Croda Denmark A/S

Elsenbakken 23, DK-3600 Frederikssund

Annual Report for 1 January - 31 December 2019

CVR No 36 05 87 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 21/9 2020

Nicholas Ian Challoner
Chairman of the General Meeting

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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 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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, 21 September 2020

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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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 2019, 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, 21 September 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Ulrik Ræbild
State Authorised Public Accountant
mne33262

Carsten Nielsen
State Authorised Public Accountant
mne30212

Company Information

The Company	Croda Denmark A/S Elsenbakken 23 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:

	2019	2018	2017	2016	2015
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	47,797	82,648	82,081	122,409	72,383
Operating profit/loss	-16,799	18,429	17,068	58,504	31,242
Profit/loss before financial income and expenses	-16,272	15,211	15,210	55,927	29,682
Net financials	-358	-649	-56	-62	-75
Net profit/loss for the year	-13,774	11,312	11,596	45,017	20,194
Balance sheet					
Balance sheet total	365,419	348,777	339,390	203,497	137,402
Equity	209,969	186,743	158,413	157,237	112,220
Number of employees	86	85	90	91	64
Ratios					
Return on assets	-4.5%	4.4%	4.4%	27.3%	21.6%
Solvency ratio	57.5%	53.5%	46.7%	77.3%	81.7%
Return on equity	-6.9%	6.6%	7.3%	33.4%	19.8%

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 2019 shows a loss of TDKK 13,774, and at 31 December 2019 the balance sheet of the Company shows equity of TDKK 209,969.

The financial year 2019 was a difficult transition year from Brenntag to Croda and sales did suffer from this transition. Vaccine Adjuvants represented a new area for the sales force in Croda and we therefore did not see the impact of the sales force in the 2019 result.

The internal integration into Croda systems and procedures has been very successful. We managed to establish a full SAP integration into Croda and created a number of good results on the integration, which will be reflected in the forecast for 2020.

Croda Group bought the Company from Brenntag Group on December 28th, 2018 and continues to express strong support for the Vaccine adjuvant business.

Expectations for 2020

We expect uptick in our sales for 2020 as we leverage upon the synergy provided by the Croda group to grow the business. The Vaccine adjuvant business continue to be an area of focus for the Croda group as the group expects lots of promising opportunities from the technology offered.

There are also strong potential to be seen in the developing markets especially in Asia for our products, and this provide new growth drivers for the business. At this point in time it difficult to estimate the effects of the 2020 sales but we do expect higher cost increases in 2020 as Croda invest more to develop new capabilities within the business by investing in new centrifuges, human resource, and others.

Nanoquil continues to be a strong product for us and we have attained the full patent rights for this product via our subsidiary located in Sweden. We continue to work on upscaling the Vaccine adjuvant business to increase our capacity as we prepare for the year ahead. QS-21 is on track to be upscaled to GMP and we expect to continue our instruction of QS-21 in 2020.

Finally we expect our product pipeline and technology synergies within Croda to benefit the maturation efforts of existing and new pipeline projects.

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

The Company's outlook for the future will be impacted by the Covid-19 outbreak, however it is Management's view that the impact will not be negative on revenue for 2020 and future business opportunities. For further description of impact of Covid-19 see subsequent events disclosures in note 1.

Income Statement 1 January - 31 December

	Note	2019	2018
		TDKK	TDKK
Gross profit/loss		**47,797**	**82,648**
Staff expenses	2	-56,249	-56,591
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-7,820	-7,628
Other operating expenses		0	-3,218
Profit/loss before financial income and expenses		**-16,272**	**15,211**
Financial income		497	86
Financial expenses		-855	-735
Profit/loss before tax		**-16,630**	**14,562**
Tax on profit/loss for the year	3	2,856	-3,250
Net profit/loss for the year		**-13,774**	**11,312**

Balance Sheet 31 December

Assets

	Note	2019	2018
		TDKK	TDKK
Software		347	905
Intangible assets	4	**347**	**905**
Land and buildings		54,453	55,765
Plant and machinery		56,458	49,288
Other fixtures and fittings, tools and equipment		0	110
Leasehold improvements		0	226
Property, plant and equipment in progress		30,472	19,284
Property, plant and equipment	5	**141,383**	**124,673**
Investments in subsidiaries	6	151,657	151,657
Deposits	7	241	234
Fixed asset investments		**151,898**	**151,891**
Fixed assets		**293,628**	**277,469**
Inventories	8	**22,419**	**21,686**
Trade receivables		13,712	17,887
Contract work in progress	9	19,950	19,369
Receivables from group enterprises		3,548	0
Other receivables		903	2,312
Corporation tax		3,378	70
Prepayments	10	558	566
Receivables		**42,049**	**40,204**
Cash at bank and in hand		**7,323**	**9,418**
Currents assets		**71,791**	**71,308**
Assets		**365,419**	**348,777**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		TDKK	TDKK
Share capital		500	500
Share premium account		59,709	59,709
Retained earnings		149,760	126,534
Equity	11	**209,969**	**186,743**
Provision for deferred tax	13	7,819	11,311
Other provisions		1,135	0
Provisions		**8,954**	**11,311**
Other payables		126,985	126,944
Long-term debt	14	**126,985**	**126,944**
Trade payables		2,415	7,564
Payables to group enterprises		1,328	0
Other payables	14	9,063	8,765
Deferred income	15	6,705	7,450
Short-term debt		**19,511**	**23,779**
Debt		**146,496**	**150,723**
Liabilities and equity		**365,419**	**348,777**
Subsequent events	1		
Distribution of profit	12		
Contingent assets, liabilities and other financial obligations	16		
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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	126,534	186,743
Contribution from parent company	0	0	37,000	37,000
Net profit/loss for the year	0	0	-13,774	-13,774
Equity at 31 December	**500**	**59,709**	**149,760**	**209,969**

Notes to the Financial Statements

1 Subsequent events

The implications of Covid-19 with many governments across the world deciding to ”close down their countries” will have great impact on the global economy. Management considers the implications of Covid-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

Management expects that the impact of COVID-19 on the revenue for 2020 will be limited, as no significant impact has been observed so far in 2020. The prime impact will be higher prices on shipments and longer leadtimes.

Management further expects that Covid-19 will pose further business opportunities in the future and positively impact revenues in the future as Croda Vaccine Adjuvants are used in multiple vaccine projects related to Covid-19 research.

2 Staff expenses

	2019 TDKK	2018 TDKK
Wages and salaries	49,770	50,441
Pensions	5,657	4,943
Other social security expenses	818	649
Other staff expenses	4	558
	56,249	**56,591**
Average number of employees	**89**	**85**

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

Current tax for the year	0	3,930
Deferred tax for the year	-3,492	-679
Adjustment of tax concerning previous years	636	710
Adjustment of deferred tax concerning previous years	0	-711
	-2,856	**3,250**

Notes to the Financial Statements

4 Intangible assets

	Software
	TDKK
Cost at 1 January	1,931
Additions for the year	69
Cost at 31 December	2,000
Impairment losses and amortisation at 1 January	1,026
Amortisation for the year	627
Impairment losses and amortisation at 31 December	1,653
Carrying amount at 31 December	**347**
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	19,284
Additions for the year	159	13,642	0	0	11,188
Cost at 31 December	69,643	102,894	959	2,626	30,472
Impairment losses and depreciation at 1 January	13,719	39,964	849	2,400	0
Depreciation for the year	1,471	6,132	110	226	0
Transfers for the year	0	340	0	0	0
Impairment losses and depreciation at 31 December	15,190	46,436	959	2,626	0
Carrying amount at 31 December	**54,453**	**56,458**	**0**	**0**	**30,472**
Depreciated over	30-40 years	4-10 years	4-6 years	3-8 years	

Notes to the Financial Statements

	2019	2018
	TDKK	TDKK

6 Investments in subsidiaries

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

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
Additions for the year	7
Cost at 31 December	241
Carrying amount at 31 December	**241**

8 Inventories

Raw materials and consumables	5,829	2,283
Work in progress	581	8
Finished goods and goods for resale	16,009	19,395
	22,419	**21,686**

Notes to the Financial Statements

	2019	2018
	TDKK	TDKK

9 Contract work in progress

Selling price of work in progress	42,231	41,650
Payments received on account	-22,281	-22,281
	19,950	**19,369**

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 TDKK 1. No shares carry any special rights.

12 Distribution of profit

Retained earnings	-13,774	11,312
	-13,774	**11,312**

13 Provision for deferred tax

Provision for deferred tax at 1 January	11,311	12,701
Amounts recognised in the income statement for the year	-3,492	-679
Adjustment of deggered tax previous years	0	-711
Provision for deferred tax at 31 December	**7,819**	**11,311**
	7,819	**11,311**

Notes to the Financial Statements

14 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:

	2019	2018
	TDKK	TDKK
Other payables		
Between 1 and 5 years	126,985	126,944
Long-term part	126,985	126,944
Other short-term payables	9,063	8,765
	136,048	**135,709**

15 Deferred income

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

16 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	115	190
Between 1 and 5 years	144	288
	259	**478**
Rental obligations	8,987	9,881

Notes to the Financial Statements

17 Related parties

	Basis
Controlling interest	
Croda Europe Limited	Majority shareholder

Transactions

The sale of goods to associates amount to DKK 15,872k in 2019. In connection with sales, the Company pays a commission of approx. 5%.

The Company pays an IT charge to its Parent company, Croda Europe Ltd. The IT charges invoiced by associates amount to DKK 1,260k in 2019.

Consolidated Financial Statements

The Company is included in the consolidated financial statements of Croda International Plc.

Name	Place of registered office
Croda International Plc	East Yorkshire, England

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

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of Croda Denmark A/S for 2019 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 2019 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Croda International Plc, 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, 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 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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

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

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

Investments in subsidiaries

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

Other fixed asset investments

Other fixed asset investments consist of deposits.

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.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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