Croda Denmark A/S

Smedetoften 3, DK-3600 Frederikssund

Annual Report for 1 January - 31 December 2018

CVR No 36 05 87 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 25/2 2019

Nicholas Ian Challoner
Chairman of the General Meeting

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Croda Denmark A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Frederikssund, 25 February 2019

Executive Board

Peter Holm Tygesen
CEO

Board of Directors

Nicholas Ian Challoner Chairman	Freek Franciscus Sneiders	Peter Holm Tygesen

Independent Auditor's Report

To the Shareholder of Croda Denmark A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Croda Denmark A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on 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 Financials Statements Act.

Based on the work we have performed, in our view, 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 in Management's Review.

Independent Auditor's Report

Management's responsibilities 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 as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the 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 ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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:

- 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.

Independent Auditor's Report

- 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.

Hellerup, 25 February 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Ulrik Ræbild statsautoriseret revisor mne33262	Josephine Kilsgaard Holm statsautoriseret revisor mne44114

Company Information

The Company	Croda Denmark A/S Smedetoften 3 DK-3600 Frederikssund CVR No: 36 05 87 14 Financial period: 1 January - 31 December Municipality of reg. office: Frederikssund
Board of Directors	Nicholas Ian Challoner, Chairman Freek Franciscus Sneiders Peter Holm Tygesen
Executive Board	Peter Holm Tygesen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	82,648	82,081	122,409	72,383	70,939
Operating profit/loss	18,429	17,068	58,504	31,242	41,608
Profit/loss before financial income and expenses	15,211	15,210	55,927	29,682	41,608
Net financials	-649	-56	-62	-75	-2
Net profit/loss for the year	11,312	11,596	45,017	20,194	31,817
Balance sheet					
Balance sheet total	348,777	339,390	203,497	137,402	107,278
Equity	186,743	158,413	157,237	112,220	92,026
Number of employees	85	90	91	64	44
Ratios					
Return on assets	4.4%	4.4%	27.2%	21.6%	38.8%
Solvency ratio	53.5%	46.7%	77.3%	81.7%	85.8%
Return on equity	6.6%	7.3%	33.4%	19.8%	34.6%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The Company's activity consists of the production and sale of adjuvants.

Sales are mainly effected to countries outside the EU.

Development in the year

The income statement of the Company for 2018 shows a profit of TDKK 11,312, and at 31 December 2018 the balance sheet of the Company shows equity of TDKK 186,743.

The financial year 2018 has been very strong for Croda Denmark A/S. Especially Quil-A sales exceeded the expectations. The realized sales of Quil-A has been the strongest in the Company's history. Sales were up by approx. 100% from 2017 to 2018.

The Aluminium adjuvant sales did also show a strong performance in 2018 over 2017.

The result for the year 2018 shows a slightly increase compared to 2017, which we find satisfactory.

Croda Group bought the Company from Brenntag Group on December 28th, 2018. In connection with this Croda Group has decided to give a Group contribution to Croda Denmark A/S, which has been recognized in equity.

Expectations for 2019

There is some uncertainty as to the sales in 2019. The sales process in 2018 has most likely led some customers to increase inventories on their end in order to take out uncertainty. This will likely affect 2019 sales. At this point in time, it is difficult to estimate the effects on 2019 sales. In 2019 we expect to have a slightly increased cost level, partly due to the transition into Croda Group and partly due to cost increase as consequence of investment projects in new centrifuges, ozonation equipment and others.

NanoQuil development is continuing successfully. We are currently on track to complete the first license agreement on a NanoQuil project in 2019.

We are upscaling AdjuPhos ZP in Q1 2019, and have the first order in place when manufactured.

QS-21 is on track to be upscaled to GMP and we expect to continue our introduction of QS-21 into the market in 2019.

Management's Review

Special risks - operating risks and financial risks

Operating risks

The Company produces and sells goods, and the risk is related to Company's production capacity.

Market risks

The Company is currently subject to the competition and market situation - including customer expectations to the future and thus the demand for products offered by the Company.

Credit risks

The Company's credit risks relate exclusively to our customers. Internal control systems in the form of tight credit control and application of external credit information imply that the Company is not subject to any material risks posed by individual customers or business partners, and historically the Company has not realized any major bad debts.

Strategy and objectives

Strategy

The Company's strategy is to develop our core business, i.e. aluminum-based adjuvants, through an everstronger connection with our customer base in terms of delivering products and expertise to the customers. In addition, we will continuosly expand our current production capacity to reflect the growth in the adjuvant market. Lastly, it is a strategic decision to work purposefully to expand our product portfolio through the development, and launch, of new and innovative adjuvants.

External environment

Croda is continuously working on limiting our impact on the external environment surrounding our warehouses and factories in accordance with the current rules.

The Croda Group furthermore places a numbers of requirements on the Company´s management of the external environment.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

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

Income Statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Gross profit/loss		**82,648**	**82,081**
Staff expenses	2	-56,591	-57,040
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-7,628	-7,973
Other operating expenses		-3,218	-1,858
Profit/loss before financial income and expenses		**15,211**	**15,210**
Financial income		86	153
Financial expenses		-735	-209
Profit/loss before tax		**14,562**	**15,154**
Tax on profit/loss for the year	3	-3,250	-3,558
Net profit/loss for the year		**11,312**	**11,596**

Distribution of profit

Proposed distribution of profit

	2018	2017
Retained earnings	11,312	11,596
	11,312	**11,596**

Balance Sheet 31 December

Assets

	Note	2018	2017
		TDKK	TDKK
Software		905	1,026
Intangible assets	4	**905**	**1,026**
Land and buildings		55,765	57,101
Plant and machinery		49,288	54,630
Other fixtures and fittings, tools and equipment		110	270
Leasehold improvements		226	507
Property, plant and equipment in progress		19,284	0
Property, plant and equipment	5	**124,673**	**112,508**
Investments in subsidiaries	6	151,657	150,291
Deposits	7	234	234
Fixed asset investments		**151,891**	**150,525**
Fixed assets		**277,469**	**264,059**
Inventories	8	**21,686**	**22,092**
Trade receivables		17,887	16,233
Contract work in progress	9	19,369	17,679
Receivables from group enterprises		0	14,712
Other receivables		2,312	13
Corporation tax		70	0
Prepayments	10	566	380
Receivables		**40,204**	**49,017**
Cash at bank and in hand		**9,418**	**4,222**
Currents assets		**71,308**	**75,331**
Assets		**348,777**	**339,390**

Balance Sheet 31 December

Liabilities and equity

	Note	2018	2017
		TDKK	TDKK
Share capital		500	500
Share premium account		59,709	59,709
Retained earnings		126,534	98,204
Equity	11	**186,743**	**158,413**
Provision for deferred tax	12	11,311	12,701
Provisions		**11,311**	**12,701**
Payables to group enterprises		0	27,539
Other payables		126,944	126,560
Long-term debt	13	**126,944**	**154,099**
Trade payables		7,564	7,835
Corporation tax		0	73
Other payables	13	8,765	6,269
Deferred income	14	7,450	0
Short-term debt		**23,779**	**14,177**
Debt		**150,723**	**168,276**
Liabilities and equity		**348,777**	**339,390**
Subsequent events	1		
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Statement of Changes in Equity

	Share capital	Share premium account	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	500	59,709	98,204	158,413
Contribution from group	0	0	17,018	17,018
Net profit/loss for the year	0	0	11,312	11,312
Equity at 31 December	**500**	**59,709**	**126,534**	**186,743**

Notes to the Financial Statements

1 Subsequent events

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

2 Staff expenses

	2018	2017
	TDKK	TDKK
Wages and salaries	50,441	51,005
Pensions	4,943	5,404
Other social security expenses	649	631
Other staff expenses	558	0
	56,591	**57,040**
Average number of employees	**85**	**90**

In accordance with section 98(b)(3) of Danish Financial Statements Act, remuneration to the Executive Board i not disclosed.

3 Tax on profit/loss for the year

	2018	2017
Current tax for the year	3,930	73
Deferred tax for the year	-679	3,251
Adjustment of tax concerning previous years	710	-985
Adjustment of deferred tax concerning previous years	-711	1,219
	3,250	**3,558**

Notes to the Financial Statements

4 Intangible assets

	Software
	TDKK
Cost at 1 January	1,544
Additions for the year	387
Cost at 31 December	1,931
Impairment losses and amortisation at 1 January	518
Amortisation for the year	508
Impairment losses and amortisation at 31 December	1,026
Carrying amount at 31 December	**905**
Amortised over	3-8 years

5 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	69,484	89,252	959	2,626	0
Additions for the year	0	0	0	0	19,284
Cost at 31 December	69,484	89,252	959	2,626	19,284
Impairment losses and depreciation at 1 January	12,383	34,622	689	2,119	0
Depreciation for the year	1,336	5,342	160	281	0
Impairment losses and depreciation at 31 December	13,719	39,964	849	2,400	0
Carrying amount at 31 December	**55,765**	**49,288**	**110**	**226**	**19,284**
Depreciated over	30-40 years	4-10 years	4-6 years	3-8 years	

Notes to the Financial Statements

6 Investments in subsidiaries

	2018	2017
	TDKK	TDKK
Cost at 1 January	150,291	0
Additions for the year	1,366	150,291
Carrying amount at 31 December	**151,657**	**150,291**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Adjuvac International AB	Uppsala	SEK 50.000	100%

7 Other fixed asset investments

	Deposits
	TDKK
Cost at 1 January	234
Cost at 31 December	234
Carrying amount at 31 December	**234**

8 Inventories

	2018	2017
	TDKK	TDKK
Raw materials and consumables	2,283	2,441
Work in progress	8	0
Finished goods and goods for resale	19,395	19,651
	21,686	**22,092**

Notes to the Financial Statements

		2018	2017
		TDKK	TDKK
9	**Contract work in progress**		
	Selling price of work in progress	41,650	39,960
	Payments received on account	-22,281	-22,281
		19,369	**17,679**

10 Prepayments

Prepayments consist of prepaid expenses concerning rent and insurance premiums.

11 Equity

The share capital consists of 500,000 shares of a nominal value of DKK 1. No shares carry any special rights.

12 Provision for deferred tax

	2018	2017
Provision for deferred tax at 1 January	12,701	8,231
Amounts recognised in the income statement for the year	-680	3,251
Adjustment of deggered tax previous years	-711	1,219
Provision for deferred tax at 31 December	**11,311**	**12,701**
Intangible assets	199	226
Property, plant and equipment	5,871	5,249
Current asset investments	5,241	7,226
	11,311	**12,701**

Notes to the Financial Statements

13 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	2018	2017
	TDKK	TDKK
Payables to group enterprises		
Between 1 and 5 years	0	27,539
Long-term part	0	27,539
Within 1 year	0	0
	0	**27,539**
Other payables		
Between 1 and 5 years	126,944	126,560
Long-term part	126,944	126,560
Other short-term payables	8,765	6,269
	135,709	**132,829**

14 Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

Notes to the Financial Statements

	2018	2017
	TDKK	TDKK

15 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2018 TDKK	2017 TDKK
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	190	192
Between 1 and 5 years	288	292
	478	**484**
Rental obligations	9,881	9,671

Other contingent liabilities

Until 28 December 2018 the Company was jointly taxed with Danish Companies of the Brenntag Group (former owner of the Company) and are therefore jointly and severally liable for tax on the jointly taxed incomes etc of the Danish part of Brenntag Group. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

16 Related parties

	Basis
Controlling interest	
Croda Europe Limited	Majority shareholder

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Consolidated Financial Statements

The Company has been acquired by Croda Europe Limited on 28 December 2018. Therefore the Company is included in the consolidated financial statements of both Brenntag AG and Croda International Plc.

Name	Place of registered office
Croda International Plc	East Yorkshire, England
Brenntag AG	Essen, Germany

The Group Annual Report of Croda International Plc may be obtained at the following address:

Croda International Plc
Cowick Hall
Snaith
Goole
East Yorkshire DN14 9AA
England

The Group Annual Report of Brenntag AG may be obtained at the following address:

Brenntag AG
Messeallee 11
D-45131 Essen
Germany

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of Croda Denmark A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2018 are presented in TDKK.

Changes in accounting policies

The company has changed its accounting policies for measurement of investments in subsidiaries from the equity method to cost. The change has resulted in a change in profit for the year by DKK 0 (2017: DKK 0). In addition, this has affected the company's fixed assets by DKK -4.3 million (2017: DKK 0) and the total balance sheet by DKK -4.3 million (2017: DKK 0). Equity was affected by DKK -4.3 million (2017: DKK 0). The effect is due to exchange rate adjustments in foreign subsidiaries.

Change in accounting policies has been made as a result of management's assessment that cost measurement will increase the true and fair view of the investment in MX Adjuvac AB, since management does not consider it relevant to have fluctuations in the Financial Statements when there is no operation in the subsidiary. It is thus the management's assessment that change in cost price will give a greater degree of reliability in the amounts recognised in the result of the Company.

Besides the above, the accounting policies applied remain unchanged from last year.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Croda International Plc and Brenntag AG, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Croda International Plc and Brenntag AG, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable

Notes to the Financial Statements

17 Accounting Policies (continued)

to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

17 Accounting Policies (continued)

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Notes to the Financial Statements

17 Accounting Policies (continued)

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Software is measured at cost with deduction of accumulated amortisation. Software are amortised on a straight line basis over an evaluation of the expected useful life. Usually, the amortisation period is 3-8 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Notes to the Financial Statements

17 Accounting Policies (continued)

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Production buildings	30-40	years
Plant and machinery	4-10	years
Other fixtures and fittings, tools and equipment	4-6	years
Leasehold improvements	3-8	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Notes to the Financial Statements

17 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Notes to the Financial Statements

17 Accounting Policies (continued)

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Financial Highlights

Explanation of financial ratios

Return on assets $$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$$

Return on equity $$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$