

# Novenco Marine & Offshore A/S

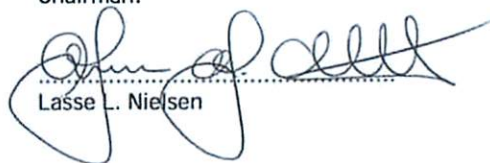
Galoche Allé 16, 4600 Koege, Denmark

CVR no. 33 78 56 82

## Annual report 2018

Approved at the Company's annual general meeting on 28 February 2019

Chairman:



Lasse L. Nielsen





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### Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Novenco Marine & Offshore A/S for the financial year 1 January - 31 December 2018.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Company at 31 December 2018 and of the results of the Group's and the Company's operations and of the consolidated cash flows for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Køge, 28 February 2019  
Executive Board:



Lasse Lindberg Nielsen

Board of Directors:



Kean Bae Kim  
Chairman

Choon Sung Lee

Lasse Lindberg Nielsen

## Independent auditor's report

To the shareholders of Novenco Marine & Offshore A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of Novenco Marine & Offshore A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018, and of the results of the Group's and Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

### 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 consolidated financial statements and the parent Company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group 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 rules and requirements.

### Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company 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 Group's and the Parent 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 Group or the Parent 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 as to 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 the financial statements.



## Independent auditor's report

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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



## Independent auditor's report

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the 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 of the Management's review.

Copenhagen, 28 February 2019

ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28

Peter Gath  
State Authorised Public Accountant  
mne19718

Nicklas Rasmussen  
State Authorised Public Accountant  
mne43474



## Management's review

### Company details

Name	Novenco Marine & Offshore A/S
Address, Postal code, City	Galoche Allé 16, 4600 Koege, Denmark
CVR no.	33 78 56 82
Established	12 July 2011
Registered office	Koege
Financial year	1 January - 31 December
Website	<a href="http://www.novencogroup.com">www.novencogroup.com</a>
E-mail	<a href="mailto:info@novencogroup.com">info@novencogroup.com</a>
Telephone	+45 70 12 42 22
Board of Directors	Keun Bae Kim, Chairman Choon Sung Lee Lasse Lindberg Nielsen
Executive Board	Lasse Lindberg Nielsen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuhs Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark



## Management's review

### Financial highlights for the Group

DKK'000	2018	2017	2016	2015	2014
<b>Key figures</b>					
Revenue	353,147	358,472	512,781	882,751	807,073
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	-550	6,703	11,174	30,566	15,496
Net financials	350	-729	682	9,629	1,192
Profit/loss for the year	-1,686	2,436	8,530	31,359	10,891
<b>Total assets</b>					
Total assets	266,333	235,790	302,733	376,324	437,918
Equity	52,065	55,016	57,582	47,228	18,991
<b>Cash flows</b>					
Cash flows from operating activities	-7,448	3,256	1,769	17,751	47,899
Net cash flows from investing activities	-3,356	-3,357	-2,652	-7,593	-3,631
Investment in property, plant and equipment	-981	-580	1,117	2,543	3,737
Cash flows from financing activities	113	-15,962	5,171	-71,552	21,318
Total cash flows	-10,691	-16,063	4,288	-61,394	65,586
<b>Financial ratios</b>					
Gross margin	19.3%	18.4%	19.5%	15.5%	14.0%
Equity ratio	19.5%	23.3%	19.0%	12.5%	4.3%
Return on equity	-3.1%	4.3%	16.3%	94.7%	81.5%
Operating margin	-0.2%	1.0%	2.2%	3.5%	2.1%
<b>Average number of employees</b>					
Average number of employees	227	210	260	392	417



## Management's review

### Business review

Novenco Marine & Offshore A/S and its subsidiaries, hereinafter referred to as the Group, are global suppliers with own development, production and sale of ventilation products and systems for marine and offshore purposes.

### Development during the year

The result for 2018 is a deficit of TDKK 1.686. Management considers this to be not satisfactory. The equity by December 31st 2018 amounts to TDKK 52.065.

### Financing

The group has a short term loan from the owner Novenco HAK ApS amounting to TDKK 4.780. Apart from this there are no external financing.

### Investments

There has been no major investment during 2018.

### Risks

#### *General risks*

The general risks are tied to the global world economy as the Company has activities in large parts of the world. Activities and investments within Offshore are in particular dependent on the current and expected oil price and consequently for the demand for the Groups products and services.

#### *Financial risks*

##### *Currency risks*

The group limits the currency exposure by placing as much purchase as possible against contract currency. There is a currency risk related to the results and equity value of subsidiaries.

##### *Interest related risks*

There are no recognized interest related risks.

##### *Credit risks*

It is group policy to always secure payment from external customers either through letter of credits, bank guarantees or an ongoing credit rating of the customer.

### Knowledge resources

It is essential to the group to attract and retain skilled employees. Hence the group has a structured approach to employee development.

### Research and development activities

The group's development efforts are concentrated on further development of existing products, particularly with regard to greater energy efficiency and new products which complement the Company's present product portfolio.

## Management's review

### Statutory CSR report

Novenco Marine & Offshore A/S, which is globally operating in areas with different cultures, moral concepts, social conditions and behavioural norms, ensures high-level suppliers on health, safety and environment by a structural and focused selection.

### Employee safety and Human rights

The company regards employee safety for our employees in the factory in China to be the risk to consider. Novenco Marine & Offshore A/S' global CSR policy ensures protection of internationally proclaimed human rights including employee safety. The company consider its effort to meet local laws and regulations in the CSR area to be sufficient to eliminate any risks in this area.

The company has a dedicated health and safety organization, which through a proactive and risk-based approach ensures to bring down number of work-related accidents. The organization has evaluated the health and safety of the employees on a regular basis during 2018. The objective is zero accidents. However, there has been one not critical accident in 2018 – same number as in 2016 and 2017.

In 2018 Novenco Marine & Offshore A/S has continued focusing on the psychological well-being of the employees. The company hire employees according to local laws and regulations. No child labor is permitted anywhere in the organization as the company do not allow gender discrimination. Late 2017 the company introduced a new set of values including one bullet with the wording 'Acknowledge each other and benefit from differences'. Autumn 2018 an internal survey was carried out and the values are recognized by employees as being implemented.

### Climate and Environment

Novenco Marine & Offshore A/S' policy is to make a continuous, targeted effort to reduce its impact on the climate and environment. The objective is to reduce the consumption of energy, and to minimize the environmental footprint of waste.

From 2012 to 2014 the Chinese factory has reduced its electricity consumption per revenue DKK with 32 percent. However, in 2015 and 2016 the consumption per revenue DKK has increased due to establishment of stronger test methods round products. In 2017 the consumption per revenue DKK has reduced by 15 percent compared to 2016 due to specific investment in low energy light sources. In 2018 as every year an examining report was prepared showing that the consumption continues to be on the level achieved in 2017.

To secure the reduction of the impact on the environment Chinese factory is sorting all waste to secure proper treatment and recycling. Further there are increased focus on utilizing recyclable parts in the design phase.

Novenco Marine & Offshore A/S' subsidiaries all comply with local legislation concerning health, safety and the environment. The Chinese factory is certified according to ISO 9001:2015 and ISO 14001:2015.

As the main impacts on human rights, environment and climate considers to be at the Chinese factory, the focus of this responsibility lies naturally here.

### Anti-corruption

Doing business outside EU and US with customers that do not have an established anti-corruption policy include a risk of being faced with requirements that falls into the category of corruption. The company has renewed a global policy stating that the company will work against all forms of corruption, including extortion and bribery. Further it states that all breaches or suspicion of breaches must be reported so appropriate measures can be taken. This reduce the risks related to corruption. There has been no recognition of signs of corruption anywhere in the organization during 2018.

## Management's review

### Account of the gender composition of Management

The company's policy regarding management diversity aims on having 25 % female members on the Boards of Directors. However, the company also aims on having the most qualified resources available. The company is currently not in compliance with the policy as all 3 members of the Board are male. The Company aims to meet the target of 25 % female members on the Board of Directors in 2020 at the latest. No new Board members have been elected in 2018.

The company has implemented statistics measuring gender on all management levels throughout the group in order to increase the overall focus on gender diversity. The Marine & Offshore industry is today dominated by male leaders. The company's policy is to increase the ratio of female managers at all levels based on an evaluation of the practical achievable within the specific industry and by other comparable companies. The company has a current ratio of 22% of female representatives in other managerial positions. To meet the target, the company during the year looked to achieve that at least one from each sex are among the last three candidates to management positions, promotions etc. However, the share of female managers at the end of 2018 has slightly decreased from 2017.

### Outlook

Management expects the result for 2019 to improve significantly compared to 2018.





Consolidated financial statements and parent company financial statements 1 January - 31 December

Income statement

Note	DKK'000	Group		Parent company	
		2018	2017	2018	2017
4	Revenue	353,147	358,472	184,814	197,995
16.5	Production costs	-284,987	-292,654	-163,143	-162,187
	Gross margin	68,160	65,818	21,671	35,808
16	Distribution costs	-30,761	-29,207	-9,491	-10,380
16.5	Administrative expenses	-37,949	-37,584	-13,346	-12,479
	Operating profit/loss	-550	-973	-1,166	12,949
	Other operating income	0	4,622	0	0
	Profit/loss before net financials	-550	3,649	-1,166	12,949
	Income from investments in group enterprises	0	0	-1,317	-7,048
	Income from investments in associates	36	437	36	437
6	Financial income	551	2,244	641	400
7	Financial expenses	-201	-2,973	-31	-1,358
	Profit/loss before tax	-164	3,357	-1,837	5,380
8	Tax for the year	-1,522	-921	151	-2,944
	Profit/loss for the year	-1,686	2,436	-1,686	2,436







Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group		Parent company	
		2018	2017	2018	2017
		<b>EQUITY AND LIABILITIES</b>			
		Equity			
13	Share capital	6,000	6,000	6,000	6,000
	Reserve for development costs	0	0	2,995	2,859
	Retained earnings	46,065	49,016	43,070	46,157
	<b>Total equity</b>	<b>52,065</b>	<b>55,016</b>	<b>52,065</b>	<b>55,016</b>
	Provisions				
14	Deferred tax	5,973	11,601	3,409	3,515
15	Other provisions	13,491	19,770	9,347	13,371
11	Provision, investments in group enterprises	0	0	6,946	2,514
	<b>Total provisions</b>	<b>19,464</b>	<b>31,371</b>	<b>19,702</b>	<b>19,400</b>
	Liabilities other than provisions				
	Current liabilities other than provisions				
	Construction contracts	75,438	32,702	61,210	25,927
	Trade payables	72,699	80,913	42,251	53,853
	Payables to group enterprises	5,376	1,352	15,391	29,368
	Corporation tax payable	6,453	7,107	0	3,453
	Other payables	34,838	27,329	6,793	9,242
		<b>194,804</b>	<b>149,403</b>	<b>125,645</b>	<b>121,843</b>
	<b>Total liabilities other than provisions</b>	<b>194,804</b>	<b>149,403</b>	<b>125,645</b>	<b>121,843</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>266,333</b>	<b>235,790</b>	<b>197,412</b>	<b>196,259</b>

- 1 Accounting policies
- 2 Events after the balance sheet date
- 3 Special items
- 17 Contractual obligations and contingencies, etc.
- 18 Collateral
- 19 Related parties
- 20 Fee to the auditors appointed by the Company in general meeting



Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

		Group		
Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2018	6,000	49,016	55,016
	Transfer through appropriation of loss	0	-1,686	-1,686
	Adjustment of investments through foreign exchange adjustments	0	-571	-571
	Change of accounting policy	0	-694	-694
	Equity at 31 December 2018	6,000	46,065	52,065

		Parent company			
Note	DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
	Equity at 1 January 2018	6,000	2,859	46,157	55,016
21	Transfer, see "Appropriation of profit/loss"	0	136	-1,822	-1,686
	Adjustment of investments through foreign exchange adjustments	0	0	-571	-571
	Change of accounting policy	0	0	-694	-694
	Equity at 31 December 2018	6,000	2,995	43,070	52,065



Consolidated financial statements and parent company financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	Group	
		2018	2017
	Profit/loss for the year	-1,686	2,436
22	Adjustments	-3,166	-3,852
	Cash generated from operations (operating activities)	-4,852	-1,416
23	Changes in working capital	4,553	8,215
	Cash generated from operations (operating activities)	-299	6,799
	Interest received, etc.	551	2,244
	Interest paid, etc.	-201	-2,973
	Income taxes paid	-7,499	-2,814
	Cash flows from operating activities	-7,448	3,256
	Additions of intangible assets	-2,375	-2,777
	Additions of property, plant and equipment	-981	-580
	Cash flows to investing activities	-3,356	-3,357
	Dividends distributed	113	253
	Repayments, borrowings from group enterprises	0	-16,215
	Cash flows from financing activities	113	-15,962
	Net cash flow	-10,691	-16,063
	Cash and cash equivalents at 1 January	51,227	67,290
	Foreign exchange adjustments	-531	0
	Cash and cash equivalents at 31 December	40,005	51,227



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies

The annual report of Novenco Marine & Offshore A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

##### Changes in accounting policies

The Group has applied IFRS 15 for the first time. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient.

The accounting policies used in the preparation of the financial statements are otherwise consistent with those of last year.

##### Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

##### Consolidated financial statements

###### *Control*

The consolidated financial statements comprise the Parent Company and subsidiaries controlled by the Parent Company.

Control means a parent company's power to direct a subsidiary's financial and operating policy decisions. Besides the above power, the parent company should also be able to yield a return from its investment.

In assessing if the parent company controls an entity, de facto control is taken into consideration as well.

The existence of potential voting rights which may currently be exercised or converted into additional voting rights is considered when assessing if an entity can become empowered to direct another entity's financial and operating decisions.

###### *Significant influence*

Entities over whose financial and operating policy decisions the group exercises significant influence are classified as associates. Significant influence is assumed to exist if the Parent Company directly or indirectly holds or controls 20% or more of the voting power of the investee, but does not control the investee.

The existence of potential voting rights which may presently be exercised or be converted into additional voting rights is considered when assessing if significant influence exists.

###### *Preparation of consolidated financial statements*

## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

The consolidated financial statements are prepared as a consolidation of the parent company's and the individual subsidiaries' financial statements, which are prepared according to the group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains if they do not reflect impairment.

In the consolidated financial statements, the accounting items of subsidiaries are recognised in full.

Investments in associates are recognised in the consolidated financial statements using the equity method.

#### Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

#### Derivative financial instruments

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

#### Income statement

##### Revenue

Revenue is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

##### Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs of raw materials, consumables and production staff, rent and leases, as well as depreciation on production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Also, provision for losses on construction contracts is recognised.

##### Distribution costs

Distribution costs comprise costs related to the distribution of goods sold in the year and to sales campaigns, etc. carried out in the year, including costs related to sales staff, advertising, exhibitions and amortisation/depreciation.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

##### Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of fixed assets.

##### Amortisation/depreciation

The item comprises depreciation of property, plant and equipment and intangible assets.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Completed development projects	5 years
Goodwill	20 years
Fixtures and fittings, other plant and equipment	3-12 years
Leasehold improvements	5-10 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

##### Profit from investments in subsidiaries and associates

A proportionate share of the underlying entities' profit/loss after tax is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries and associates are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries. Only proportionate elimination of intra-group gains/losses is made for equity investments in associates.

##### Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

##### Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Novenco HAK Group. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

### Balance sheet

#### Intangible assets

Goodwill is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual business segments. Goodwill is amortised on a straight-line basis over the amortisation period of 20 years as the investment is considered as strategic.

Development costs comprise expenses, salaries and amortisation directly or 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 identifiable 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 and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

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

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is 5 years.

A figure corresponding the capitalized development costs is tied up on "Reserve for development cost" in the equity. The reserve is released concurrently with amortization, impairment or sale of the development costs.

#### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

#### Investments in subsidiaries and associates

Equity investments in subsidiaries and associates are measured according to the equity method. Equity investments in joint ventures are also measured according to the equity method in the consolidated financial statements.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

On initial recognition, equity investments in subsidiaries and associates are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries and associates measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

#### Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

#### Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

#### Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

#### Construction contracts

Service supplies and contract work in progress for third parties are measured at the market value of the work performed less progress billings. The market value is calculated based on the stage of completion at the balance sheet date and the total expected income from the relevant contract. The stage of completion is calculated based on the expenses incurred relative to the expected total expenses relating to the relevant contract.

Where the outcome of contract work in progress cannot be estimated reliably, the market value is measured at the expenses incurred in so far as they are expected to be paid by the purchaser.

Where the total expenses relating to the work in progress are expected to exceed the total market value, the expected loss is recognised as a loss-making agreement under "Provisions" and is expensed in the income statement.

The value of work in progress less progress billings is classified as assets when the selling price exceeds progress billings and as liabilities when progress billings exceed the market value.

#### Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Equity

###### *Reserve for development costs*

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

###### *Proposed dividends*

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

##### Provisions

Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Warranty commitments include expenses for remedial action in respect of the contract work within the warranty period. Provisions for warranty commitments are measured at net realisable value and recognised based on past experience.

##### Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

##### Other payables

Other payables are measured at net realisable value.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 1 Accounting policies (continued)

##### Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

##### Cash flow statement

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

Cash flows from operating activities are calculated as the profit/loss for the year adjusted for non cash operating items, changes in working capital and paid corporate income tax.

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related expenses as well as raising of loans, repayment of interest bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash, short term bank loans and short term securities which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

##### Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.



Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

The financial ratios stated under "Financial highlights" have been calculated as follows:

Gross margin ratio	$\frac{\text{Gross margin} \times 100}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$
Operating margin	$\frac{\text{Operating profit (EBIT)} \times 100}{\text{Revenue}}$

2 Events after the balance sheet date

After the end of the financial year, no significant events have occurred which may have a significant impact on the financial statement of 2018.

3 Special items

DKK'000	Group		Parent company	
	2018	2017	2018	2017
Income				
Compensation for competitors unjustified recruitment	0	4,622	0	0
	0	4,622	0	0
Expenses				
Write off due to bankruptcy of Spanish customer	0	-10,000	0	-10,000
	0	-10,000	0	-10,000
Special items are recognised in the below items of the financial statements				
Production costs	0	-10,000	0	-10,000
Other operating income	0	4,622	0	0
Net profit/loss on special items	0	-5,378	0	-10,000

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Group		Parent company	
	2018	2017	2018	2017
4	Segment information			
Marine	232,740	241,447	170,253	194,072
Offshore	120,407	117,025	14,561	3,923
	<u>353,147</u>	<u>358,472</u>	<u>184,814</u>	<u>197,995</u>
Breakdown of revenue by geographical segment:				
Asia	156,187	196,829	111,118	115,357
Europe	170,771	135,882	52,058	60,263
North and South America	22,712	22,852	18,387	19,488
Other	3,477	2,909	3,251	2,887
	<u>353,147</u>	<u>358,472</u>	<u>184,814</u>	<u>197,995</u>
5	Amortisation/depreciation of intangible assets and property, plant and equipment			
Amortisation of intangible assets	1,304	1,318	537	551
Depreciation of property, plant and equipment	1,367	1,736	196	389
	<u>2,671</u>	<u>3,054</u>	<u>733</u>	<u>940</u>
6	Financial income			
Interest receivable, group entities	551	0	641	388
Other financial income	0	2,244	0	12
	<u>551</u>	<u>2,244</u>	<u>641</u>	<u>400</u>
7	Financial expenses			
Exchange adjustments	0	740	0	0
Other financial expenses	201	2,233	31	1,358
	<u>201</u>	<u>2,973</u>	<u>31</u>	<u>1,358</u>
8	Tax for the year			
Estimated tax charge for the year	1,629	6,968	-44	3,563
Deferred tax adjustments in the year	-107	-5,939	-107	-795
Tax adjustments, prior years	0	243	0	176
Change in tax rate	0	-351	0	0
	<u>1,522</u>	<u>921</u>	<u>-151</u>	<u>2,944</u>

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

9 Intangible assets

DKK'000	Group			
	Completed development projects	Goodwill	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2018	8,594	23,384	4,597	36,575
Foreign exchange adjustments	-14	0	0	-14
Additions	1,658	0	717	2,375
Transferred	1,474	0	-1,474	0
Cost at 31 December 2018	11,712	23,384	3,840	38,936
Impairment losses and amortisation at 1 January 2018	8,459	7,406	0	15,865
Amortisation for the year	135	1,169	0	1,304
Impairment losses and amortisation at 31 December 2018	8,594	8,575	0	17,169
Carrying amount at 31 December 2018	3,118	14,809	3,840	21,767
Amortised over	5 years	20 years		

DKK'000	Parent company			
	Completed development projects	Goodwill	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2018	8,594	8,038	3,123	19,755
Additions	0	0	717	717
Cost at 31 December 2018	8,594	8,038	3,840	20,472
Impairment losses and amortisation at 1 January 2018	8,459	2,545	0	11,004
Amortisation for the year	135	402	0	537
Impairment losses and amortisation at 31 December 2018	8,594	2,947	0	11,541
Carrying amount at 31 December 2018	0	5,091	3,840	8,931
Amortised over	5 years	20 years		



Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

10 Property, plant and equipment

DKK'000	Group		
	Fixtures and fittings, other plant and equipment	Leasehold improvements	Total
Cost at 1 January 2018	13,181	3,570	16,751
Foreign exchange adjustments	-10	-8	-18
Additions	811	170	981
Disposals	0	-188	-188
Cost at 31 December 2018	13,982	3,544	17,526
Impairment losses and depreciation at 1 January 2018	10,737	2,344	13,081
Depreciation	981	386	1,367
Impairment losses and depreciation at 31 December 2018	11,718	2,730	14,448
Carrying amount at 31 December 2018	2,264	814	3,078
Depreciated over	3-12 years	5-10 years	

Note 18 provides more details on security for loans, etc. as regards property, plant and equipment.

DKK'000	Parent company
	Fixtures and fittings, other plant and equipment
Cost at 1 January 2018	1,796
Cost at 31 December 2018	1,796
Impairment losses and depreciation at 1 January 2018	1,396
Depreciation	196
Impairment losses and depreciation at 31 December 2018	1,592
Carrying amount at 31 December 2018	204
Depreciated over	3-12 years

11 Investments

Group

Name	Domicile	Interest	Equity DKK'000	Profit/loss DKK'000
Associates				
Novenco Nippon Ltd.	Japan	22.73%	12,930	158

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

11 Investments (continued)

DKK'000	Parent company		
	Investments in group enterprises	Investments in associates	Total
Cost at 1 January 2018	77,601	859	78,460
Cost at 31 December 2018	77,601	859	78,460
Value adjustments at 1 January 2018	-11,858	1,978	-9,880
Foreign exchange adjustments	-770	199	-571
Dividend received	0	-113	-113
Profit/loss for the year	-550	36	-514
Changes in equity	-674	-20	-694
Setoff against receivables and other provisions	4,180	0	4,180
Goodwill amortization	-768	0	-768
Value adjustments at 31 December 2018	-10,440	2,080	-8,360
Carrying amount at 31 December 2018	67,161	2,939	70,100

The carrying amount of group entities comprises a share of the entities' net asset value, DKK 49.5 million, and goodwill at a carrying amount of DKK 9.7 million.

Of the total carrying amount, negative net assets in group entities, DKK 1.0 million have been set off against receivables and DKK 6.9 million have been recognised under provisions.

Parent company

Name	Interest
<b>Subsidiaries</b>	
Novenco AS	100.00%
Novenco (S) Pte. Ltd.	100.00%
Novenco Hi-Pres Air Handling Equipment (Wuxi) Co., Ltd.	100.00%
Novenco Marine & Offshore Italia Srl	100.00%
<b>Associates</b>	
Novenco Nippon Ltd.	22.73%

12 Prepayments

Group

Prepayments in Group relates to IT licenses and leasing.

Parent company

Prepayments in the parent company relates to IT licenses and leasing.

13 Share capital

The parent's share capital has remained DKK 6,000 thousand over the past 5 years.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Group		Parent company	
	2018	2017	2018	2017
14 Deferred tax				
Deferred tax at 1 January	9,082	17,095	3,515	4,239
Deferred tax adjustments in the year	-5,323	-8,013	-106	-724
Deferred tax at 31 December	3,759	9,082	3,409	3,515
Analysis of the deferred tax				
Deferred tax assets	-2,214	-2,519	0	0
Deferred tax liabilities	5,973	11,601	3,409	3,515
	3,759	9,082	3,409	3,515

Group

Besides the tax loss recognised in the statement of deferred tax, the group has additional tax loss carry-forwards at a carrying amount of DKK 4.2 million. As it is uncertain if these tax losses can be utilised within a foreseeable future, their carrying amount has not been recognised in the financial statements.

15 Other provisions				
Opening balance at 1 January	19,770	19,593	13,371	13,541
Provisions in the year	7,364	12,117	7,364	8,637
Provisions utilised in the year	-9,498	-6,960	-7,425	-4,378
Unutilised provisions in the year, reversed	-4,145	-4,980	-3,963	-4,429
Other provisions at 31 December	13,491	19,770	9,347	13,371
16 Staff costs				
Wages/salaries	99,732	94,769	36,508	34,842
Pensions	8,098	7,803	1,292	1,336
Other social security costs	4,140	4,233	169	436
	111,970	106,805	37,969	36,614

Staff costs are recognised as follows in the consolidated financial statements and the parent company financial statements:

Production	61,626	53,265	24,499	23,125
Distribution	28,263	26,177	6,783	5,588
Administration	22,081	27,363	6,687	7,901
	111,970	106,805	37,969	36,614
Average number of full-time employees	227	210	25	24





## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### Group

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to the group Management is not disclosed.

#### Parent company

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to Management is not disclosed.

### 17 Contractual obligations and contingencies, etc.

#### Other contingent liabilities

DKK'000	Group		Parent company	
	2018	2017	2018	2017
Rental obligations	20,264	10,321	312	800
Operation leases	1,294	1,392	306	425
Other supplier agreements	0	41	0	41
	<u>21,558</u>	<u>11,754</u>	<u>618</u>	<u>1,266</u>

#### Parent company

The Company is jointly taxed with its parent, Novenco HAK ApS, which acts as management company. The Company is jointly and severally with other jointly taxed group entities for payment of income taxes and withholding taxes in the group of jointly taxed entities.

### 18 Collateral

#### Group

The group has not provided any security or other collateral in assets at 31 December 2018.

#### Parent company

The Company has provided a letter of support to the subsidiary Novenco (S) Pe. Ltd.



## Consolidated financial statements and parent company financial statements 1 January - 31 December

### Notes to the financial statements

#### 19 Related parties

##### Group

Novenco Marine & Offshore A/S' related parties comprise the following:

##### Parties exercising control

Related party	Domicile	Basis for control
Novenco Hak ApS	Galoche Alle 16, DK-4600 Koege, Denmark	Principal shareholder

##### Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
HiAir Korea Co., Ltd.	1321-11 Daman-Ri, Jinryemyeon, Gumhae-city, Gyeongnam, South Korea	The consolidated financial statements are available at the Company's address.

##### Related party transactions

DKK'000	2018	2017
<b>Group</b>		
Purchases from parent companies	4,732	19,588
Sales to parent companies	6,407	6,081
Purchases from associated company	0	2,110
Receivables from parent companies	16,455	15,655
Payables to parent companies	5,376	1,352
Receivables from associated company	0	407
<b>Parent Company</b>		
Purchases from parent companies	4,510	12,201
Sales to parent companies	1,376	0
Purchases from associated company	0	2,110
Receivables from parent companies	16,455	15,655
Payables to parent companies	186	1,352
Receivables from associated company	0	407

##### Information on the remuneration to management

Information on the remuneration to Management appears from note 16, "Staff costs".

##### Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the share capital:

Name	Domicile
Novenco Hak ApS	Galoche Alle 16, DK-4600 Koege, Denmark

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	Group		Parent company	
	2018	2017	2018	2017
20 Fee to the auditors appointed by the Company in general meeting				
Statutory audit	617	437	212	206
Tax assistance	366	333	35	32
Other assistance	81	67	63	59
	<u>1,064</u>	<u>837</u>	<u>310</u>	<u>297</u>
			Parent company	
DKK'000			2018	2017
21 Appropriation of profit/loss				
Recommended appropriation of profit/loss				
Other statutory reserves			136	0
Retained earnings/accumulated loss			<u>-1,822</u>	<u>2,436</u>
			<u>-1,686</u>	<u>2,436</u>
			Group	
DKK'000			2018	2017
22 Adjustments				
Depreciation for accounting purposes on property, plant and equipment			1,367	1,736
Amortization for accounting purposes on intangible assets			1,304	1,318
Gain/loss on the sale of non-current assets			0	70
Provisions			-6,279	-2,524
Income from investments in associates			-36	-437
Financial income			-551	-2,244
Financial expenses			201	2,973
Tax for the year			1,522	921
Equity adjustments			-694	0
Other adjustments			0	-5,665
			<u>-3,166</u>	<u>-3,852</u>
23 Changes in working capital				
Change in inventories and contract work in progress			40,290	27,040
Change in receivables			-39,057	30,210
Change in trade and other payables			3,320	-49,035
			<u>4,553</u>	<u>8,215</u>