Emerson Climate Technologies - Transportation Solutions ApS

Axel Kiers Vej 5 A
8270 Højbjerg
Denmark

CVR no. 34 46 55 25

Annual report 2017/18

The annual report was presented and approved at the Company's annual general meeting on

28 February 2019

chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2017 – 30 September 2018.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 September 2018 and of the results of the Company's operations for the financial year 1 October 2017 – 30 September 2018.

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

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

Aarhus, 28 February 2019
Executive Board:

Kenneth Peter Cordes

Board of Directors:

John Edwin Rhodes Chairman	Keith Nulton Browning	Alain Poncet

Kenneth Peter Cordes

Independent auditor's report

To the shareholder of Emerson Climate Technologies - Transportation Solutions ApS

Opinion

We have audited the financial statements of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2017 – 30 September 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 September 2018 and of the results of the Company's operations for the financial year 1 October 2017 – 30 September 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that 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 as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made on the basis of these financial statements.

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

Independent auditor's report

- identify and assess the risks of material misstatement of the company 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.

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

Independent auditor's report

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

Aarhus, 28 February 2019
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Michael Stenskrog
State Authorised
Public Accountant
mne26819

Management's review

Company details

Emerson Climate Technologies - Transportation Solutions ApS
Axel Kiers Vej 5 A
8270 Højbjerg
Denmark

Telephone:	+45 7023 4444
Fax:	+45 7023 6044
Website:	www.emerson.com

CVR no.:	34 46 55 25
Established:	23 March 2012
Registered office:	Aarhus
Financial year:	1 October – 30 September

Board of Directors

John Edwin Rhodes, Chairman
Keith Nulton Browning
Alain Poncet
Kenneth Peter Cordes

Executive Board

Kenneth Peter Cordes

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
DK-8210 Aarhus V
Denmark

Management's review

Financial highlights

DKK'000	2017/18	2016/17	2015/16	2014/15	2013/14
Key figures					
Gross profit	14,241	8,839	23,422	55,868	30,834
Operating profit/loss	-10,530	-15,699	-2,514	24,659	2,105
Profit/loss from financial income and expenses	-5,136	6,393	-2,351	-30,189	19,055
Profit/loss for the year	-10,464	-7,236	-7,029	-4,223	-3,970
Current assets	51,022	46,395	56,267	108,252	172,817
Total assets	219,782	234,798	262,722	340,766	436,614
Equity	92,186	102,652	109,888	116,917	121,140
Current liabilities other than provisions	90,731	100,107	125,582	200,682	295,128
Investment in property, plant and equipment	277	115	1,262	266	681
Ratios					
Return on invested capital	-4.6%	-6.3%	-0.8%	6.3%	0.5%
Current ratio	56.2%	46.3%	44.8%	53.9%	58.6%
Return on equity	-10.7%	-6.8%	-6.2%	-3.5%	-3.2%
Solvency ratio	41.9%	43.7%	41.8%	34.3%	27.7%
Average number of full-time employees	41	47	49	52	61

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations & Ratios". The financial ratios have been calculated as follows:

Return on invested capital $$\frac{\text{Operating profit/loss x 100}}{\text{Average invested capital}}$$

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Return on equity $$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

Principal activities

Emerson Climate Technologies – Transportation Solutions Aps (the Company) provides electronics, communications and monitoring solutions to the transportation industry, specifically refrigerated container (reefer) controls, boiler controls, remote monitoring modems and refrigerated container monitoring systems for containers, including usage on board container ships and in-ship terminals. The Company operates within a broad industry, supplying compressors and compression products to the same industry, as well as land based applications, such as truck/trailer/bus and rail.

Development in activities and financial position

The broader marine transportation market downturn arising from low shipping rates turned in late 2017 and began accelerating in the first half of 2018, however production of new build reefer containers was not able to maintain the momentum throughout 2018 and ended just a bit higher than 2017 (lowest production since 2009).

The continued consolidation activities within the shipping industry is one of the drivers for low order rates for new build reefer containers. This affected the results for the year, coming in at a total loss for 2017/18 of DKK 10,464 thousand.

Based on previous year's expectations, Management of the organization considers the loss unsatisfactory, however in the context of the long-term opportunity the business presents itself as, it finds it acceptable.

In general, the industry faces adverse economic, commercial and even climatic conditions that challenge the growth potential, however the industry has reacted by applying new technologies such remote fleet management and optimization. The investments are expected to drive future growth of the industry and is a space where the company is in a strong position to participate.

New products

The Company has a broad pipeline of new product development activities and launched a new wireless solution to the market in fourth quarter of fiscal year 2018. The product immediately started generating sales. Over the coming years, Management expects significant sales for this product as part of the vision towards cloud based remote monitoring of refrigerated freight.

Outlook

The market recovered in the first half of fiscal year 2018, but did not maintain momentum in second half. A stronger market situation is expected on a long-term basis, this is based upon the continuous increase in demand for transport of refrigerated goods, projected at an over 10% 5-year compound average growth rate, also shown on increasing reefer share of overall container ship capacity. Furthermore, previous surges in reefer market expansion are expected to drive a replacement volume as current reefer fleets in the field will be obsolete within the coming years. As the market recovers, there will be opportunity for the introduction of new products and services.

Results for fiscal year 2019 is expected to be a loss in the range of DKK 3-5 million. Major risk drivers continues to be fluctuations in the exchange rates between the US dollar and Danish Krone. Fiscal year 2019 expectations is based on a flat rate compared to fiscal year 2018.

Management's review

Operating review

Intellectual capital

The Company possesses very large technical and application knowledge within its business areas. Knowledge and know-how has been built over many years. Furthermore the background, education, and experience of the employees are essential for the intellectual capital of the Company.

The right combination of education and expertise within the employee group is therefore critical. Documenting the existing domain knowledge and know-how in the Company is vital to the overall success of the business. The performance of the individual employee related to the agreed objectives is therefore subject to continuous evaluation.

Operating risks

The general risks are related to the global development in investments and operation of refrigerated sea containers, due to the strong dependency on the global operation of the container shipping lines. Within container controls and boiler controls, the Company is additionally strongly influenced by the development of a few significant key customers.

Financial risks

The Company's cash pool liabilities carry floating-rate interest and are raised in USD, thus, are subject to interest rate and foreign exchange risks.

Currency risks

Since export sales account for a considerable part of the revenue, the Company is exposed to foreign exchange rate risks, primarily the fluctuations in the USD rate.

Credit risks

It is company policy to always ensure payments from external customers via bank guarantees, documentary credits, or regular credit rating of the customer.

Environmental matters

The Company applies to current environmental regulations for handling packaging and scrapped electronic items.

The entity follows the group principles on environmental matters, which can be obtained through Emerson Electric Co's website:

https://www.emerson.com/en-mx/about-us/corporate-social-responsibility/environmental-stewardship/environmental-principles

Management's review

Operating review

Research and development activities

The company has developed a deeper pipeline of products through an effective business development and marketing effort. Aside from the modem mentioned above, the company is developing a new suite of enterprise software services, called ProAct Transport. These services are focused on reducing customers operating expenses on refrigerated containers, by applying analytics to data collected from the containers. This work is in conjunction with a number of Emerson entities globally, including Xian, China, Kennesaw, US, and Sidney, US. In order to meet technical requirements of ProAct Transport the Company is developing new wireless hardware devices to support the communication and data flow to the ProAct Transport applications. The services are expected to be launched to the market in fiscal year 2019.

Uncertainty regarding recognition and measurement

For recognition and measurement of the intangible assets, the company has conducted an impairment test to ensure that no need of impairment existS. The impairment test did not show any need of impairment, and the Management refers to note 17 for a more detailed description on the assumptions of the impairment test.

Events after the balance sheet date

No events have occurred after the balance sheet date that may influence the assessment of the annual report for 2017/18.

Financial statements 1 October – 30 September

Income statement

DKK'000	Note	2017/18	2016/17
Gross profit	2	14,241	8,839
Distribution costs	2	-6,548	-8,048
Administrative expenses	2	-18,223	-16,490
Operating loss		-10,530	-15,699
Financial income		33	7,953
Financial expenses	4	-5,169	-1,560
Loss before tax		-15,666	-9,306
Tax on loss for the year	5	5,202	2,070
Loss for the year	6	-10,464	-7,236

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	2017/18	2016/17
ASSETS			
Fixed assets			
Intangible assets	7		
Completed development projects		18,589	11,772
Acquired patents		53,485	59,477
Goodwill		91,520	102,287
Development projects in progress		2,226	11,294
		165,820	184,830
Property, plant and equipment	8		
Plant and machinery		867	886
Fixtures and fittings, tools and equipment		2,073	2,687
		2,940	3,573
Total fixed assets		168,760	188,403
Current assets			
Inventories			
Raw materials and consumables		6,267	8,320
Finished goods and goods for resale		6,045	6,436
		12,312	14,756
Receivables			
Trade receivables		26,206	22,527
Receivables from group entities		682	524
Other receivables		2,397	321
Corporation tax		8,749	7,592
Prepayments	9	644	675
		38,678	31,639
Cash at bank and in hand		32	0
Total current assets		51,022	46,395
TOTAL ASSETS		219,782	234,798

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	2017/18	2016/17
EQUITY AND LIABILITIES			
Equity			
Contributed capital	10	80	80
Reserve for development costs		10,546	8,909
Retained earnings		81,560	93,663
Total equity		92,186	102,652
Provisions			
Provisions for deferred tax	11	34,974	29,699
Other provisions	12	1,891	2,340
Total provisions		36,865	32,039
Liabilities other than provisions			
Current liabilities other than provisions			
Prepayments received from customers		4,116	9,396
Trade payables		13,143	14,274
Payables to group entities		56,976	66,746
Other payables		14,179	9,691
Deferred income	13	2,317	0
		90,731	100,107
Total liabilities other than provisions		90,731	100,107
TOTAL EQUITY AND LIABILITIES		219,782	234,798

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Contractual obligations, contingencies, etc.	14
Mortgages and collateral	15
Related party disclosures	16
Uncertainty regarding recognition and measurement	17

Financial statements 1 October – 30 September

Statement of changes in equity

DKK'000	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 October 2017	80	8,909	93,661	102,650
Transfers, reserves	0	1,637	-1,637	0
Transferred over the distribution of loss	0	0	-10,464	-10,464
Equity at 30 September 2018	80	10,546	81,560	92,186

Financial statements 1 October – 30 September

Notes

1 Accounting policies

The annual report of Emerson Climate Technologies - Transportation Solutions ApS for 2017/18 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

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

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Emerson Electric Co.

Foreign currency translation

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

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

Income statement

Revenue

When sales contracts that consist of several separate components are concluded, the contract amount is allocated by the individual components based on the relative fair value approach. The separate components are recognised as revenue when the criteria applicable to sale of goods and services have been met.

A contract is allocated by the individual components when the fair value of these individual components can be reliably measured and when each component represents a separate value to the buyer. Sales components are deemed to represent a separate value to the buyer when the component is individually identifiable and is normally sold separately.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Income from the sale of goods for resale and finished goods is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the goods relies on standard terms of delivery based on Incoterms® 2010.

Income from the sale of services, comprising service contracts, is recognised in revenue on a straight-line basis as delivered as the services are delivered in the form of an indefinite number of actions over a specific period of time.

Financial statements 1 October – 30 September

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1 Accounting policies (continued)

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries, incurred to generate revenue for the year. Commercial entities recognise their cost of sales, whereas production entities recognise production costs incurred to generate revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases and depreciation of production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs, other intangible assets and goodwill.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for management and administration of the Group, including expenses for administrative staff, Management, office premises, office expenses and depreciation.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies, as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

The Company is covered by Danish legislation on compulsory joint taxation.

The affiliated company, Damcos Holding A/S, is the administrative company for the joint taxation and consequently settles all payments of Danish corporation tax to the tax authorities.

Current Danish corporation tax is allocated through the payment of joint taxation contributions between the jointly taxed companies in proportion to their taxable income. Accordingly, the companies with tax losses receive joint taxation contributions from companies that have been able to use the losses to reduce their own taxable profit.

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Development projects

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses as well development costs. Other development costs are recognised in the income statement as incurred.

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

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is usually 10 years, which is fixed on the basis of experience gained by Management and longest for strategically acquired projects.

Other intangible assets

Other intangible assets comprise trademarks, customer relationships, non-competition agreements and backlog acquired in corporate acquisition and are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over the expected useful life to match the expected earnings profile. Expected useful lives are fixed on the basis of experience gained by Management. The expected useful lives are as follows:

Trademarks	11 years
Customer relationships	10-11 years
Non-competition agreements	1-3 year
Software	3 years

Goodwill

Acquired goodwill is measured at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight-line basis over 15 years, thus matching the expected earnings profile.

The useful life and residual value for intangible assets are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Property, plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub suppliers and wages and salaries.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	3-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

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

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable is used as discount rate.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Equity

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Reserve for development costs

The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividends, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

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

Joint tax contribution liabilities and receivables are recognised in the balance sheet as “Corporation tax liability' or “Corporation tax receivable".

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

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet dare when the deferred tax is expected to crystallise as current tax.

Provisions

Other provisions comprise anticipated costs related to warranties. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Warranties comprise obligations to make good any defects within the warranty period of one to five years. Provisions for warranties are measured at net realisable value and recognised based on past experience.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

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

Deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

Financial statements 1 October – 30 September

Notes

DKK'000	2017/18	2016/17

2 Staff costs and incentive schemes

Staff costs

Wages and salaries	24,972	25,577
Pensions	1,958	2,230
Other social security costs	230	0
Other staff costs	129	1,150
	27,289	28,957
Average number of full-time employees	41	47

Staff costs are recognised in the financial statements as follows:

Production	18,145	20,907
Distribution	2,762	3,546
Administration	6,382	4,504
	27,289	28,957

In accordance with section 98b (3) of the Danish Financial Statements Act, remuneration of the Board of Directors and Executive Board is not presented.

DKK'000	2017/18	2016/17

3 Depreciation and amortisation

Depreciation and amortisation of intangible assets and property, plant and equipment are recognised in the financial statements as follows:

Intangible assets

Production	28,881	27,933

Property, plant and equipment

Production	910	842

4 Financial expenses

Interest expense to group entities	2,463	1,560
Other financial costs	2,706	0
	5,169	1,560

Financial statements 1 October – 30 September

Notes

DKK'000	2017/18	2016/17
5 Tax on profit/loss for the year		
Current tax for the year	-8,727	-7,592
Deferred tax for the year	5,275	5,535
Adjustment of tax concerning previous years	-1,750	-13
	-5,202	-2,070
6 Proposed distribution of loss		
Retained earnings	-10,464	-7,236

7 Intangible assets

DKK'000	Completed development projects	Other intangible assets	Goodwill	Development projects in progress	Total
Cost at 1 October 2017	39,598	142,339	161,466	11,294	354,697
Additions	7,645	0	0	2,226	9,871
Transferred	-26,512	37,806	0	-11,294	0
Cost at 30 September 2018	20,731	180,145	161,466	2,226	364,568
Amortisation and impairment losses at 1 October 2017	-27,826	-82,862	-59,179	0	-169,867
Transferred	27,229	-27,229	0	0	0
Amortisation for the year	-1,545	-16,569	-10,767	0	-28,881
Amortisation and impairment losses at 30 September 2018	-2,142	-126,660	-69,946	0	-198,748
Carrying amount at 30 September 2018	18,589	53,485	91,520	2,226	165,820

Completed development projects

Completed development projects relate to development of new technology released in 2017/18 and before. The development projects are amortised over 10 years and entail higher market penetration.

Development projects in progress

Development projects in progress relate to the development of new products. The new projects are expected to be completed in 2018/19.

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8 Property, plant and equipment

DKK'000	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 October 2017	5,658	7,246	12,904
Additions for the year	210	67	277
Disposals for the year	-1,373	0	-1,373
Cost at 30 September 2018	4,495	7,313	11,808
Depreciation and impairment losses at 1 October 2017	-4,772	-4,559	-9,331
Depreciation for the year	-229	-681	-910
Reversed depreciation and impairment losses on assets sold	1,373	0	1,373
Depreciation and impairment losses at 30 September 2018	-3,628	-5,240	-8,868
Carrying amount at 30 September 2018	867	2,073	2,940

9 Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years with regard to insurance, etc.

10 Equity

The share capital consists of 80,000 shares of a nominal value of DKK 1 each.

All shares rank equally.

11 Deferred tax

DKK'000	2017/18	2016/17
Deferred tax at 1 January	29,699	24,070
Deferred tax adjustment for the year in the income statement	5,275	5,629
	34,974	29,699

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12 Other provisions

DKK'000	2017/18	2016/17
Warranty provisions at 1 January	2,340	3,182
Used during the year	-449	-842
Other provisions at 31 December	1,891	2,340

13 Deferred income

Deferred income of DKK 2,317 thousand (2016/17: DKK 0 thousand) comprises payments received regarding income in subsequent years.

14 Contractual obligations, contingencies, etc.

Operating lease obligations

Rent and lease obligations (operating leases) falling due within 54 months total DKK 16,542 thousand (2016/17: DKK 18,073 thousand).

Contingent liabilities

The Company is jointly taxed with the other Danish companies in the Emerson Group. As a wholly-owned subsidiary, together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends. Any subsequent correction of the taxable jointly taxed income or withholding taxes could result in an adjustment of the Company's liability.

15 Mortgages and collateral

The Company had issued guarantees regarding rental obligations of DKK 3,334 thousand at 30 September (2016/17: DKK 3,242 thousand).

16 Related party disclosures

Control

EMR Emerson Holdings (Switzerland GmbH), Neuhofstrasse 19A, 6340 Baar, Switzerland.

EMR Emerson Holdings holds the majority of the contributed capital in the Company.

EMR Emerson Holdings is part of the consolidated financial statements of Emerson Electric Co, 8000 W. Florissant Ave., St. Louis, 63136 Missouri, USA, which is the largest group, in which the Company is included as a subsidiary.

The consolidated statements of Emerson Electric Co. are available at the Company's address or on the Company's website www.emerson.com.

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.

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17 Uncertainty regarding recognition and measurement

Uncertainty exists regarding the valuation of intangible assets, as revenue and earnings must increase to ensure that no impairment issue exists.

Intangibles are allocated to several different activities and must be tested annually for any indication of impairment. Calculations are used in order to determine if the fair value of the intangibles exceeds the carrying amount.

The Company has made an impairment test of recognised intangible assets. The impairment test did not show any need for additional impairment write-down. The basis for the impairment test has been a discounted cash flow model including the following assumptions:

- Discounted cash flow forecasts derived from the most recent budgets/forecasts for the next six years (2019 through 2025) approved by Management

- Expected growth from external customers based on organic growth due to investments in new technology

- The valuation model is based on an annual revenue growth in the existing market and the discounted cash-flow is supported with a WACC of 11.5 %.

- The sensitivity of a write-down requirement is primary related to the company's fulfillment of the derived budgets/forecasts including budgeted income statement, balance sheet and cash flow from 2019 - 2025 . Furthermore, the sensitivity is related to underlying strategic actions and value drivers as well as changes in the long-term revenue expectations.

Together with the financial backing from Emerson Electric Co., the Company expects to be able to carry out the plans in the coming year and therefore have a value exceeding the book value of intangible assets with a reassuring margin.