BEIERHOLM
VI SKABER BALANCE

Global Castings Lem A/S

Smed Hansens Vej 27, 6940 Lem

CVR no. 35 51 50 46

Annual report for 2018

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 31.05.19

Claus K. Larsen
Dirigent

København
Knud Højgaards Vej 9
2860 Søborg

Tel. 39 16 76 00
www.beierholm.dk
CVR-nr. 32 89 54 68

Table of contents

Company information etc.

The company

Global Castings Lem A/S
Smed Hansens Vej 27
6940 Lem

Registered office: Ringkøbing-Skjern
CVR no.: 35 51 50 46
Founded: 7. oktober 2013
Financial year: 01.01 - 31.12

Executive Board

Peter Christian Pallishøj

Board Of Directors

Stefan Brandt
Ina Hannen
Peter Christian Pallishøj

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Parent company

Global Castings Holding A/S, Lem

Statement of the Board of Directors and Executive Board on the annual report

We have on this day presented the annual report for the financial year 01.01.18 - 31.12.18 for Global Castings Lem 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 the company's assets, liabilities and financial position as at 31.12.18 and of the results of the the company's activities and cash flows for the financial year 01.01.18 - 31.12.18.

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.

Lem, May 20, 2019

Executive Board

Peter Christian Pallishøj

Board Of Directors

Stefan Brandt Chairman	Ina Hannen	Peter Christian Pallishøj

To the Shareholder of Global Castings Lem A/S

Opinion

We have audited the financial statements of Global Castings Lem A/S for the financial year 01.01.18 - 31.12.18, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, inclusive of 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 31.12.18 and of the results of the company's operations and cash flows for the financial year 01.01.18 - 31.12.18 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for opinion

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 extended review 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 extended review 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.

Soeborg, Copenhagen, May 20, 2019

Beierholm
Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Lasse Rosenborg Petersen
State Authorized Public Accountant
MNE-no. mne42896

FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000	2018	2017	2016	2015	2014
Profit/loss					
Gross profit	71.694	78.323	76.255	105.064	192.088
Profit/loss before depreciation, amortisation, write-downs and impairment losses	9.166	10.662	2.635	30.392	110.330
Operating profit/loss	1.155	3.428	-5.975	22.738	101.576
Total net financials	8	-6	-183	-927	162
Profit/loss before tax	1.163	3.422	-6.159	21.811	101.738
Profit/loss for the year	905	2.663	-4.826	16.833	84.085
Balance					
Total assets	44.763	47.752	47.506	83.858	205.748
Investments in property, plant and equipment	3.512	3.738	6.354	3.222	9.859
Equity	19.659	18.754	16.091	40.918	154.085
Cashflow					
Net cash flow:					
Operating activities	252	8.563	0	0	0
Investing activities	-3.512	-3.738	0	0	0
Cash flows for the year	-3.260	4.825	0	0	0

Ratios

	2018	2017	2016	2015	2014
Profitability					
Return on equity	5%	15%	-17%	17%	109%
Equity ratio					
Equity interest	44%	39%	34%	49%	75%

Return on equity: $\dfrac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

Equity interest: $\dfrac{\text{Equity, end of year x 100}}{\text{Total assets}}$

The ratios have been computed in accordance with the recommendations of the Danish Society of Financial Analysts (Den Danske Finansanalytikerforening).

Primary activities

The company's activities comprise in machining and surface treatment of large casted components to leading manufacturers within the wind industry.

The activity is divided between machining and surface treatment of components from Global Castings Group's own foundries and sale of free capacity for strategic customers.

Development in activities and financial affairs

The income statement for the period 01.01.18 - 31.12.18 shows a profit/loss of DKK 905,269 against DKK 2,663,000 for the period 01.01.17 - 31.12.17. The balance sheet shows equity of DKK 19,659,276.

The earnings expectations for 2018 were an increase of EBITDA. The objective was not met, mainly resulting from higher raw material expenses and price concessions to customers based on auction activities.

Outlook

For 2019, the global capacity addition forecast looks positive with still increasing capacity additions in China, the United States and the Asia-Pacific region, e.g. Taiwan and India. Product innovation is generally now being paramount to the wind turbine industry, and turbine OEMs are coming under increased pressure to launch new turbine models faster than in the past. Overall Global Castings Lem A/S expects an increase of EBITDA in 2019.

Special risks

Global Castings Lems business is exposed to several internal and external risks and uncertainties, among which the following:

All wind turbine OEMs are facing an increased competition and wind parks are often awarded by means of auctions. The resulting price pressure on wind turbines leads to cost-out measure requests from wind turbine OEMs towards their suppliers, such as Global Castings.

The world-wide wind turbine business is partly still supported in some countries by subsidies, tax holidays and other public benefits and regulations, and thereby exposed to political and other changes in this area. The demand for wind turbines and subsequently for Global Castings' products can be significantly influenced by fluctuations in the public and political support.

The US market is one of the largest markets for wind turbines in the Western world and large castings are often imported from China and other countries. A change of the energy and/or trade policy by the US government towards China might a significant impact on the wind turbine business and Global Castings' sales to the US.

Vestas as one of the leading and strongest growing OEM's in the world is the main customer of Global Castings with a share in Global Castings' revenue of more than 90%. We are dependent upon the business relationship we have developed with this customer. In other global and sizeable accounts like Siemens-Gamesa and General Electric we have continued our business development efforts.

If the availability of any of our raw materials is limited, we may be unable to produce some of our products in the quantities demanded by our customers, which could have an adverse effect on plant utilization and our sales of product requiring such raw materials.

While the vast majority of our manufacturing costs are variable, a material amount of costs relating to our manufacturing operations are fixed costs. In periods of economic uncertainty and reduced demand for our products, we generally face a decline in the utilization rates of our manufacturing facilities.

Our success depends on meeting customer needs, and one of the ways in which we meet customer needs is through new product development. We aim to introduce products and new or improved production processes proactively.

We mainly use electricity in our manufacturing. This energy source is essential to our operation and we rely on their continuous supply to conduct our business.

The sale of our products involves a risk of product liability claims against us. We have ongoing strict control measures and systems to ensure that the maximum safety and quality of our products are observed. We are protected through a product liability insurance.

From time to time we are involved in labour, tax, commercial and other legal and arbitration proceedings, the outcomes are difficult to predict. We could become involved in legal arbitration, which may involve substantial claims for damage or other payment.

Our business depends on a skilled workforce to manufacture and distribute our products. We may have difficulties to find skilled persons for the workforce, which could have an adverse effect on our business.

Global Castings Lem A/S manages these and other risks and uncertainties by several measures:
The utilization of the global footprint and unique position as an integrated casting-, machining-, surface treatment and assembly provider to optimise market supply between the different continents, continuous improvement activities at all facilities to increase efficiency and reduce own cost basis, broadening the customer base by expanding the business with new customers and doing cross sales with existing customers to achieve a more balanced customer portfolio and to reduce dependency, actively participating in the relevant markets and monitoring political situations to act and adjust proactively and promptly, long term contracts with dedicated volumes on a global level and installing online measurement to prove, that we are always in compliance with emissions and other relevant parameters.

Global Castings Lem A/S maintains a pragmatic and efficient information and risk management system. The ERP system and IT platforms have been expanded and will be further developed during the coming years. Internal control measures are in place in all facilities and will be integrated into the existing ERP-system where possible.

External environment

The company acts in accordance with the applicable environmental and security legislation, and are working according to the ISO 14001 standard.

Corporate social responsibility

Global Castings Lem A/S has ethical rules regarding employees and external business partners. Global Castings Lem A/S respect the companies social responsibility (CSR) and support the principles for human rights, labour rights, the enviroment, anticorruptions etc. according to the UN Guiding Principles on Business and Human Rights. Global Castings Lem A/S truly believes in "safety first".

Income statement

Note		2018 DKK	2017 DKK '000
	Gross profit	**71.693.586**	**78.323**
1	Staff costs	-62.527.625	-67.661
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	**9.165.961**	**10.662**
	Depreciation, amortisation, impairment losses and write-downs of property, plant and equipment	-8.010.836	-7.234
	Profit/loss before net financials	**1.155.125**	**3.428**
	Financial income	397.524	165
	Financial expenses	-389.727	-171
	Profit/loss before tax	**1.162.922**	**3.422**
2	Tax on profit or loss for the year	-257.653	-759
	Profit/loss for the year	**905.269**	**2.663**

3 Distribution of net profit

Balance sheet

ASSETS

Note		31.12.18 DKK	31.12.17 DKK '000
	Acquired rights	0	2.362
4	**Total intangible assets**	**0**	**2.362**
	Plant and machinery	22.899.562	25.036
	Property, plant and equipment under construction	0	421
5	**Total property, plant and equipment**	**22.899.562**	**25.457**
	Total non-current assets	**22.899.562**	**27.819**
	Raw materials and consumables	1.609.053	2.458
	Total inventories	**1.609.053**	**2.458**
	Work in progress for third parties	3.223.165	4.607
	Trade receivables	3.300.211	5.632
	Receivables from group enterprises	11.127.405	2.188
	Other receivables	953.587	172
6	Prepayments	33.520	0
	Total receivables	**18.637.888**	**12.599**
	Cash	**1.616.178**	**4.876**
	Total current assets	**21.863.119**	**19.933**
	Total assets	**44.762.681**	**47.752**

Balance sheet

EQUITY AND LIABILITIES

Note		31.12.18 DKK	31.12.17 DKK '000
7	Share capital	1.000.000	1.000
	Retained earnings	18.659.276	17.754
	Total equity	**19.659.276**	**18.754**
8	Provisions for deferred tax	2.483.043	3.394
	Total provisions	**2.483.043**	**3.394**
	Trade payables	9.798.857	10.293
	Payables to group enterprises	238	0
	Income taxes	1.168.415	1.410
	Other payables	11.652.852	13.901
	Total short-term payables	**22.620.362**	**25.604**
	Total payables	**22.620.362**	**25.604**
	Total equity and liabilities	**44.762.681**	**47.752**

9 Contingent liabilities

10 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Retained earnings
Statement of changes in equity for 01.01.17 - 31.12.17		
Balance as at 01.01.17	1.000.000	15.091.479
Net profit/loss for the year	0	2.662.528
Balance as at 31.12.17	1.000.000	17.754.007
Statement of changes in equity for 01.01.18 - 31.12.18		
Balance as at 01.01.18	1.000.000	17.754.007
Net profit/loss for the year	0	905.269
Balance as at 31.12.18	1.000.000	18.659.276

Cash flow statement

Note		2018 DKK	2017 DKK '000
	Net profit/loss for the year	**905.269**	**2.663**
11	Adjustments	8.260.692	8.001
	Change in working capital:		
	Inventories	2.232.781	-1.810
	Receivables	-6.646.373	2.884
	Trade payables	-495.131	-2.091
	Other payables relating to operating activities	-2.595.181	-1.084
	Cash flows from operating activities before net financials	**1.662.057**	**8.563**
	Interest income and similar income received	0	0
	Interest expenses and similar expenses paid	0	0
	Income tax paid	-1.409.662	0
	Cash flows from operating activities	**252.395**	**8.563**
	Purchase of property, plant and equipment	-3.512.349	-3.738
	Cash flows from investing activities	**-3.512.349**	**-3.738**
	Dividend paid	0	0
	Cash flows from financing activities	**0**	**0**
	Total cash flows for the year	**-3.259.954**	**4.825**
	Cash, beginning of year	4.876.132	51
	Cash, end of year	**1.616.178**	**4.876**
	Cash, end of year, comprises:		
	Cash	1.616.178	4.876
	Total	**1.616.178**	**4.876**

	2018 DKK	2017 DKK '000

1. Staff costs

Wages and salaries	55.723.252	63.241
Pensions	4.596.535	2.472
Other social security costs	1.700.546	1.423
Other staff costs	507.292	525
Total	62.527.625	67.661
Average number of employees during the year	124	135

Remuneration of the Manager and Board of Directors does not appear from the note with reference to the provisions in the Danish Financial Statement Act (Årsregnskabsloven) article 98B, part 3.

2. Tax on profit or loss for the year

Current tax for the year	1.168.415	1.410
Adjustment of deferred tax for the year	-910.762	-651
Total	257.653	759

3. Distribution of net profit

Retained earnings	905.269	2.663
Total	905.269	2.663

4. Intangible assets

Figures in DKK	Acquired rights
Cost as at 01.01.18	14.172.670
Cost as at 31.12.18	14.172.670
Amortisation and impairment losses as at 01.01.18	-11.810.558
Amortisation during the year	-2.362.112
Amortisation and impairment losses as at 31.12.18	-14.172.670
Carrying amount as at 31.12.18	0

5. Property, plant and equipment

Figures in DKK	Plant and machinery
Cost as at 01.01.18	45.626.649
Additions during the year	3.512.349
Cost as at 31.12.18	49.138.998
Depreciation and impairment losses as at 01.01.18	-20.590.711
Depreciation during the year	-5.648.725
Depreciation and impairment losses as at 31.12.18	-26.239.436
Carrying amount as at 31.12.18	22.899.562

	31.12.18 DKK	31.12.17 DKK '000

6. Prepayments

Other prepayments	33.520	0
Total	33.520	0

7. Share capital

The share capital consists of:

	Quantity	Nominal value
Class A shares	1.000	1.000.000
Total		1.000.000

8. Deferred tax

Additions relating to mergers and acquisition of enterprises as at 01.01.18	3.393.805	4.045
Deferred tax recognised in the income statement	-910.762	-651
Additions relating to mergers and acquisition of enterprises as at 31.12.18	2.483.043	3.394

9. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity up to 58 months and a total of DKK 2.363k.

10. Related parties

Controlling influence:	Basis of influence
Global Castings Holding A/S, Lem	Parent company
Global Castings A/S, Lem	Moderselskab
Global Castings GmbH & Co. KG, Germany	Moderselskab
VTC Industriebeteiligungen GmbH & Co. KG., Germany	Moderselskab

Related party transactions are not disclosed, as all transactions are entered into in the ordinary course of business at arms' length.

Receivables from group companies recognised under current assets and short-term payables to group enterprises consist of balances which are settled on an ongoing basis and in accordance with the company's standard terms of agreement and payment. No write-downs have been made on the receivables.

The company is included in the consolidated financial statements of the parent VTC Industriebeteiligungen GmbH & Co. KG., Germany.

11. Adjustments for the cash flow statement

	2018 DKK	2017 DKK '000
Depreciation, amortisation, impairment losses and write-downs	8.010.836	7.234
Financial income	-397.524	-163
Financial expenses	389.727	171
Tax on profit or loss for the year	257.653	759
Total	8.260.692	8.001

12. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

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, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

12. 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.

INCOME STATEMENT

Gross profit

Gross profit comprises revenue, other operating income and raw materials and consumables and other external expenses.

Revenue

Income from the delivery of services is recognised as delivery takes place, which means that revenue corresponds to the selling price of the work performed for the year stated on the basis of the stage of completion at the balance sheet date (percentage of completion method).

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

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 costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

12. 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
Acquired rights	5	0
Plant and machinery	3-5	10

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.

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.

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.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

12. Accounting policies - continued -

BALANCE SHEET

Intangible assets

Acquired rights

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

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 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 plant and machinery.

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.

Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost. Costs incurred on property, plant and equipment under construction are transferred to the relevant asset category when the asset is ready for use.

Gains and losses on the disposal of property, plant and equipment

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.

12. 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.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

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

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.

12. Accounting policies - continued -

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 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.

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.

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

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

12. Accounting policies - continued -

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

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

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the company's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables.

Cash and cash equivalents at the beginning and end of the year comprise cash and short-term payables to credit institutions.