

Haarslev Group Holding A/S

Bogensevej 85
DK-5471 Søndersø
Central Business Registration
No 33969376

Annual report 2017

The Annual General Meeting adopted the annual report on 25.05.2018

Chairman of the General Meeting

Name: Morten Rose Nielsen

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Entity details

Entity

Haarslev Group Holding A/S
Bogensevej 85
DK-5471 Søndersø

Central Business Registration No: 33969376
Registered in: Nordfyns Kommune
Financial year: 01.01.2017 - 31.12.2017

Website: www.haarslev.com
E-mail: DK-info@haarslev.com

Board of Directors

Søren Dan Johansen, Chairman
Jan Vestergaard Olsen, Vice-chairman
Ola Harald Erics
Bengt Maunsbach
Rene Johansen
Yasemin Merethe Celkan
Poul Erik Johannsen

Executive Board

Herman Hubertus Jacobus Defauwes, CEO
Michael Kaalund, CFO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
0900 København 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 Haarslev Group Holding A/S for the financial year 01.01.2017 - 31.12.2017.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2017 and of the results of their operations and the Group's cash flows for the financial year 01.01.2017 – 31.12.2017.

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.

Søndersø, 26.04.2018

Executive Board

Herman Hubertus Jacobus
Defauwes
CEO

Michael Kaalund
CFO

Board of Directors

Søren Dan Johansen
Chairman

Jan Vestergaard Olsen
Vice-chairman

Ola Harald Erics

Bengt Maunsbach

Rene Johansen

Yasemin Merethe Celkan

Poul Erik Johannsen

Independent auditor's report

To the shareholders of Haarslev Group Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Haarslev Group Holding A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2017 - 31.12.2017 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 financial statements section of this auditor's report. We are independent of the Group 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 consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and 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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 re-

Independent auditor's report

quirements 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 consolidated financial statements and parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 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 consolidated financial statements and the parent financial statements, 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 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 consolidated financial statements and the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, whether the consolidated financial statements and the parent 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.

Independent auditor's report

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 consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent 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.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent 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.

Copenhagen, 26.04.2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Lars Siggaard Hansen
State Authorised Public Accountant

Identification No (MNE) mne32208

Tim Kjær-Hansen
State Authorised Public Accountant

Identification No (MNE) mne23295

Management commentary

	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000
Financial highlights					
Key figures					
Revenue	1,440,730	1,559,368	1,500,809	1,160,187	1,212,035
Gross profit/loss	272,300	362,341	247,865	183,643	234,850
Operating profit/loss	(58,942)	65,640	46,613	28,167	91,979
Net financials	(44,854)	(35,193)	(47,413)	(42,387)	(52,762)
Profit/loss for the year	(136,098)	(290)	(12,331)	(40,381)	7,207
Total assets	1,985,582	2,048,979	2,134,877	2,108,649	1,991,270
Investments in property, plant and equipment	20,869	14,384	42,701	44,108	20,209
Equity	592,626	743,130	727,290	743,915	777,613
Cash flows from (used in) operating activities	62,132	107,332	65,194	13,207	59,013
Cash flows from (used in) investing activities	(18,447)	(37,149)	(39,089)	(118,895)	(40,821)
Cash flows from (used in) financing activities	(53,443)	(41,873)	3,830	35,055	(26,565)
Ratios					
Gross margin (%)	18.9	23.2	16.5	15.8	19.4
Net margin (%)	(9.4)	(0.0)	(0.8)	(3.5)	0.6
Return on equity (%)	(20.4)	(0.0)	(1.7)	(5.3)	0.9
Equity ratio (%)	29.8	36.3	34.1	35.3	39.1

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

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
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 strenght of the Entity.

Management commentary

Primary activities

Haarslev is a global provider of process solutions and equipment for the drying, dehydrating and processing of fish-based and animal by-products and by-products from the brewing and distilling industries. The Group also offers its process solutions, drying and dehydrating equipment for the municipal and industrial environmental sectors.

Haarslev Group Holding A/S serves as holding company.

Development in activities and finances

2017 was characterized by high activity level in our core rendering markets in Europe and North America with strong growth in order intake and the order book reaching an all-time high during the year.

The Group's income statement for 2017 shows a loss after tax of DKK 136,098k, which is not as expected and not in accordance with outlook presented in the annual report 2016. The negative results primarily relates to a one-off accounting impact from a change in revenue measurement principles (as described below) as well as an increase in fixed costs and project related costs resulting from the significant increase in activity level and resulting pressure on the supply chain. Finally, the 2017 results are impacted by exceptional costs relating to the implementation of a number of internal projects aimed at securing a stronger platform as the company continues to grow.

The Group's balance sheet at 31 December 2017 shows equity of DKK 592,626k.

Uncertainty relating to recognition and measurement

Revenue related to contract work in progress (projects), which are measured at the selling price of work performed, are recognized based on the stage of completion of work performed. The stage of completion is based on estimates as, well as expected future events and is thus subject to uncertainty.

Unusual circumstances affecting recognition and measurement

As a result of an analysis of the project portfolio the Company refined the classification of the project portfolio in relation to the timing of revenue recognition with effect from 1 January 2017, This change resulted in a one-off accounting impact as more customer contracts are recognized as income at transfer of risk instead of as work in progress. Management estimates that revenue has been negatively influenced by approximately DKK 90-115 million. This change had no impact on the underlying profit or liquidity of Haarslev.

The Company's financial position at 1 January 2017 has been affected by a misstatement related to the lack of recognition of costs in a 100% owned subsidiary in the years 2015 and 2016. The misstatement has been corrected as of 1 January 2017 and has been applied for the comparative figures for 2016. The change results in a reduction of the profit for 2016 with DKK 6,7 million, and the liabilities and equity has been reduced with DKK 8,8 million.

Management commentary

Outlook

In 2018 the positive market development is expected to continue. It is expected that 2018 will end at a significantly higher level than 2017 with an estimated organic revenue growth in the range of 15-25% and a significant rebound in earnings above the 2016 level.

Particular risks

Because of its operations, investments and financing, the Group is exposed to volatility in terms of raw material prices, exchange rates and the level of interest. The fiscal policy pursued by the Group involves operating with a low risk profile, so that risks concerning exchange rates, interest rates and credit only arise, should commercial conditions occur. On an ongoing basis, the Group enters into currency contracts for hedging of currency risks.

At 31. December 2017, Haarslev Group Holding A/S' external interest-bearing debt totals a net amount of DKK 451,168k which Group Management considers a reasonable and acceptable level. The Group's guidelines and procedures for control and management of the capital structure remained unchanged in 2017.

Intellectual capital resources

The Group's ambition is to be in the lead of technological development. The Group has considerable intellectual capital resources within its field of activity, which may be divided into four categories: Customers, Technology, Processes and Staff relations.

Customers

The Group aims at creating value for its customers by providing intelligent solutions, created in cooperation with the individual customer, meeting the customers' expectations through the delivery of customized, high quality products, delivered in accordance with terms of delivery, etc. The key performance indicators in this respect include customer satisfaction and customer loyalty. Follow-up is made regularly through close dialogue with the customers.

Technology

It is important for the Group – in both the short and long term – to ensure the right portfolio of production technologies and a continued further development of existing production technologies.

Processes

The critical business processes relate to the development of individual solutions, quality and service. In order to make sure that the customer receives the agreed service, the individual methods and procedures shall be documented. Compliance with time of delivery and the scope of warranty expenses are important indicators of the functionality of business processes. The Group constantly makes great efforts to ensure that the goals, set up for the business processes, are complied with. Furthermore, the Group's internal development activities are constantly focused on improving products and processes, often in cooperation with the customer.

Management commentary

Staff relations

In order to constantly be able to deliver and develop competitive products and solutions, it is crucial that the Group is capable of recruiting and retaining highly qualified employees.

The number of employees has developed as follows:

	<u>Denmark</u>	<u>Globally</u>
Number and employees, beginning of year	415	1,162
Change	<u>77</u>	<u>(49)</u>
Number and employees, end of year	<u>492</u>	<u>1,113</u>

Environmental performance

The Group cares about the environment and is currently working on reducing the environmental impact from the Group's operation, the processes and products offered. The Group possesses the relevant environmental approvals, and the Group's activities do not involve harmful or extraordinary impacts to the environment.

Research and development activities

The Group is not engaged in research but is developing its business and competencies on an ongoing basis.

Statutory report on corporate social responsibility

Haarslev Group Holding A/S has decided to publish the statutory CSR and Diversity statements on the Company's website, see the Danish Financial Statements Act, § 99a and § 99b. The CSR and Diversity statements are developed for the legal entity Haarslev Group Holding A/S only, and do therefore not include any subsidiaries. To read the statements please visit <http://haarslev.com/CSR-performance>.

Statutory report on underrepresented gender

Haarslev Group Holding A/S has decided to publish the statutory CSR and Diversity statements on the Company's website, see the Danish Financial Statements Act, § 99a and § 99b. The CSR and Diversity statements are developed for the legal entity Haarslev Group Holding A/S only, and do therefore not include any subsidiaries. To read the statements please visit <http://haarslev.com/CSR-performance>.

Corporate governance

The Board of Directors and Executive Board of Haarslev Group Holding A/S constantly seek to ensure that the management structure and control systems of the Group are appropriate and satisfactory. On an ongoing basis, Management assesses whether this remains the case. The tasks and responsibilities of Management are, among others, based on the Danish Companies Act, the Danish Financial Statements Act, the Company's Articles of Association and generally accepted practice for enterprises of the same size and with the same international reach as Haarslev Group Holding. In this connection and because the Group's principal shareholder is Altor Fund III, who is a member of Danish Venture Capital and Private Equity Association (www.dvca.dk), then the Haarslev Group in all material respects complies with the guidelines for responsible ownership and corporate governance of DVCA.

Management commentary

On this basis, Management has developed a number of internal procedures to ensure an active, secure and profitable management of the Group. This includes a further strengthening of the Finance function, an increased number of financial control reviews, controlling visits at subsidiaries and an updated "Code of Conduct" across the Group.

Operational risk management

The main operational risks in the Group relates to the execution of large complex customer projects. The Group's extensive know-how and many years of experience within project management are the main components in mitigating this risk. Bid reviews and project support from central knowledge centers are an integrated part of the project management process.

Additionally, a number of reporting procedures are set up in order to monitor project progress and to secure actions are taken, if unforeseen issues arise during the project lifetime. The status on the largest projects are reported to the Board of Directors on a monthly basis.

In relation to the preparation of the financial statements, Management has particular focus on the control procedures in relation to the following items:

- Revenue recognition of large projects
- Valuation of work in progress

The formal monthly reporting procedures, as well as review meetings are set up to mitigate risks related to these items.

Shareholder relations

On an ongoing basis, the Board of Directors assesses whether the Company's capital structure is in accordance with the Company's and its stakeholders' interests. The overall objective is to ensure a capital structure that supports long-term, profitable growth.

The Company's Articles of Association stipulate no limits of ownership or voting rights. If an offer is received for an acquisition of company shares, the Board of Directors will consider this in accordance with the law.

The Haarslev Group's principal shareholder is Altor Fund III who possesses 71% of the Company's shares. Group Management holds a minority share of 2% of the Company's shares.

By the year end of 2017 Haarslev Group Holding A/S owns 10,421 of its own shares, representing 0.1% of the total shares. The company will from time to time hold limited part of own shares, when changes in Group Management take place.

Management commentary

Board of Directors

Søren Dan Johansen ¹

Chairman of the Board of Directors. Member of the Board since 2012.

CEO of Altor Equity Partners A/S, New Nutrition Holding ApS and New Nutrition ApS.

Chairman of the Board of Haarslev Group A/S, Haarslev Industries A/S, Wrist Ship Supply Holding A/S, W.S.S. Holding A/S, Wrist Ship Supply A/S, Norican Global A/S, CAM Holding 1 DK ApS, C WorldWide Holding A/S, C WorldWide Group Holding A/S, Statens Ejendomssalg A/S, Technoinvest A/S, Leith Society ApS and Roenholt-media.com ApS.

Vice-chairman of the Board of Hamlet Protein A/S, New Nutrition Holding ApS and New Nutrition ApS.

Member of the Board of PSR ApS, Tresu A/S, Tresu Investment A/S, Tresu Investment Holding A/S and Tresu Group Holding A/S.

Ola Harald Erici ¹

Member of the Board of Directors since 2012.

Chairman of the Board of Midsona AB, Eco-bränsle AB, Geveko AB and Arendalis AB.

Member of the Board of Haarslev Group A/S, Haarslev Industries A/S, Solix Group AB and Tresu Group A/S.

Rene Johansen ²

Member of the Board of Directors since 2012.

Site Supervisor at Haarslev Industries A/S.

Poul Erik Johansen ²

Member of the Board of Directors since 2016.

Boilermaker at Haarslev Industries A/S.

Jan Vestergaard Olsen ¹

Vice-chairman of the Board of Directors since 2012.

CEO of TAMI Holding ApS.

Chairman of the Board of Mekoprint Holding A/S, Mekoprint A/S and Mekoprint Ejendomme A/S.

Vice-chairman of the Board of Haarslev Group A/S and Haarslev Industries A/S.

Member of the Board of Hoyer Group A/S, KK-Group A/S, Stormgade II ApS and Aalborg Zoologiske Have Bygge- og udviklingsfonden.

Bengt Maunsbach ¹

Member of the Board of Directors since 2012.

Partner at Altor Equity Partners A/S.

Chairman of the Board of Realia Group Oy.

Member of the Board of Haarslev Group A/S, Haarslev Industries A/S, Ålö Holding AB, Ålö Group AB, OptiGroup AB and Altor Equity Partners AB.

Yasemin Merethe Celkan ²

Member of the Board of Directors since 2014.

Manager of project engineering department at Haarslev Industries A/S.

¹ Elected by Altor Fund III

² Elected by the employees

Management commentary

Responsibilities of the Board of Directors

The Board of Directors as a whole has monitored the preparation of the financial reporting, the internal controls and the audit of the financial statements. The Board of Directors has chosen not to set up a separate audit committee.

The Board of Directors ensures that the Executive Board complies with the objectives, strategies and procedures laid down by the Board of Directors. The reporting from the Executive Boards of the respective companies takes place systematically, both at meetings and through written and oral reporting on an ongoing basis.

Among other things, this reporting includes a description of the development in key markets, as well as the Group's operational and financial development. The Board of Directors holds meetings according to a fixed plan, with at least five meetings a year and extraordinary meetings are convened, if required.

Management remuneration

In order to attract and retain the Group's management competencies, remuneration of the members of the Executive Board and executives is determined considering their responsibilities, value creation and the conditions of comparable enterprises. The remuneration includes performance-related elements aimed at aligning interests between company management and the shareholders, as the schemes consider both short-term and long-term goals.

Such performance-related elements include cash bonuses, as well as a warrant program for selected key executives responsible for the day-to-day management.

Dividend policy

Payment of dividend takes place in due consideration of the necessary consolidation of equity as a basis for the Group's continued expansion. No dividend is proposed for 2017.

Stakeholders

The Group constantly seeks to develop and maintain good relations with its stakeholders, as such relations are assessed to be of significant and positive importance to the Group's development. On this basis, Haarslev Group Holding is pursuing an active communication with its stakeholders and, moreover, has separate policies for various key areas such as staff, environmental factors and responsibility towards customers and society at large. These policies are to ensure that information of importance to, among others, investors, employees and authorities is provided and published in accordance with rules and agreements.

Part of the work of the Board of Directors is to ensure, both compliance with and regular adaptation of the guidelines in accordance with the development in and around the Group.

Events after the balance sheet date

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

Consolidated income statement for 2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Revenue	1	1,440,730	1,559,368
Production costs	3	(1,168,400)	(1,197,027)
Gross profit/loss		272,330	362,341
Distribution costs		(99,544)	(87,503)
Administrative costs	2	(231,728)	(209,198)
Operating profit/loss		(58,942)	65,640
Income from investments in associates		(426)	(739)
Other financial income		17,434	14,306
Other financial expenses		(61,862)	(48,760)
Profit/loss before tax		(103,796)	30,447
Tax on profit/loss for the year	4	(32,302)	(30,737)
Profit/loss for the year	5	(136,098)	(290)

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Acquired intangible assets		425	406
Acquired rights		4,785	10,885
Goodwill		936,159	1,008,705
Intangible assets	6	941,369	1,019,996
Land and buildings		75,645	75,888
Plant and machinery		44,885	51,987
Other fixtures and fittings, tools and equipment		23,434	26,107
Property, plant and equipment in progress		3,850	884
Property, plant and equipment	7	147,814	154,866
Investments in associates		20,884	21,310
Other receivables		3,248	3,844
Deferred tax	10	21,180	0
Fixed asset investments	8	45,312	25,154
Fixed assets		1,134,495	1,200,016
Raw materials and consumables		89,030	167,865
Work in progress		48,332	0
Manufactured goods and goods for resale		72,094	0
Inventories		209,456	167,865
Trade receivables		199,162	249,067
Contract work in progress	9	88,787	101,657
Deferred tax	10	0	18,597
Other receivables		54,575	18,734
Income tax receivable		16,412	30,724
Receivables		358,936	418,779
Cash		282,695	262,319
Current assets		851,087	848,963
Assets		1,985,582	2,048,979

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Contributed capital		9,143	9,102
Retained earnings		583,483	734,028
Equity		592,626	743,130
Deferred tax	10	18,795	11,302
Other provisions	11	53,805	67,367
Provisions		72,600	78,669
Finance lease liabilities		3,607	4,258
Debt to other credit institutions	12	470,732	502,838
Other payables		0	1,033
Non-current liabilities other than provisions		474,339	508,129
Current portion of long-term liabilities other than provisions		53,037	75,755
Finance lease liabilities		520	822
Payables to other credit institutions		214,775	184,641
Payables to associated entities		678	0
Prepayments received from customers		139,089	41,590
Contract work in progress	9	112,572	73,592
Trade payables		218,488	196,105
Income tax payable		5,289	20,133
Other payables		101,569	126,413
Current liabilities other than provisions		846,017	719,051
Liabilities other than provisions		1,320,356	1,227,180
Equity and liabilities		1,985,582	2,048,979
Associates	8		
Financial instruments	13		
Unrecognised rental and lease commitments	15		
Contingent liabilities	16		
Mortgages and securities	17		
Subsidiaries	18		

Consolidated statement of changes in equity for 2017

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	9,102	742,850	751,952
Corrections of material errors	0	(8,822)	(8,822)
Adjusted equity, beginning of year	9,102	734,028	743,130
Increase of capital	41	6,379	6,420
Exchange rate adjustments	0	(19,487)	(19,487)
Acquired own shares	0	(3,054)	(3,054)
Value adjustments	0	2,263	2,263
Tax of equity postings	0	(548)	(548)
Profit/loss for the year	0	(136,098)	(136,098)
Equity end of year	9,143	583,483	592,626

Consolidated cash flow statement for 2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Operating profit/loss		(58,942)	65,640
Amortisation, depreciation and impairment losses		96,938	100,501
Working capital changes	15	100,383	14,222
Cash flow from ordinary operating activities		138,379	180,363
Financial income received		17,434	14,308
Financial income paid		(61,860)	(41,853)
Income taxes refunded/(paid)		(31,395)	(45,486)
Cash flows from operating activities		62,558	107,332
Acquisition etc of intangible assets		(846)	(6,972)
Sale of intangible assets		945	0
Acquisition etc of property, plant and equipment		(20,869)	(8,602)
Sale of property, plant and equipment		1,301	475
Sale of fixed assets investments		596	0
Acquisition of enterprises		0	(22,050)
Cash flows from investing activities		(18,873)	(37,149)
Cash increase of capital		6,420	3,969
Loans raised and repaid		(55,858)	(49,528)
Purchase of own shares		(3,053)	0
Lease commitments increase and reduction		(953)	3,686
Cash flows from financing activities		(53,443)	(41,873)
Increase/decrease in cash and cash equivalents		(9,758)	28,310
Cash and cash equivalents beginning of year		77,678	49,368
Cash and cash equivalents end of year		67,920	77,678
Cash and cash equivalents at year-end are composed of:			
Cash		282,695	262,319
Short-term debt to banks		(214,775)	(184,641)
Cash and cash equivalents end of year		67,920	77,678

Notes to consolidated financial statements

	2017 DKK'000	2016 DKK'000
1. Revenue		
Denmark	49,781	108,464
EU	526,079	432,056
Other	864,870	1,018,848
	1,440,730	1,559,368
	2017 DKK'000	2016 DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	2,015	2,450
Tax services	1,381	2,960
Other services	2,656	2,596
	6,052	8,006
	2017 DKK'000	2016 DKK'000
3. Staff costs		
Wages and salaries	422,340	381,586
Pension costs	23,192	23,260
Other social security costs	24,499	29,911
	470,031	434,757
Average number of employees	1,099	1,147
	Remunera- tion of manage- ment 2017 DKK'000	Remunera- tion of manage- ment 2016 DKK'000
Executive Board	8,491	9,952
Board of Directors	525	565
	9,016	10,517

Special incentive programs

At the Company's Annual General Meeting on 30. March 2012 and 31. May 2013, decisions were made to grant share options. The Board of Directors is authorized to grant A shares options through one or more allocations. These options give the right to subscribe for shares up to nominal DKK 585k in the Company. The authorization is valid until 31. May 2018. The capital increase is performed through cash payments in connection with the exercising of share options.

Notes to consolidated financial statements

	Board of Directors Quantity	Executive Board and other employees in Manage- ment Quantity	Total Quantity
Outstanding share options at 01.01.2017	437,718	398,808	836,526
Expired/Granted during the year	<u>(375,189)</u>	<u>405,366</u>	<u>30,177</u>
Outstanding share options at 31.12.2017	<u>62,529</u>	<u>804,174</u>	<u>866,703</u>

Wages and salaries, pension costs and other social security costs are recognized in the following items:

	2017 DKK'000	2016 DKK'000
Production costs	330,661	305,558
Distribution costs	70,073	57,250
Administrative costs	<u>69,297</u>	<u>71,949</u>
	<u>470,031</u>	<u>434,757</u>

	2017 DKK'000	2016 DKK'000
4. Tax on profit/loss for the year		
Tax on current year taxable income	24,951	45,309
Change in deferred tax for the year	(8,808)	(11,402)
Adjustment concerning previous years	<u>16,159</u>	<u>(3,170)</u>
	<u>32,302</u>	<u>30,737</u>

	2017 DKK'000	2016 DKK'000
5. Proposed distribution of profit/loss		
Retained earnings	<u>(136,098)</u>	<u>(290)</u>
	<u>(136,098)</u>	<u>(290)</u>

Notes to consolidated financial statements

	Completed develop- ment projects DKK'000	Acquired intangible assets DKK'000	Acquired rights DKK'000	Goodwill DKK'000
6. Intangible assets				
Cost beginning of year	1,743	3,276	37,687	1,394,955
Exchange rate adjustments	2	(148)	(492)	(47)
Transfers	0	0	0	(3,625)
Additions	0	446	400	0
Disposals	0	(557)	(1,695)	0
Cost end of year	1,745	3,017	35,900	1,391,283
Amortisation and impairment losses beginning of year	(1,743)	(2,870)	(26,802)	(386,250)
Exchange rate adjustments	(2)	107	341	(102)
Transfers	0	(26)	0	436
Amortisation for the year	0	(46)	(5,718)	(69,208)
Reversal regarding disposals	0	243	1,064	0
Amortisation and impairment losses end of year	(1,745)	(2,592)	(31,115)	(455,124)
Carrying amount end of year	0	424	4,785	936,159
Recognised assets not owned by entity	-	115	-	-

Notes to consolidated financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
7. Property, plant and equipment				
Cost beginning of year	142,159	174,639	84,320	884
Exchange rate adjustments	(1,791)	(4,265)	(3,638)	(3)
Transfers	0	337	(451)	(61)
Additions	6,852	6,766	4,221	12,777
Disposals	(230)	(30,702)	(4,150)	(9.747)
Cost end of year	146,990	146,775	80,302	3,850
Depreciation and impairment losses beginning of the year	(66,271)	(122,652)	(58,213)	0
Exchange rate adjustments	594	1,750	2,807	0
Transfers	0	(183)	251	0
Depreciation for the year	(5,693)	(10,845)	(5,429)	0
Reversal regarding disposals	25	30,040	3,716	0
Depreciation and impairment losses end of the year	(71,345)	(101,890)	(56,868)	0
Carrying amount end of year	75,645	44,885	23,434	3,850
Recognised assets not owned by entity	-	5,043	283	-

Notes to consolidated financial statements

	Investments in associates DKK'000	Other receivables DKK'000
8. Fixed asset investments		
Cost beginning of year	22,050	3,844
Additions	0	86
Disposals	0	(685)
Cost end of year	22,050	3,245
Revaluations beginning of year	(740)	0
Amortisation of goodwill	(964)	0
Share of profit/loss for the year	538	0
Revaluations end of year	(1,162)	0
Carrying amount end of year	20,884	3,245
	Registered in	Equity inte- rest %
Associates		
CORE A/S	Herlev, Denmark	49,0
9. Contract work in progress		
	2017 DKK'000	2016 DKK'000
Selling price of work performed	794,518	923,148
Invoicing on account	(818,306)	(895,083)
	(23,788)	28,065
Net value is recognized in the balance sheet as follows:		
Contract work in progress (receivables)	88,787	101,657
Contract work in progress (liabilities)	(112,575)	(73,592)
	(23,788)	28,065

Notes to consolidated financial statements

	2017 DKK'000	2016 DKK'000
10. Deferred tax		
Intangible assets	(3,681)	(1,872)
Property, plant and equipment	(5,127)	(4,853)
Receivables	(14,489)	(17,912)
Equity	(548)	154
Provisions	10,170	0
Liabilities other than provisions	2,006	9,997
Tax losses carried forwards	14,054	18,330
	2,385	7,295
Changes during the year		
Beginning of year	7,295	
Recognised in the income statement	(4,362)	
Recognised directly in equity	(548)	
End of year	2,385	

The net deferred tax position is disclosed as a deferred tax asset of DKK 21,180k and a deferred tax liability of DKK 18,795k.

11. Other provisions

Other provisions comprise warranty commitments and other provisions.

The Group currently makes provisions for warranty commitments relating to both projects in progress and completed projects. The provisions for warranty commitments are calculated as an estimated percentage of revenue on a project-by-project basis. Warranty commitments amount to DKK 47,113k at 31. December 2017.

Other provisions amount to DKK 6,692k at 31. December 2017.

12. Long-term debt to other credit institutions

Payments due within 1 year are recognized under current liabilities other than provisions. Other liabilities are recognized under non-current liabilities other than provisions.

Liabilities fall due for payment as specified below:

Other credit institutions	2017 DKK'000	2016 DKK'000
Fall due between 1 and 5 years	470,732	317,194
Fall due more than 5 years	0	185,644
	470,732	502,838

Notes to consolidated financial statements

13. Derivative financial instruments

The company has entered into forward exchange contracts to hedge future sales and purchase in USD, EUR, CHN and PLN. The contract value at 31. December 2017 amounts to DKK 388k (31. December 2016 DKK 1,345k). In relation to the rate at the balance sheet data, the contracts have a negative fair value. The exchange loss is recognized in equity.

	2017 DKK'000	2016 DKK'000
14. Change in working capital		
Increase/decrease in inventories	(41,591)	(2,074)
Increase/decrease in receivables	88,336	(35,195)
Increase/decrease in trade payables etc	72,022	31,031
Other changes	(18,384)	20,460
	100,383	14,222

	2017 DKK'000	2016 DKK'000
15. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	75,598	75,800

16. Contingent liabilities

As part of the international activity, the Group and the Parent are in dialogue with Danish as well as foreign authorities regarding the proper calculation, declaration and payment of both customs, VAT, and taxes.

Based on a specific risk assessment, these are continuously accounted for when it is likely to result in costs in addition to the initial accounting treatment.

17. Mortgages and securities

A mortgage deed registered to the mortgagor of DKK 30.5m and a letter of indemnity of DKK 4.5m secured on land and buildings with a carrying amount of DKK 37,394k at 31. December 2017 have been provided as security for bank debt in the Parent and Group enterprises amounting net to DKK 706,109k at 31. December 2017.

As part of the Group's ordinary activities the Group's bank and insurance companies have issued guarantees for contracting projects totaling DKK 141,452k.

Notes to consolidated financial statements

	Registered in	Equity inte- rest %	Equity DKK'000
18. Subsidiaries			
Haarslev Inc.	Kansas City, USA	100,0	91,725
Haarslev Industries GmbH	Mannheim, Germany	100,0	21,549
Stord-Bartz AS	Bryne, Norway	100,0	654
Haarslev Industries S.A.C.	Lima, Peru	100,0	(3,159)
Haarslev Inversiones Internacionales S.L.U.	Barcelona, Spain	100,0	4,560
Haarslev Industries LTDA	Curitiba, Brazil	100,0	30,739
Haarslev Industries S.A.U.	Barcelona, Spain	100,0	63,939
Haarslev Industries PTE LTD	Labuan, F.T., Malaysia	100,0	20,185
Haarslev Industries SDN BHD	Selangor Darul Eshan, Malaysia	100,0	2,021
Haarslev Industries L.L.C	Moscow, Russia	100,0	14,030
Haarslev Xuzhou Machinery Co. Ltd.	Xuzhou City, Jiangsu Province, China	100,0	54,058
Haarslev Industries Ltd.	Rosedale Auckland, New Zealand	100,0	4,954
Haarslev Industries (India) Pvt Ltd	Mumbai, Maharashtra, India	100,0	61
Haarslev Industries Poland Sp. z.o.o.	Kielce, Poland	100,0	(1,231)
Haarslev Industries A/S	Søndersø, Denmark	100,0	180,048
Haarslev Group A/S	Søndersø, Denmark	100,0	536,978
Haarslev Industries S.A.S	Lorient, France	100,0	12,472
Haarslev Industries Press Technology GmbH & Co. KG	Wuppertal, Germany	100,0	6,518
Haarslev Makine Sanayi A.S.	Bursa, Turkey	100,0	(19,243)
Haarslev Industries Remscheid GmbH	Wuppertal, Germany	100,0	154
Haarslev PT (India) Pvt Ltd	Mombai, Maharashtra, India	100,0	(3,562)

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Administrative costs	1	(909)	(1,001)
Operating profit/loss		(909)	(1,001)
Income from investments in group enterprises		(136,410)	(357)
Other financial income	2	1,199	1,098
Profit/loss before tax		(136,120)	(260)
Tax on profit/loss for the year	3	22	(30)
Profit/loss for the year	4	(136,098)	(290)

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Investments in group enterprises		536,979	691,150
Fixed asset investments	5	536,979	691,150
Fixed assets		536,979	691,150
Receivables from group enterprises		54,223	49,384
Other receivables		0	2
Income tax receivable		2,030	7,156
Receivables		56,253	56,542
Cash		123	0
Current assets		56,376	56,542
Assets		593,355	747,692

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK'000</u>	<u>2016 DKK'000</u>
Contributed capital	6	9,143	9,102
Retained earnings		583,483	734,028
Equity		592,626	743,130
Payables to group enterprises		0	3,933
Income tax payable		30	30
Other payables		699	599
Current liabilities other than provisions		729	4,562
Liabilities other than provisions		729	4,562
Equity and liabilities		593,355	747,692
Contingent liabilities	7		
Mortgages and securities	8		
Related parties with controlling interest	9		

Parent statement of changes in equity for 2017

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	9,102	742,850	751,952
Corrections of material errors	0	(8,822)	(8,822)
Adjusted equity, beginning of year	9,102	734,028	743,310
Increase of capital	41	6,379	6,420
Acquired own shares	0	(3,053)	(3,053)
Exchange rate adjustments	0	(19,487)	(19,487)
Value Adjustments	0	1,714	1,714
Profit/loss for the year	0	(136,098)	(136,098)
Equity end of year	9,143	583,483	592,626

Notes to parent financial statements

	2017 DKK'000	2016 DKK'000
1. Staff costs		
Wages and salaries	525	565
	525	565
	Remunera- tion of manage- ment 2017 DKK'000	Remunera- tion of manage- ment 2016 DKK'000
Board of Directors	525	565
	525	565

Special incentive programs

At the Company's Annual General Meeting on 30. March 2012 and 31. May 2013, decisions were made to grant share options. The Board of Directors is authorized to grant share options through one or more allocations. These options give the right to subscribe for A shares up to nominal DKK 585k in the Company. The authorization is valid until 31. May 2018. The capital increase is performed through cash payments in connection with the exercising of share options.

	2017 DKK'000	2016 DKK'000
2. Other financial income		
Financial income arising from group enterprises	1,175	1,065
Other financial income	24	33
	1,199	1,098
	2017 DKK'000	2016 DKK'000
3. Tax on profit/loss for the year		
Tax on current year taxable income	22	30
	22	30
	2017 DKK'000	2016 DKK'000
4. Proposed distribution of profit/loss		
Retained earnings	(136,098)	(290)
	(136,098)	(290)

Notes to parent financial statements

	Investments in group enterprises DKK'000
5. Fixed asset investments	
Cost beginning of year	750,354
Cost end of year	750,354
Impairment losses beginning of year	(59,204)
Exchange rate adjustments	(19,487)
Share of profit/loss for the year	(136,410)
Other adjustments	1,726
Impairment losses end of year	(213,375)
Carrying amount end of year	536,979

6. Contributed capital

Contributed capital consists of 9,143,245 shares of nominal value of DKK 1. The shares are divided into 6,813,786 A shares and 2,329,459 B shares.

	2017 DKK'000
Movement since formation:	
Share capital 01.01.2013	9,035
Increase in share capital 01.01.2013 - 31.12.2013	42
Increase in share capital 01.01.2014 - 31.12.2014	0
Increase in share capital 01.01.2015 - 31.12.2015	9
Increase in share capital 01.01.2016 - 31.12.2016	16
Increase in share capital 01.01.2017 - 31.12.2017	41
	9,143

7. Contingent liabilities

The Company serves as an administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and from 1. July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these companies. Apart from this, the Company has no contingent liabilities.

Notes to parent financial statements

8. Mortgages and securities

The Company's shares in subsidiaries with a carrying amount of DKK 536,979k have been provided as security for payables in Group enterprises to banks at 31. December 2017, amount net to DKK 706,109k.

9. Related parties with controlling interest

The Following shareholder is recorded in the Company's register of shareholders to have at least 5 % of the votes of the capital:

Haarslev Holding S.A.R.L. (principal shareholder), 9 A Rue Gabriel Lippmann, L-5365 Munsbech, Luxembourg.

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 (large).

The accounting policies applied for these consolidated financial statements and parent financial statements are consistent with those applied last year.

Material errors in previous years

The Company's financial position at 1. January 2017 has been affected by a misstatement related to the lack of recognition of costs in a 100% owned subsidiary in the years 2015 and 2016. The misstatement has been corrected as of 1. January 2017 and have been applied for the comparative figures for 2016. The change results in a reduction of the profit for 2016 with DKK 6,7 million, and the liabilities and equity have been reduced with DKK 8,8 million.

Change in accounting estimates

Simultaneously with the implementation of an internal regrouping of new projects as of 1 January 2017 a larger analysis was performed related to the timing of revenue recognition. The outcome was that more customer contracts are recognized as income at transfer of risk instead of as Work in Progress. Management estimates that revenue has been negatively influenced by approximately DKK 90-115 million.

Recognition and measurement

Assets are recognized 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 recognized 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, that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

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

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

Accounting policies

payment date, or the rate at the balance sheet date are recognized 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.

When recognizing foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates, for the months that do not significantly deviate from the rates at the transactions date. Balance sheet items are translated using the exchange rates at the balance sheet date.

Goodwill is considered as belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates, as well as out of transaction of income statements from average rates to the exchange rates at the balance sheet date are recognized directly in equity.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognized under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognized asset or a recognized liability are recorded in the income statement, together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognized directly in equity. When the hedged transactions are realized, the accumulated changes are recognized as part of cost of the relevant financial statement items.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognized in the income statement when delivery is made, and risk has passed to the buyer. Revenue is recognized net of VAT, duties and sales discounts.

Contract work in progress is included in revenue based on the stage of completion, so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

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

Accounting policies

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.

Productions cost also include research and development cost that do not qualify for capitalisation as well as amortisation of capitalised development costs. Furthermore, amortisation of goodwill is included to the extent that goodwill relates to production activities. Finally, provisions for losses on contract work are recognised.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution, 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 costs comprise expenses incurred for the administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Income from investments in associates

Income from investments in associates comprises the pro rata share of the individual associates' profit/loss after elimination of internal profits or losses.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme 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 recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity.

Accounting policies

The Entity is jointly taxed with all of its other Danish subsidiaries. The current income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Goodwill

Goodwill is measured at cost less accumulated amortization and impairment.

Goodwill is amortized over the expected economic life, measured by reference to an assessment of, among other factors, the nature and market position of the business, the stability of the industry and the dependence on key staff. The amortization period is 20 years.

Haarslev's investments in businesses are of strategic significance in order to further increase Haarslev's revenue and profits. The acquired businesses include technologies, segments and products closely linked to Haarslev's core business. The earnings profile, underpins an economic life of 20 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Buildings, 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 self-manufactured assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labor costs.

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:

Buildings	25 years
Plant and machinery	3-10 years
Other fixtures and fittings, tools and equipment	3-10 years

Estimated useful lives and residual values are reassessed annually.

Accounting policies

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

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus unamortised goodwill and plus or minus unrealised intra-group profits or losses.

Net revaluation of investments in subsidiaries is transferred to "Reserve for net revaluation according to the equity method" under equity.

Goodwill is calculated as the difference between cost of the investments and fair value of the assets and liabilities acquired. Goodwill is amortised over its estimated useful life up to 20 years for strategically acquired enterprises with a strong market position and a long-term earnings profile.

Investments in subsidiaries are written down to the lower of recoverable amount and carrying amount.

Investments in associates

Investments in associates are recognized and measured according to the equity method. This means that investments are measured at the pro rata share of the associates' equity value plus unamortized positive, goodwill and minus or plus unrealized pro rata internal profits and losses.

Upon distribution of profit or loss, net revaluation of investments in associates is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is calculated as the difference between cost of the investments and fair value of the pro rata share of assets and liabilities acquired. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and. Useful lives are reassessed annually. The amortisation periods used are up to 20 years for strategically acquired enterprises with a strong market position and a long-term earnings profile.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables

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

Inventories

Inventories are measured at the lower of cost using the FIFO method or net realizable value if this is lower.

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.

Accounting policies

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

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

Contract work in progress

Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. The stage of completion is determined as the ratio of actual to total budgeted consumption of resources. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as financing costs are recognised in the income statement as incurred.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

Deferred tax

Deferred tax is recognized 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 recognized in the balance sheet at their estimated realizable 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 recognized in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash

Cash comprises cash in hand and bank deposits.

Accounting policies

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, loss on contract work in progress.

Other provisions are recognized 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. Other provisions are measured at net realizable value.

Once it is likely that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognized 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 amortized cost. The difference between present value and nominal amount of the lease payments is recognized 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 amortized cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

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.

Accounting policies

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related costs as well as the raising of loans, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.

Cash flow statement cannot directly be derived from the income statement and the balance sheet.