

Bawat A/S

Agern Alle 24, 2970 Hørsholm
CVR no. 34 05 34 99

Annual report for 2019

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 23.03.20

Klaus Nyborg
Dirigent

Company information etc.	3
Statement by the board of management and board of directors on the annual report	4
Independent auditor's report	5 - 7
Management's review	8 - 9
Income statement	10
Balance sheet	11 - 12
Statement of changes in equity	13
Notes	14 - 26

The company

Bawat A/S
Agern Alle 24
2970 Hørsholm

Registered office: Rudersdal
CVR no.: 34 05 34 99
Financial year: 01.01 - 31.12

Board of management

Marcus Peter Hummer

Board of directors

Klaus Nyborg
Charlotte Hummer Vad
Peter Valdemar Stokbro
Thomas Synnestvedt Knudsen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Subsidiarie

Bawat Singapore PTE. LTD., Singapore

Statement by the board of management and board of directors on the annual report

We have on this day presented the annual report for the financial year 01.01.19 - 31.12.19 for Bawat A/S.

The annual report is presented in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 31.12.19 and of the results of the company's activities for the financial year 01.01.19 - 31.12.19.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Hørsholm, March 23, 2020

board of management

Marcus Peter Hummer

board of directors

Klaus Nyborg
Chairman

Charlotte Hummer Vad
Vice Chairman

Peter Valdemar Stokbro

Thomas Synnestvedt Knudsen

To the shareholder of Bawat A/S**Opinion**

We have audited the financial statements of Bawat A/S for the financial year 01.01.19 - 31.12.19, which comprise the income statement, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.19 and of the results of the company's operations for the financial year 01.01.19 - 31.12.19 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for conclusion

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

Statement regarding the management's review

Management is responsible for management's review.

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

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

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

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

Management's responsibility for the financial statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore the Management is responsible for the internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hobro, March 23, 2020

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Thomas Andersen

State Authorized Public Accountant
MNE-no. mne31407

Primary activities

The business scope of the Company comprises research, development and sales of systems for ships ballast water treatment - both onboard ships or in ports, terminal, yards or other relevant locations.

Development in activities and financial affairs

The income statement for the period 01.01.19 - 31.12.19 shows a loss of DKK -14,835,718 against DKK -14,595,911 for the period 01.01.18 - 31.12.18. The balance sheet shows equity of DKK 25,140,778.

The management considers the net loss for the year to be as expected.

Throughout the year the Company has successfully finalized the full program under the U.S. Coast Guard Type approval testing program with the last test during 1st half of 2019 as expected. The final application for Type Approval has been forwarded to U.S. Coast Guard and IMO in Q3, 2019. The IMO Type approval was received in October 2019 and the U.S. Coast Guard Type Approval was obtained in February 2020.

The organization has been and will be further strengthened in 2020 with additional sales, engineering and support staff to handle the expected increase in sales.

As expected, the shareholders contributed additional capital of DKK 21 million in 2019. The Company is considering a final round of capital injection during 2020 to be able to boost the organization faster to capture a larger market share.

Market overview

The IMO Ballast Water Management Convention requires new and existing ships in international trade to manage their ballast water and sediments to certain standards. The ballast water performance standard will over a period gradually be phased-in peaking over the next 4 to 6 years.

The Convention went into force on September 8, 2016, with scheduled entry into force on September 8, 2017, however, vessel owners were in 2017 granted another 2-year retrofit extension. No further extensions will happen, why sales activities have increased from mid-2019, why the Company experienced further increased sales activities and interest from worldwide vessel owners and other stakeholders such as technical managers of vessels during 2019.

Additional first ship installations have been conducted during 2019, mainly during the 2nd half of 2019.

The Company has also experienced increased interest in the mobile solution and expect first deliverables mid-2020.

Research and development activities

Throughout 2019 the main activities have been focused around finalizing the U.S. Coast Guard Type Approval testing program and submission of IMO and U.S. Coast Guard application.

As mentioned above both the IMO Type Approval and the U.S. Coast Guard Type Approval are obtained.

The Bawat A/S system is the only system to this date obtaining the U.S. Coast Guard Type Approval Certificate without any water quality restrictions or holding time, and all achieved in a one-pass process, which are significant competitive advantages.

The U.S. Coast Type Approval process has been supported by EU under the Horizon 2020 program.

The Company continued finalizing the development program including operational environment tests of the containerized mobile solution with financial support from Markedsmodningsfonden. The project is expected finalized during 1st half of 2020.

2019 R&D expenditures accumulate to DKK 8 million - mainly covering the finalized type approval process and finalizing the mobile solution.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

The official U.S. Coast Guard Type Approval certificate was received February 2020.

Income statement

Note		2019 DKK	2018 DKK
	Gross loss	-7.097.808	-6.174.171
1	Staff costs	-7.496.936	-6.593.894
	Loss before depreciation, amortisation, write-downs and impairment losses	-14.594.744	-12.768.065
	Depreciation, amortisation and impairments losses of intan- gible assets and property, plant and equipment	-4.798.741	-3.305.341
	Loss before net financials	-19.393.485	-16.073.406
2	Income from equity investments in group enterprises	61.342	26.572
	Financial income	3.143.752	13.142
3	Financial expenses	-2.640.266	-2.469.420
	Total net financials	564.828	-2.429.706
	Loss before tax	-18.828.657	-18.503.112
4	Tax on profit or loss for the year	2.259.265	3.556.961
	Other taxes	1.733.674	350.240
	Total tax	3.992.939	3.907.201
	Loss for the year	-14.835.718	-14.595.911
Proposed appropriation account			
	Reserve for net revaluation according to the equity method	60.107	26.572
	Retained earnings	-14.895.825	-14.622.483
	Total	-14.835.718	-14.595.911

ASSETS		31.12.19	31.12.18
		DKK	DKK
Note			
	Completed development projects	18.907.279	22.662.521
	Acquired rights	1.394.433	959.275
	Development projects in progress	37.480.670	31.558.407
5	Total intangible assets	57.782.382	55.180.203
	Other fixtures and fittings, tools and equipment	263.923	147.401
	Total property, plant and equipment	263.923	147.401
6	Equity investments in group enterprises	94.078	32.736
	Deposits	201.000	149.196
	Total investments	295.078	181.932
	Total non-current assets	58.341.383	55.509.536
	Trade receivables	346.366	0
	Receivables from group enterprises	0	37.448
	Deferred tax asset	5.837.504	3.578.239
	Income tax receivable	1.733.674	350.240
	Other receivables	418.736	393.253
	Prepayments	13.063	93.443
	Total receivables	8.349.343	4.452.623
	Cash	15.228.181	12.509.391
	Total current assets	23.577.524	16.962.014
	Total assets	81.918.907	72.471.550

EQUITY AND LIABILITIES		31.12.19	31.12.18
		DKK	DKK
Note			
	Share capital	9.088.952	5.588.951
	Share premium	0	13.669.292
	Reserve for net revaluation according to the equity method	87.914	26.572
	Reserve for development costs	31.949.098	26.960.923
	Retained earnings	-15.985.186	-27.269.248
	Total equity	25.140.778	18.976.490
8	Payables to other credit institutions	27.981.655	24.000.000
8	Other payables	3.517.302	5.842.423
8	Deferred income	17.844.533	19.404.158
	Total long-term payables	49.343.490	49.246.581
8	Short-term part of long-term payables	2.312.364	1.804.197
	Payables to other credit institutions	24.352	102.881
7	Prepayments received from work in progress for third parties	366.000	0
	Trade payables	2.373.043	732.815
	Payables to group enterprises	22.166	0
	Other payables	2.336.714	1.608.586
	Total short-term payables	7.434.639	4.248.479
	Total payables	56.778.129	53.495.060
	Total equity and liabilities	81.918.907	72.471.550
9	Contingent liabilities		
10	Charges and security		

Statement of changes in equity

Figures in DKK	Share capital	Share premium	Reserve for net revaluation according to the equity method	Reserve for development costs	Retained earnings	Total equity
Statement of changes in equity for 01.01.19 - 31.12.19						
Balance as at 01.01.19	5.588.951	13.669.292	26.572	26.960.923	-27.269.248	18.976.490
Foreign currency translation adjustment of foreign enterprises	0	0	1.235	0	-1.235	0
Capital increase	3.500.001	17.500.005	0	0	0	21.000.006
Total depreciation, amortisation, impairment losses and write-downs during the year	0	0	0	-1.500.966	1.500.966	0
Other changes in equity	0	0	0	7.896.062	-7.896.062	0
Tax on changes in equity	0	0	0	-1.406.921	1.406.921	0
Transfers to/from other reserves	0	-31.169.297	0	0	31.169.297	0
Net profit/loss for the year	0	0	60.107	0	-14.895.825	-14.835.718
Balance as at 31.12.19	9.088.952	0	87.914	31.949.098	-15.985.186	25.140.778

	2019 DKK	2018 DKK
1. Staff costs		
Wages and salaries	6.714.512	5.960.013
Pensions	414.423	376.079
Other social security costs	89.804	80.664
Other staff costs	278.197	177.138
Total	7.496.936	6.593.894
Average number of employees during the year	10	8

2. Income from equity investments in group enterprises

Share of profit or loss of group enterprises	61.342	26.572
Total	61.342	26.572

3. Financial expenses

Other interest expenses	2.209.734	2.029.369
Foreign exchange losses	39.904	34.632
Other financial expenses	390.628	405.419
Total	2.640.266	2.469.420

4. Tax on profit or loss for the year

Adjustment of deferred tax for the year	-2.259.265	-3.556.961
Total	-2.259.265	-3.556.961

5. Intangible assets

Figures in DKK	Completed development projects	Acquired rights	Development projects in progress	Total
Cost as at 01.01.19	37.465.974	1.073.401	31.558.406	70.097.781
Additions during the year	0	378.255	7.517.807	7.896.062
Transfers during the year to/from other items	0	1.595.543	-1.595.543	0
Cost as at 31.12.19	37.465.974	3.047.199	37.480.670	77.993.843
Amortisation and impairment losses as at 01.01.19	-14.803.453	-114.126	0	-14.917.579
Impairment losses during the year	0	-1.341.611	0	-1.341.611
Amortisation during the year	-3.755.242	-197.029	0	-3.952.271
Amortisation and impairment losses as at 31.12.19	-18.558.695	-1.652.766	0	-20.211.461
Carrying amount as at 31.12.19	18.907.279	1.394.433	37.480.670	57.782.382

Development projects concerns development of ballast water management systems based on pasteurization for the maritime industry. The projects are expected to be completed in 2020. Market researches shows a great future demand for such systems because of implementation of the ballast water convention by the IMO.

6. Equity investments in group enterprises

Figures in DKK	Equity invest- ments in group enterprises
Cost as at 01.01.19	6.164
Cost as at 31.12.19	6.164
Revaluations as at 01.01.19	26.572
Foreign currency translation adjustment of foreign enterprises	1.235
Net profit/loss from equity investments	60.107
Revaluations as at 31.12.19	87.914
Carrying amount as at 31.12.19	94.078

	31.12.19 DKK	31.12.18 DKK
--	-----------------	-----------------

7. Work in progress for third parties

Work in progress for third parties	2.647.324	0
On-account invoicing	-3.013.324	0
Work in progress for third parties	-366.000	0

Work in progress for third parties is recognized in the balance sheet as:

Prepayments received from work in progress for third parties, short-term payables	-366.000	0
Total	-366.000	0

8. Long-term payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 31.12.19	Total payables at 31.12.18
Payables to credit institutions	0	0	27.981.655	24.503.167
Other payables	0	0	3.517.302	6.479.458
Deferred income	2.312.364	8.595.078	20.156.897	20.068.153
Total	2.312.364	8.595.078	51.655.854	51.050.778

9. Contingent liabilities

Lease commitments

The company has concluded lease agreements with an irrevocability of 44 months and a total lease of t.DKK 2.554.

Other contingent liabilities

The company has received grants for development projects from government authorities. The grants can be demanded reimbursed if the company transfers/sells/rents the projects, if the projects are abandoned, if the projects are not used or if the projects prove to generate significantly more earnings than expected. The total received grants for projects with current contingent liabilities are t.DKK 2.267, t.DKK 500 and t.DKK 753 a total of t.DKK 3.520. The contingent liability on these grants as of 31.12.2019 is t.DKK 2.613. A total amount of t.DKK 2.840 is included in deferred income.

The company has entered into an agreement on performance and exit payment with Danmarks Grønne Investeringsfond. The obligations in relation to the agreement amount to a minimum of t.DKK 1.500. The performance payment can, on basis of the agreed premises, amount to an additional t.DKK 4.500, which stipulates after the general meeting in 2021 on basis of accumulated EBITDA recognized from 2016 to 2021. A total amount of t.DKK 750 is included in other payables.

10. Charges and security

As collateral for debt to credit institutions a company pledge of t.DKK 20.300 has been provided comprising goodwill, intellectual property rights, other plant, fixtures and fittings, tools and equipment, inventories as well as trade receivables. The total carrying amount of the comprised assets is t.DKK 58.393.

11. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

In accordance with section 110 of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

11. Accounting policies - continued -**LEASES**

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

GRANTS

Grants are recognised when there is reasonable certainty that the grant conditions have been met and that the grant will be received.

Grants received for the production or construction of assets are recognised as deferred income under payables. For depreciable and amortisable assets, the grant is recognised as the asset is depreciated or amortised.

INCOME STATEMENT**Gross loss**

Gross loss comprises revenue and raw materials and consumables and other external expenses.

Revenue

Construction contracts involving the delivery of highly customised installations are recognised as revenue according to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (percentage of completion method).

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise other variable costs, selling costs, cost of premises and administrative expenses.

11. Accounting policies - continued -**Staff costs**

Staff costs comprise wages and salaries as well as other staff-related costs.

Depreciation, amortisation and impairment losses

The depreciation and amortisation of intangible assets and property, plant and equipment aim at systematic depreciation and amortisation over the expected useful lives of the assets. Assets are depreciated and amortised according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value, per cent
Completed development projects	5-10	0
Acquired rights	10	0
Leasehold improvements	3	0
Other plant, fixtures and fittings, tools and equipment	3	0

The basis of depreciation and amortisation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation and amortisation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Intangible assets and property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Income from equity investments in group enterprises

For equity investments in subsidiaries, measured using the equity method, the share of the enterprises' profit or loss is recognised in the income statement after elimination of unrealised intercompany profits and losses and less any goodwill amortisation and impairment losses.

Income from equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

11. Accounting policies - continued -**Tax on profit/loss for the year**

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

Other taxes

Other taxes comprises tax amounts that are calculated on a basis other than the income for the year.

BALANCE SHEET**Intangible assets***Completed development projects and development projects in progress*

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

Development projects in progress are transferred to completed development projects when the asset is ready for use.

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

Completed development projects are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Acquired rights

Acquired rights are measured in the balance sheet at cost less accumulated amortisation and impairment losses.

11. Accounting policies - continued -

Acquired rights are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Gains and losses on the disposal of intangible assets

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal.

Property, plant and equipment

Property, plant and equipment comprise leasehold improvements as well as other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Equity investments in group enterprises

Equity investments in subsidiaries are recognised and measured according to the equity method, meaning that these equity investments are measured at the proportionate share of the enterprises' equity value, determined according to the accounting policies of the parent, adjusted for the remaining value of positive or negative goodwill and gains and losses on transactions with the enterprises in question.

Gains or losses on the divestment of subsidiaries are determined as the difference between the divestment consideration and the carrying amount of net assets at the time of sale, including non-amortised goodwill, as well as the expected costs of divestment or discontinuation. Gains and losses are recognised in the income statement under income from equity investments.

11. Accounting policies - continued -**Impairment losses on fixed assets**

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation and amortisation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Work in progress for third parties

Work in progress for third parties is measured at the selling price of the work performed less on-account invoicing made for each piece of work in progress.

The selling price is measured according to the stage of completion at the balance sheet date and total expected income from each piece of work in progress. The degree of completion for each piece of work in progress is normally calculated as the ratio between the resources spent and the total budgeted resource consumption. For some work in progress where the

11. Accounting policies - continued -

resource consumption cannot be used as a basis, the ratio between completed subactivities and the combined subactivities for the individual piece of work in progress is used instead.

When the selling price of a piece of work in progress cannot be determined reliably, the selling price is measured at the lower of costs incurred and net realisable value.

The individual piece of work in progress is recognised under receivables or payables in the balance sheet depending on whether the net value of the selling price less prepayments received is positive or negative.

When it is likely that the total costs of the individual piece of work in progress will exceed total sales income, the total expected loss is recognised as a provision.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

The net revaluation of equity investments in subsidiaries is recognised in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost.

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognised in the reserve, with initial recognition in the balance sheet from 1 January 2016.

11. Accounting policies - continued -**Current and deferred tax**

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

Deferred income

Deferred income under liabilities comprises government grants received for construction of assets.