasingly important and local requirements may have to be met to support the political drivers. Wind is a cost efficient and fast way to add capacity to the grid in a large number of markets, making wind energy an attractive option.

The Company is with its global production footprint and core competencies within development well positioned to participate in the next stage of evolution within the wind energy market where technology continues to develop and improve, and customer demand for smarter, better, and cheaper solutions keep the entire supply chain on its toes. New technology means more development in all parts of the world.

Management commentary

Based on above the Company works diligently to serve the next generation of OEM's, which is becoming larger as a consequence of the announced mergers in the industry.

On January 30, 2017, BWB Partners, which is the ultimate majority shareholder in the Company, signed a business combination agreement with Verdane Capital Advisors AS whereby Verdane acquires the majority of the shares in BC Group Holding A/S. BC Group Holding A/S indirectly owns 100% of the shares in Bach Composite Industry A/S. Closing is pending approval from the Danish Competition and Consumer Authority.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Income statement for 2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
Gross profit	1	21,300,483	21,102,427
Distribution costs	1	(6,459,077)	(4,890,585)
Administrative costs	1	<u>(26,679,017)</u>	<u>(15,889,782)</u>
Operating profit/loss		(11,837,611)	322,060
Other financial income	2	1,593,173	3,477,749
Other financial expenses		<u>(2,104,039)</u>	<u>(3,054,093)</u>
Profit/loss before tax		(12,348,477)	745,716
Tax on profit/loss for the year	3	<u>2,661,200</u>	<u>(135,983)</u>
Profit/loss for the year	4	<u>(9,687,277)</u>	<u>609,733</u>

Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
Completed development projects		4,208,933	404,777
Development projects in progress		<u>1,482,626</u>	<u>3,213,093</u>
Intangible assets	5	<u>5,691,559</u>	<u>3,617,870</u>
Plant and machinery		1,586,181	2,173,537
Other fixtures and fittings, tools and equipment		267,324	412,867
Leasehold improvements		<u>808,515</u>	<u>1,083,767</u>
Property, plant and equipment	6	<u>2,662,020</u>	<u>3,670,171</u>
Fixed assets		<u>8,353,579</u>	<u>7,288,041</u>
Raw materials and consumables		2,791,360	5,726,244
Work in progress		161,551	3,052,219
Manufactured goods and goods for resale		<u>15,623,431</u>	<u>8,324,233</u>
Inventories		<u>18,576,342</u>	<u>17,102,696</u>
Trade receivables		17,908,299	17,676,829
Receivables from group enterprises		63,316,560	58,010,995
Deferred tax	7	2,247,000	0
Other receivables		1,476,556	1,260,822
Income tax receivable		144,871	869,224
Prepayments	8	<u>544,477</u>	<u>61,739</u>
Receivables		<u>85,637,763</u>	<u>77,879,609</u>
Cash		<u>5,357,027</u>	<u>3,337,339</u>
Current assets		<u>109,571,132</u>	<u>98,319,644</u>
Assets		<u>117,924,711</u>	<u>105,607,685</u>

Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK</u>	<u>2015 DKK</u>
Contributed capital	9	2,000,000	2,000,000
Reserve for development expenditure		2,491,203	0
Retained earnings		<u>24,645,775</u>	<u>36,824,255</u>
Equity		<u>29,136,978</u>	<u>38,824,255</u>
Deferred tax	7	0	414,200
Other provisions	10	<u>13,816,296</u>	<u>0</u>
Provisions		<u>13,816,296</u>	<u>414,200</u>
Finance lease liabilities		<u>200,701</u>	<u>354,488</u>
Non-current liabilities other than provisions		<u>200,701</u>	<u>354,488</u>
Current portion of long-term liabilities other than provisions		170,831	380,565
Bank loans		16,809,950	3,497,115
Trade payables		4,514,193	16,811,677
Payables to group enterprises		47,441,152	37,429,681
Other payables		<u>5,834,610</u>	<u>7,895,704</u>
Current liabilities other than provisions		<u>74,770,736</u>	<u>66,014,742</u>
Liabilities other than provisions		<u>74,971,437</u>	<u>66,369,230</u>
Equity and liabilities		<u>117,924,711</u>	<u>105,607,685</u>
Unrecognised rental and lease commitments	12		
Contingent liabilities	13		
Mortgages and securities	14		
Group relations	15		

Statement of changes in equity for 2016

	Contributed capital DKK	Reserve for development expenditure DKK	Retained earnings DKK	Total DKK
Equity beginning of year	2,000,000	0	36,824,255	38,824,255
Profit/loss for the year	0	2,491,203	(12,178,480)	(9,687,277)
Equity end of year	2,000,000	2,491,203	24,645,775	29,136,978

Cash flow statement 2016

	<u>Notes</u>	<u>2016</u> <u>DKK</u>	<u>2015</u> <u>DKK</u>
Operating profit/loss		(11,837,611)	322,060
Amortisation, depreciation and impairment losses		3,203,029	1,704,492
Other provisions		13,816,296	(1,125,000)
Working capital changes	11	<u>(12,056,257)</u>	<u>48,796,402</u>
Cash flow from ordinary operating activities		(6,874,543)	49,697,954
Financial income received		1,593,173	3,477,749
Financial income paid		(2,104,039)	(3,054,093)
Income taxes refunded/(paid)		<u>724,353</u>	<u>0</u>
Cash flows from operating activities		(6,661,056)	50,121,610
Acquisition etc of intangible assets		(3,408,417)	(3,698,825)
Acquisition etc of property, plant and equipment		(982,150)	(1,305,706)
Sale of property, plant and equipment		<u>122,000</u>	<u>170,000</u>
Cash flows from investing activities		(4,268,567)	(4,834,531)
Instalments on loans etc		0	(24,588,445)
Reduction of lease commitments		(363,524)	0
Other cash flows from financing activities		<u>0</u>	<u>31,088,373</u>
Cash flows from financing activities		(363,524)	6,499,928
Increase/decrease in cash and cash equivalents		(11,293,147)	51,787,007
Cash and cash equivalents beginning of year		<u>(159,776)</u>	<u>(51,946,783)</u>
Cash and cash equivalents end of year		(11,452,923)	(159,776)
Cash and cash equivalents at year-end are composed of:			
Cash		5,357,027	3,337,339
Short-term debt to banks		<u>(16,809,950)</u>	<u>(3,497,115)</u>
Cash and cash equivalents end of year		(11,452,923)	(159,776)

Notes

	2016	2015
	DKK	DKK
1. Staff costs		
Wages and salaries	41,601,197	44,498,628
Pension costs	5,061,222	5,666,267
Other social security costs	968,091	819,036
Other staff costs	436,590	343,886
Staff costs classified as assets	(3,408,417)	(3,698,825)
	44,658,683	47,628,992
Average number of employees	99	117
	Remunera-	Remunera-
	tion of	tion of
	manage-	manage-
	ment	ment
	2016	2015
	DKK	DKK
Executive Board	4,466,938	1,985,000
Board of Directors	520,000	238,000
	4,986,938	2,223,000
	2016	2015
	DKK	DKK
2. Other financial income		
Financial income arising from group enterprises	1,593,173	2,076,976
Other financial income	0	1,400,773
	1,593,173	3,477,749
	2016	2015
	DKK	DKK
3. Tax on profit/loss for the year		
Tax on current year taxable income	0	(869,224)
Change in deferred tax for the year	(2,661,200)	1,005,207
	(2,661,200)	135,983

Notes

	2016	2015
	DKK	DKK
4. Proposed distribution of profit/loss		
Transferred to other statutory reserves	2,491,203	0
Retained earnings	<u>(12,178,480)</u>	<u>609,733</u>
	<u>(9,687,277)</u>	<u>609,733</u>
	Completed	Develop-
	develop-	ment
	ment	projects in
	projects	progress
	DKK	DKK
5. Intangible assets		
Cost beginning of year	485,732	3,213,093
Transfers	5,138,884	(5,138,884)
Additions	<u>0</u>	<u>3,408,417</u>
Cost end of year	<u>5,624,616</u>	<u>1,482,626</u>
Amortisation and impairment losses beginning of year	(80,955)	0
Amortisation for the year	<u>(1,334,728)</u>	<u>0</u>
Amortisation and impairment losses end of year	<u>(1,415,683)</u>	<u>0</u>
Carrying amount end of year	<u>4,208,933</u>	<u>1,482,626</u>

Development projects in progress

Development projects in progress and completed development projects consist of development of new products as for example nacelle covers or spinners or new production methods. Completed development projects are depreciated over 3 years and management has no indication that the carrying amounts of ongoing or completed projects should be written down.

Notes

	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK	Leasehold improve- ments DKK
6. Property, plant and equipment			
Cost beginning of year	8,993,493	3,364,738	1,949,384
Additions	809,693	148,839	23,618
Disposals	(2,117,703)	(1,152,439)	0
Cost end of year	7,685,483	2,361,138	1,973,002
Depreciation and impairment losses beginning of the year	(6,819,956)	(2,951,871)	(865,617)
Depreciation for the year	(1,298,899)	(264,355)	(298,870)
Reversal regarding disposals	2,019,553	1,122,412	0
Depreciation and impairment losses end of the year	(6,099,302)	(2,093,814)	(1,164,487)
Carrying amount end of year	1,586,181	267,324	808,515
Recognised assets not owned by entity	200,000	-	-

Notes

	2016	2015
	DKK	DKK
7. Deferred tax		
Intangible assets	(1,252,000)	(796,000)
Property, plant and equipment	104,000	(186,000)
Inventories	(222,000)	(322,000)
Provisions	3,040,000	0
Liabilities other than provisions	12,000	12,000
Tax losses carried forward	485,000	715,000
Other deductible temporary differences	80,000	162,800
	<u>2,247,000</u>	<u>(414,200)</u>
Changes during the year		
Beginning of year	(414,200)	
Recognised in the income statement	<u>2,661,200</u>	
End of year	<u>2,247,000</u>	

The deferred tax asset relating to provisions is expected to be realised as the provision is realised, whereas the deferred tax asset relating to tax-loss carryforwards is expected to be realised in case of profitable operations in 2017

8. Prepayments

Prepayments comprise prepaid expenses.

	Number	Par value	Nominal
		DKK	value
			DKK
9. Contributed capital			
Ordinary shares	<u>2,000</u>	1000	<u>2,000,000</u>
	<u>2,000</u>		<u>2,000,000</u>

10. Other provisions

Other provisions comprise costs of losses on lease contracts relating to leaseholds that are no longer used by the enterprise.

Notes

	2016	2015
	DKK	DKK
11. Change in working capital		
Increase/decrease in inventories	(1,473,646)	(6,316,404)
Increase/decrease in receivables	(6,235,504)	30,708,508
Increase/decrease in trade payables etc	(4,347,107)	24,404,298
	<u>(12,056,257)</u>	<u>48,796,402</u>
	2016	2015
	DKK	DKK
12. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	<u>6,439,628</u>	<u>23,469,000</u>

The total liability amounts to DKK 20,255,924 of which DKK 13,816,296 is recognised under provisions. DKK 6,439,628 remains as unrecognised liability.

13. Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which Anpartsselskabet af 17. December 2014 serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc for the jointly taxed companies and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

14. Mortgages and securities

The Company's bank debt has been secured on a floating charge of a nominal value of DKK 20,000k. The floating charge comprises unsecured claims, operating equipment, inventories and intellectual property rights.

Trade payables have been secured on a payment guarantee of DKK 150k issued by the bank.

15. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
BC Group A/S, Thisted

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

Changes in accounting policies

The Company has implemented Act no. 738 of 1 June 2015 effective as from 01.01.2016. As a result, the Company has implemented a 'Reserve for development expenditure' in equity as of 2016.

As a result of the above, an amount equal to the recognised development costs will, going forward, be tied up in a special reserve under equity named 'Reserve for development expenditure'. The amount is tied up in a special reserve which cannot be used for dividends or to cover losses. If the recognised development costs are sold or in any other way are excluded from the Company's operations, the reserve will be reduced or dissolved. This will take place by a direct transfer to the distributable reserves of equity. If the recognised development costs are written down, a share of the reserve for development expenditure must be reversed. The reversed share is equal to the writedown of development costs. If a writedown of development costs is subsequently reversed, the reserve for development expenditure will be reestablished. The reserve for development expenditure is also reduced by the depreciation and amortisation made. In this way, the reserve will not exceed the amount of development costs recognised in the balance sheet.

The change has no monetary effect on the income statement or the balance sheet for 2016 or the comparative figures.

Except for the above and new and changed presentation and disclosure requirements by Act no. 738 of 1 June 2015, the financial statements have been presented applying the accounting policies consistently with last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, production costs and cost of sales.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Cost of sales

Cost of sales comprises cost of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative costs

Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationary and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Accounting policies

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on transactions in foreign currencies etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on transactions in foreign currencies etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with the Parent and all other Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise completed development projects and development projects in progress.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

The cost of development projects comprises salaries.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is 3 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Accounting policies

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	10 years

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Estimated useful lives and residual values are reassessed annually.

Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Accounting policies

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

Other provisions comprise costs of losses on lease contracts relating to leaseholds that are no longer used by the enterprise.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank debt.