

Norican Group

Shaping Industry

2019 ANNUAL REPORT

General meeting: 27.03.2020
Chairman: Ian B. Bird



Norican Group 2019 Annual Report

Consolidated Financial Statements

31 December 2019

Together with Independent Auditor's Report

COMPANY

Norican Global A/S
Højager 8
DK-2630 Taastrup
Denmark

AUDITOR

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6 2300 København S
Denmark

Norican Global A/S ("Norican" or the "Parent Company"), through its subsidiaries (collectively "Norican Group" or the "Company") is home to four leading, globally operating brands in the parts formation and parts preparation market sectors: DISA, Italtresse Gauss (incorporating Italtresse Industrie and Gauss Automazione), StrikoWestofen and Wheelabrator, now collectively supported by our Norican Digital solutions.

As a strong global partner, we are able to serve our customers better, faster and more efficiently, giving them easy access to all we have to offer and working in partnership to keep them well ahead of the curve. From melting, dosing and moulding, to cleaning, strengthening and polishing of metallic parts, we provide solutions to solve our customers' challenges.

As process experts in our industry, we are continuing our focus on Industry 4.0 digital solutions as a means for improving our customers' profitability. Whether it be Artificial Intelligence ("AI"), an Industrial Internet of Things ("IIoT") approach or innovative control system enhancements, our knowledge and experience in the metalworking industries make us a preferred supplier of technology to streamline processes and increase our customers' productivity.

This annual report includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this annual report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, our liquidity, capital resources and capital expenditures, the general economic outlook and industry trends, litigation outcomes, future developments in the markets in which the Norican Group participates or is seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, you can identify forward-looking statements by terminology such as "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "potential," "predict," "projected," "should" or "will" or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and are based on numerous assumptions, and our actual results of operations, including our financial condition and liquidity and the development of the industries in which we operate, may differ materially from (and be more negative than) those made

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in, or suggested by, the forward-looking statements contained in this annual report. You should not place undue reliance on these forward-looking statements.

In addition, even if our results of operations, including our financial condition and liquidity and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this annual report, those results or developments may not be indicative of results or developments in subsequent periods. We are subject to numerous risks that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this annual report may not occur. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made. We undertake no obligation to update or revise any forward-looking statements or risk factors, whether as a result of new information, future events or developments or otherwise. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

Letter to Stakeholders

Norican Group's financial performance in 2019 was a mixed picture. Demand from the industries we serve generally softened throughout the year, and particularly in the second half within our automotive-exposed customers. The impact of this was especially evident in the demand for our aluminium light-weighting solutions.

Despite this softness, the business remained highly cash generative and we were able to reduce net debt by €15 million, or 6%. Furthermore, while maintaining sales above the half-billion euro mark, we posted the 9th consecutive year of double digit EBITDA margins. This strong profitability is due in part to an aftermarket business which is now half of our total group revenue.

Looking to 2020, the business outlook is definitely more challenging and less predictable than normal. Drive train trends in automotive, light-weighting through use of aluminium or other metals, and the economic impact of everything from potential trade wars and fiscal and monetary policy change, to the current coronavirus outbreak will impact demand in 2020. For Norican's business, we currently see more negatives than positives and we therefore expect a decline in both revenue and operating result for 2020.

Returning to 2019, this has been a year of change on several fronts. At the end of March, the prior Norican Group CEO stepped down and in July a new organizational structure and executive management team was announced. The new structure has reduced complexity and enabled delegation of responsibility to a wider group of managers, and the senior management team has consequently been reduced to half by end of the year.

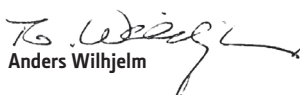
As part of our business review process, we also decided to discontinue our Wheelabrator Vibro business and we initiated a number of restructuring activities. These activities will not only reduce our cost base, but also simplify our global footprint so we can serve our customers more efficiently and profitably. In May, we went live with a significant upgrade of our ERP system across 32 entities with minimal disruption to daily operations. This upgrade will strongly improve our internal processes and efficiency, as well as strengthen our business understanding through data analysis.

Besides investing in strengthening our operations, we also continue to invest in technology and solutions addressing our customers' needs. In 2019 we have invested over €6 million in R&D. One of the areas of innovation is our digital activities. With the increasing opportunity for leveraging technology to improve our customers' productivity, Norican has spent considerable effort to do more than just talk about it. Under the Monetizer® brand name, several digital products have been launched during the year. Also, a strategic partnership between Norican Group and DataProphet, an expert within industrial Artificial Intelligence and Machine Learning, was formed to more quickly bring practical digital solutions to our customers. Customer interest in these products is strong and the value potential for the customer in the digital solutions is significant.

Although the current outlook for Norican Group is heavily affected by negative macro events, our longer-term outlook remains positive. We are confident that great technologies and strong institutional knowledge, combined with increasing organisational agility, will enable Norican Group to prosper and grow.

We want to thank our many customers for their trust in Norican Group. We take neither your trust nor your business for granted, and we strive to always do better. We also want to thank the more than 2,000 Norican employees for another great effort in 2019. The year has offered many challenges, but we are grateful for your continued support and your can-do attitude. Finally, we would like to thank all our other stakeholders for your continued interest and support.

Sincerely,


Anders Wilhjelm


Andrew J. Matsuyama

Financial Highlights

Year Ended 31 December
(in thousands)

	2019 ⁽³⁾	2018 ⁽³⁾	2017 ⁽³⁾	2016	2015 ⁽¹⁾	Pro forma 2015 ⁽¹⁾
OPERATING DATA⁽⁵⁾:						
Net revenue	€503,923	€534,057	€481,606	€375,509	€350,711	€401,112
Gross margin	154,544	162,879	150,664	125,269	116,880	134,496
Operating income	39,080	50,021	43,311	33,373	35,097	37,809
Reported EBITDA ⁽⁴⁾	62,662	65,960	58,304	45,029	44,786	49,342
Finance cost	19,868	19,662	23,043	10,427	8,091	11,428
Income before tax	(19,478)	18,561	11,349	17,132	12,294	18,481
Net income	(23,673)	12,568	941	16,507	4,918	8,081
BALANCE SHEET DATA:						
Balance sheet total	755,326	769,428	749,745	531,144	522,371	522,371
Investments in property, plant and equipment	4,380	5,165	5,191	4,551	2,569	2,724
Total equity	169,981	200,379	183,699	177,849	160,856	160,856
CASH FLOW DATA:						
Cash generated from operations ⁽²⁾⁽⁶⁾	48,133	36,302	30,423	45,508	1,716	16,968
Net cash provided by/(used in) operations ⁽⁶⁾	29,894	18,275	16,209	36,196	(5,254)	7,165
Net cash used in investing activities ⁽⁶⁾	(4,276)	(5,031)	(151,261)	(4,436)	(65,760)	NMF
Net cash provided by/(used in) financing activities ⁽⁶⁾	(10,892)	(207)	167,376	(15,593)	109,296	NMF
Net increase/(decrease) in cash	16,146	13,823	26,243	16,127	39,971	(16,088)

⁽¹⁾ Norican Global A/S was formed on 11 December 2014, and through a wholly-owned subsidiary, acquired Norican Holdings ApS and its subsidiary companies on 26 February 2015. For its inaugural year, the consolidated financial statements of the Parent Company are presented for the period from the date of formation of the Parent Company, 11 December 2014 through 31 December 2015, the first full period of operations of the Parent Company. Pro forma comparative amounts are presented for the period from 1 January 2015 to 31 December 2015 which is the normal operating cycle and fiscal year for the acquired company.

⁽²⁾ Cash generated from operations excludes cash paid for interest.

⁽³⁾ Results include the acquisition of the of 100% of the share capital of the Aluminium business on 28 April 2017.

⁽⁴⁾ Reported EBITDA reflects operating income before depreciation and amortisation. Effective 1 January 2019 the Company adopted IFRS 16 which increased reported EBITDA for the year ended 31 December 2019 by €8,075.

⁽⁵⁾ Results of the Wheelabrator Vibro business have been reclassified to discontinued operations during 2019 and in accordance with IFRS 5, 2018 results have been restated to reflect this classification. See Management's discussion and analysis of financial condition and results of operations that follow.

⁽⁶⁾ Effective 1 January 2019, the Company adopted IFRS 16 which increased the reported amount of cash from operations, depreciation of right-of-use assets and cash used in financing activities by €8,075. Amounts for prior years have not been restated.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of financial condition and results of operations is based on the consolidated statements of financial position, consolidated statements of comprehensive income and consolidated statements of cash flows, which have been derived from the audited consolidated financial statements prepared in accordance with IFRS and included elsewhere in this annual report.

During 2019, the Company (i) implemented IFRS 16 effective 1 January, resulting in an increase in right-of-use assets and lease liabilities, with a corresponding increase in depreciation expense, and cash payments on lease liabilities reported as a financing activity cash outflow; and (ii) reclassified the results of the Wheelabrator Vibro Business to discontinued operations, restating the prior year financial statements to reflect this classification in accordance with IFRS 5, and resulting in a reduction in revenues, cost of sales and SG&A, and an increase in operating income for the years ended 31 December 2019 and 2018.

Legacy Norican Group is used to describe the Company's legacy operations, which exclude the LMCS Group acquired on 29 April 2017, the acquired business being referred to as the Aluminium business throughout this report.

This section should be read in conjunction with the consolidated financial statements contained elsewhere in this report, including the notes thereto, which describe more fully the changes in financial reporting described above as well as other information about the Company.

Risk factors

Even though it is too early to assess the full impacts of the coronavirus outbreak on global markets, and in particular, on the Company's industry, the spread of the coronavirus has already added, and could continue to add, pressure to our global operations, and to our suppliers and the industries we serve. As a result, the economic impacts of coronavirus could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Given our significant exposure to the automotive sector, which has traditionally accounted for approximately 60% of consolidated revenue, our financial performance bears a strong correlation to the condition of that sector. The cyclical and fluctuating nature of the automotive industry presents a risk that is outside of our control and that cannot be accurately predicted. During 2019, demand from our customers weakened, notably demand from our automotive-exposed customers, and especially as it relates to the Aluminium business. Macro trends that may occur in the automotive industry, including shifts away from manufacturing vehicles with a high

number of metallic components, could have a material adverse effect on our revenues, profitability and financial condition. Accordingly, any continued deterioration in demand in the automotive sector may have an adverse effect on our business, financial position and results of operations.

Other risk factors for the Company are described in the offering memorandum dated as of 5 May 2017.

Results of operations for the year ended 31 December 2019, as compared to the year ended 31 December 2018 (amount in thousands)

Revenues declined to €503,923 in 2019 from €534,057 in 2018, a decline of €30,134, or 6%. Included in these amounts are the effects of fluctuations in currency translation rates, which increased consolidated revenue by €8,372 during 2019, as compared to translation rates for 2018. Excluding the currency translation effect, revenues declined €38,506, or 7%. The decline in revenues is due to the Aluminium business. Legacy Norican Group revenues increased €760 in 2019 compared to 2018. The increase in legacy Norican Group 2019 revenues is due to increased aftermarket revenue of €5,036, or 2%, partially offset by decreased equipment revenue of €4,276, or 2%.

Cost of sales declined to €349,379 in 2019, compared to €371,178 in 2018, a decline of €21,799 or 6%. As a percent of revenues, cost of sales for the consolidated business was approximately equal to the prior year at 69%.

SG&A increased to €105,197 in 2019, compared to €102,162 in 2018, an increase of €3,035, or 3%. Changes in currency exchange rates increased SG&A by €1,572 in 2019. Excluding the currency translation effect, SG&A increased €1,463, or 1%. As a percent of revenues, consolidated SG&A was 21% compared to the prior year at 19%. Included in SG&A are non-customer specific research and development expenses of €6,436 in 2019, as compared to €6,206 in 2018.

Amortisation expense declined to €10,267 in 2019, compared to €10,696 in 2018, a decline of €429, or 4%. This represents the amortisation of customer relationships, patents and other intangibles on a straight-line basis over a 10- to 20-year useful life and capitalised development expense which is amortised on a straight-line basis over a six-year useful life.

Reported EBITDA, which represents operating earnings excluding depreciation and amortisation, declined to €62,662 in 2019 from €65,960 in 2018, a decline of €3,298, or 5%. Changes in currency exchange rates increased EBITDA in 2019 by €1,074, as compared to translation rates for 2018.

Additionally, the Company implemented IFRS 16 on 1 January 2019 which resulted in decreased operating expense with a corresponding increase in depreciation expense, resulting in increased EBITDA during 2019 of €8,075. The decline in EBITDA is due primarily to lower sales volumes in the Aluminium business.

Finance costs increased to €19,868 in 2019 from €19,662 in 2018, an increase of €206, or 1% primarily due to increased other interest expense, relating to hedges and pension plans.

The Company recorded a restructuring provision and leased asset impairment charge during 2019 in the amount of €6,460 primarily for severance costs relating to the restructuring of the Company's management, including the elimination of certain management roles, and inventory impairment, lease write-off and severance costs for the Wheelabrator Vibro discontinued operation.

The Company recorded a €30,000 impairment of goodwill in 2019. The impairment is attributed to the underperformance of the Aluminium business acquired in 2017.

Foreign exchange gain in 2019 is €1,580, compared to a loss of €1,420 in 2018.

Other non-operating expense in 2019 is €3,810, compared to expense of €2,796 in 2018. Other expense in 2019 consists primarily of a loss from discontinued operations of the Wheelabrator Vibro business of €1,983, amortisation of deferred costs for strategic advisory and management services of €362, and other miscellaneous expense of €1,465.

Income tax expense decreased to €4,195 in 2019, from €5,993 in 2018 due primarily to lower income before income tax. See footnote 17 to the audited financial statements included elsewhere in this annual report.

Equipment order backlog is used in addition to and in conjunction with results presented in accordance with IFRS. Equipment order backlog should not be relied upon to the exclusion of IFRS financial measures. As of 31 December 2019, order backlog was €115,749 which is comprised of backlog for the Legacy Norican businesses of €81,129 and backlog for the Aluminium business of €34,620.

Cash flows

Net cash from operations of €29,894 in 2019 was predominately attributable to 2019 net income, including cash paid for taxes of €8,358, as adjusted for non-cash items and cash used for working capital changes, primarily trade and other payables, deferred revenue, accrued liabilities and provisions, and other, partially offset by cash provided by changes in trade and other receivables and inventory.

Net cash from operations of €18,275 in 2018 was predominately attributable to 2018 net income, including cash paid for taxes of €5,515, as adjusted for non-cash items and cash used for working capital changes, primarily inventory, trade and other payables and deferred revenue, partially offset by cash provided by changes in trade and other receivables and accrued liabilities and provisions.

Net cash used in investing activities of €4,276 in 2019 is due primarily to capital expenditures of €4,380, partially offset by asset disposal proceeds of €104. Capital expenditures consist of investments in property, plant and equipment, including the acquisition of buildings and improvements of €186, machinery and equipment of €1,522, IT of €1,134 and other expenditures of €1,538.

Net cash used in investing activities of €5,031 in 2018 is due primarily to capital expenditures of €5,165, partially offset by asset disposal proceeds of €134. Capital expenditures consist of investments in property, plant and equipment, including the acquisition of buildings and improvements of €160, machinery and equipment of €748, IT of €2,964 and other expenditures of €1,293.

Net cash used in financing activities amounted to €10,892 in 2019. This is comprised primarily of €8,438 in payments on the Company's lease liabilities as a result of the adoption of IFRS 16, and €2,397 in payments for net shares acquired.

Net cash used in financing activities amounted to €207 in 2018. This is due primarily to the repayment of debt facilities and other transactions.

Liquidity and capital resources

Our business has required and will continue to require liquidity, primarily to meet our debt service requirements, fund capital expenditures and fund growth of our working capital.

Our principal sources of liquidity are accumulated cash generated from our operating activities and a revolving credit facility. Cash includes cash on hand and in banks and investments in money market instruments totaling €112,310 and €96,164 as of 31 December 2019 and 2018, respectively. Based on our current level of operations, we believe our cash flow from operations, available borrowings under the revolving credit facility, and cash and cash equivalents will be adequate to meet our liquidity needs.

Corporate Social Responsibility (CSR)

Leading for sustainability includes corporate social responsibility and primarily covers environmental and climate matters, social matters, employee relations, health and safety, human rights, anti-corruption, anti-bribery and community support.

The Company's business model

Norican Group is one of the world's leading providers of technology and services for metallic parts enhancement. The Company provides equipment, parts, technology and services to its customers globally, enabling them to mould, melt, cast, clean, strengthen or polish their metallic parts. We supply and service global clients locally, and the constituent businesses bring more than 100 years of technical and operational experience to bear.

Non-financial key performance indicators (KPIs)

The Company is continuously looking for relevant and competent female candidates to join the Company's board. The Company had set the goal that at least one of the Company's board members should be a female by 2019. This KPI was established in light of the expected tenure of the existing directors. However, the process has unfortunately been delayed due to the re-election of the current board members and the composition of the candidate base of the industry in which Norican operates. The pool of candidates is predominantly male. It has become apparent that the process of appointing the right female candidate to the Company's Board of Directors takes more time than presumed. Nevertheless, the Company endeavors to build up a pipeline of relevant female candidates to become board members going forward. To this end, the Company has set a new goal in this respect. The goal is that by 2022, at least one of the Company's board members shall be female.

The Company strives towards achieving broader gender representation by promotions and recruitment, taking into account the predominantly male-dominated industry in which Norican operates. Both male and female employees are encouraged to apply for internally advertised positions and to develop their competencies and careers. In all cases, we will employ the person best qualified for the job. As of 31 December 2019, approximately 20% of Norican Group's top management are female.

Since the Parent Company does not have any employees, the Company is not subject to the requirements for adopting policies related to gender equality.

Environment and climate

Company policies regarding environment and climate have been implemented at a site specific level and include ISO 14001:2015 certification, which specifies the requirements for an environmental management system that can be used to enhance environmental performance based on a mapping of environmental impact from the site specific activities. In addition, we conduct our operations and activities with deep

respect for all our stakeholders and with a focus on reducing potential impacts on climate and the environment. A significant portion of our research and development efforts are focused on assisting our customers in reducing waste, reducing energy consumption, as well as increasing yield in their production. By modifying, upgrading or replacing older equipment with newer Norican technology, our customers can significantly reduce their environmental impact. We aim to raise the level of awareness for external climate and environmental considerations in our business operations, and we endeavor to comply with applicable laws, rules and regulations regarding climate and environment in each of the jurisdictions where we have operations. Hence, Norican Group is committed to being a responsible corporate citizen within the communities in which we operate. To this end, all directors, officers, managers and employees of the Company assist these efforts by obeying all applicable environmental laws.

Social conditions and employee relations

Throughout Norican Group, there are a number of governance policies directed towards creating a safe and healthy working environment for all employees internally. Most important is Norican Group's Code of Business Conduct and Ethics (the "Code of Conduct"). It follows from the Code of Conduct that Norican Group does not engage in discriminatory conduct as set out in the laws of each jurisdiction in which we operate. The goal is to provide employment and promotional opportunities for all employees on a non-discriminatory basis. The Code of Conduct does not expand any rights or privileges that exist under applicable laws but reflect the Company's commitment to complying with these laws in each jurisdiction.

Recognising the importance of providing Norican Group employees with a safe and healthful workplace free of recognised hazards, all our directors, officers, managers and employees are responsible for helping to ensure the safety of Norican Group workplaces through personal action and through prompt reporting of unsafe conditions. To this end, employees have been directed to report such issues in the event they become aware of them.

Norican Group's interaction with its stakeholders is predicated on respect for each relationship. The Company competes vigorously and fairly, and Norican Group requires employees to avoid even the appearance of a conflict of interest.

As part of our core values, the Company has made a commitment to its employees that no employee should be injured in the performance of their duty. The Company translates its policies into action having introduced management systems and control systems as a follow-up on its working process.

Respect for human rights

Norican Group endeavors to comply with applicable local and international legislation and to conduct its business with strong dedication to human rights including ethical and responsible practices.

We have in our Code of Conduct adopted policies on group level related to ethics and with respect to compliance with applicable laws in each jurisdiction. These policies apply to each subsidiary in Norican Group. Accordingly, each subsidiary shall comply with applicable laws, rules and regulations, including those that may relate to protection of human rights in each jurisdiction where it operates. Use of child labour is prohibited.

Norican Group applies uniformly high standards of ethics and business conduct in every country in which it operates, as well as in every business relationship or affiliation it has worldwide. In our active pursuit of business in an increasingly global economy, Norican Group will be guided by laws and regulations of each country in which it does business.

The compliance with these policies is monitored on an ongoing basis and tested through an annual reporting and certification procedure applicable to all subsidiaries. There have been no reports of breaches regarding human rights in 2019.

Anti-corruption and anti-bribery

Norican Group's Anti-Bribery Policy Statement and Compliance Program (the "Anti-Bribery Policy") is an extension of the Company's values. Under the Anti-Bribery Policy, corruption is widely defined as intent to induce the recipient, whether a private person or company, government official or public international organisation to direct business or other benefit, either directly or indirectly, to the Company or to grant the Company any other advantage.

The Company has established adequate and relevant reporting systems and procedures under the Anti-Bribery Policy, called "Problem Management Protocol," to prevent bribery and corrupt payments by employees or any third parties. Employees are directed to contact the Company's General Counsel any time they believe a violation of the Anti-Bribery Policy has occurred or may be about to occur.

Any violation of the Anti-Bribery Policy by any employee, manager, officer or director will result in sanctions which may include dismissal for cause and/or criminal and civil proceedings. The consequence of a violation of the policy by any third party, including consultants, suppliers and contractors doing any type of work for the Company, will be termination of any agency, representative, distributor or similar agreement and/or criminal and civil proceedings if appropriate. We are not aware of any breaches regarding corruption in 2019.

The most important risks related the Company's business and their impact on the CSR strategy

The Company assesses that the most important risks relating to the Company's business activities, which carry a particular risk of negative impact on the CSR areas mentioned in this report, are the risk of work-related accidents causing injuries to employees and the risk of having employees in emerging markets exposed to attempts of bribery and corruption.

The Company handles such risks by complying with the standards and sanctions of the Code of Business Conduct, the Anti-Bribery Policy and all other Norican Group policies, procedures, standards, instructions and practices. The Company has implemented relevant reporting systems to ensure an efficient and diligent process in handling the reporting of possible violations. The Company's General Counsel is the ultimately responsible officer for such reporting procedures. Further, the Company has established a non-financial KPI with the goal of eliminating all work-related injuries for the Company's employees with the purpose of making every endeavor to maintain a safe and healthy work environment throughout Norican Group's workplaces.

Highlights of activities in 2019

Norican Group aims to maintain and enhance its professional and commercial relations with internal and external stakeholders based on mutual respect and high ethical standards.

These aspects of corporate social responsibility are further enhanced by Norican Group's efforts to support the communities in which it operates.

Highlights of the Company's investments in India provide three examples of this community support and the Company's specific results achieved as part of the Company's CSR efforts.

First, the "*DISA Wheelabrator Scholarship*" programme was established for the less privileged students studying in grade levels nine through twelve, as well as those seeking diplomas in engineering. The programme makes scholarships available to students attending eight educational institutions in the plant neighborhoods of Tumkur and Hosakote in Bangalore, India. During 2019, over 295 scholarships were provided to students. In addition, the Company invested in infrastructure development for the schools in order to provide drinking water tanks, display teaching aids, and school sanitation.

The second programme termed "*DISA Career Excellence*," involves contributions to an NGO in an emerging market: the Foundation for Excellence India Trust. This programme provides scholarships to students in engineering colleges spread across the state of Karnataka and neighboring Indian states to a less privileged category of students. In 2019, over 50 students were provided this scholarship.

A third programme which began in 2019 is the Jan Johansen DISAMATIC Scholarship, which is named after a former director of DISA India Limited and was introduced to provide scholarships to 5 students studying in a graduate Engineering course at the National Institute of Foundry and Forge Technology in Ranchi, India.

Norican Group expects to contribute to all three scholarship programmes in the future, and Norican Group has high expectations for the positive impact of these programmes in the local communities and for the progress of the involved students.

Statement by Board of Directors and Executive Board

The Board of Directors and the Executive Board have today considered and approved the Annual Report of Norican Global A/S and its subsidiaries for the period from 1 January 2019 to 31 December 2019.

The Annual Report is presented in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") and the disclosure requirements applying to Danish companies.

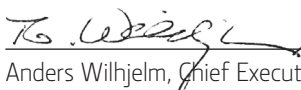
In our opinion, the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Company's and the Parent Company's financial position at 31 December 2019 and the results of their operations and cash flows for the period from 1 January 2019 to 31 December 2019.

In our opinion, Management's Review includes a fair review of the development in the Company's and the Parent Company's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole for the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Company and the Parent Company face.

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

Taastrup, 13 March 2020

Executive Board:


Anders Wilhelm, Chief Executive Officer


Andrew J. Matsuyama, Chief Financial Officer


Ian B. Bird, General Counsel

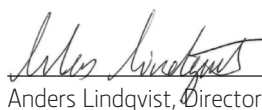
Board of Directors:


Jean Marc Lechêne, Chairman


Søren Johansen, Director


Daniel Reimann, Director


David Hughes, Director


Anders Lindqvist, Director


Anders Wilhelm, Director and Chief Executive Officer


Andrew J. Matsuyama, Director and Chief Financial Officer

Independent Auditor's Report to the Shareholders of Norican Global A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Norican Global A/S for the financial year 1 January 2019 to 31 December 2019, which comprise the statements of operations, statements of comprehensive income, balance sheets, statements of changes in equity, cash flow statements and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2019, and of the results of their operations and cash flows for the financial year 1 January 2019 to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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 the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and

the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and these parent 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 13 March 2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Eskild Norregaard Jakobsen

State-Authorised Public Accountant
MNE No 11681



Casper Hjerresen Christensen

State-Authorised Public Accountant
MNE No 41363

Consolidated Balance Sheets

(Amounts in Thousands)

		31 December	
	Note	2019	2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	€ 112,310	€ 96,164
Trade and other receivables	4	89,298	102,057
Inventory	5	89,205	94,497
Other current assets		19,214	19,887
Total current assets		310,027	312,605
PROPERTY, PLANT AND EQUIPMENT	6	54,509	31,056
GOODWILL AND OTHER INTANGIBLE ASSETS	7	373,546	412,566
DEFERRED TAX ASSETS	17	15,898	11,773
OTHER NON-CURRENT ASSETS		1,346	1,428
TOTAL ASSETS		€ 755,326	€ 769,428
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade and other payables		€ 39,345	€ 45,839
Accrued liabilities and provisions	9	80,770	82,778
Deferred revenue		40,308	45,511
Current portion of long-term debt	10	—	45
Other current liabilities	11, 17	12,405	3,502
Total current liabilities		172,828	177,675
LONG-TERM DEBT	10	334,355	332,758
PENSION AND OTHER LIABILITIES	8, 11, 13	49,251	27,453
DEFERRED TAX LIABILITIES	17	28,911	31,163
EQUITY:			
Share capital		1,555	1,552
Other reserves		155,015	161,676
Retained earnings		8,126	32,950
Non-controlling interest		5,285	4,201
Total equity	15	169,981	200,379
TOTAL LIABILITIES AND EQUITY		€ 755,326	€ 769,428

Consolidated Statements of Operations

(Amounts in Thousands)

	Note	2019	31 December 2018
REVENUES		€ 503,923	€ 534,057
COST OF SALES		349,379	371,178
GROSS MARGIN		154,544	162,879
OPERATING EXPENSES			
Selling, general and administrative		105,197	102,162
Amortisation expense	7	10,267	10,696
Total operating expenses		115,464	112,858
OPERATING INCOME		39,080	50,021
NON-OPERATING (EXPENSE)/INCOME:			
Finance cost	10	(19,868)	(19,662)
Restructuring charges	2, 9	(6,460)	(7,582)
Impairment of goodwill	7	(30,000)	–
Foreign exchange	1	1,580	(1,420)
Other	2	(3,810)	(2,796)
Total non-operating expense		(58,558)	(31,460)
INCOME BEFORE INCOME TAX		(19,478)	18,561
INCOME TAX EXPENSE	17	(4,195)	(5,993)
NET (LOSS)/INCOME		€ (23,673)	€ 12,568
Net income attributable to the Parent		€ (24,824)	€ 11,854
Net income attributable to the non-controlling interest		€ 1,151	€ 714

Consolidated Statements of Comprehensive Income

(Amounts in Thousands)

	Note	31 December	
		2019	2018
COMPREHENSIVE (LOSS)/INCOME:			
Items that will not be recycled subsequently to the income statement:			
Actuarial (losses)/gains on pension benefit obligation, net of deferred tax benefit/(expense) of €431 and €(925)	13	€ (2,269)	€ 3,895
Items that may be recycled subsequently to the income statement:			
Losses on hedging instruments, net of deferred tax benefit of €405 and €430	8	(1,417)	(1,638)
Currency translation differences		(630)	1,736
Net (expense)/income recognised directly in equity		(4,316)	3,993
Net (loss)/income		(23,673)	12,568
COMPREHENSIVE (LOSS)/INCOME		€ (27,989)	€ 16,561
Comprehensive (loss)/income attributable to the Parent		€ (29,085)	€ 15,985
Comprehensive income attributable to the non-controlling interest		€ 1,096	€ 576

Consolidated Statements of Cash Flows

(Amounts in Thousands)

		31 December	
	Note	2019	2018
CASH FLOWS FROM OPERATIONS:			
Net (loss)/income		€ (23,673)	€ 12,568
Adjustments to reconcile net income to net cash from operations:			
Non-cash items:			
Foreign exchange	1	(1,580)	1,420
Depreciation	6	5,239	5,242
Depreciation of right-of-use assets	6	8,075	—
Amortisation of intangibles and debt issuance costs	7, 10	11,886	12,308
Impairment of goodwill	7	30,000	—
Restructuring charges	9	6,460	7,582
Deferred tax	17	(5,243)	(3,316)
Changes in working capital:			
Trade and other receivables	4	12,788	5,641
Trade and other payables		(6,494)	(7,730)
Inventory	5	4,404	(15,165)
Accrued liabilities and provisions	9	(1,690)	7,502
Deferred revenue		(5,203)	(5,106)
Other		(5,075)	(2,671)
Net cash from operations		29,894	18,275
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Capital expenditures	6	(4,380)	(5,165)
Asset disposal proceeds		104	134
Net cash used in investing activities		(4,276)	(5,031)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES:			
Repayment of debt facilities		(45)	(237)
Repayment of lease liabilities	11	(8,438)	—
Debt issuance costs		—	(88)
Net (payments)/proceeds from share transactions	15	(2,397)	129
Dividend to non-controlling interest		(12)	(11)
Net cash used in financing activities	10, 19	(10,892)	(207)
FOREIGN CURRENCY EFFECT ON CASH AND CASH EQUIVALENTS			
	10	1,420	786
NET INCREASE IN CASH			
		16,146	13,823
CASH, BEGINNING OF PERIOD			
		96,164	82,341
CASH, END OF PERIOD			
	3	€ 112,310	€ 96,164
Cash paid for interest, included in net cash from operations			
		€ 18,239	€ 18,027
Cash paid for income taxes, included in net cash from operations			
	17	€ 8,358	€ 5,515

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Annual Report of Norican Global A/S ("Norican Global" or "Parent Company,") a Danish company, and its subsidiary companies (collectively, "Norican Group" or the "Company"), has been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, and additional Danish disclosure requirements applicable to reporting class C enterprises (large), including the statutory order on adoption of IFRS issued pursuant to the Danish Financial Statements Act.

Norican Global was formed on 11 December 2014 by Altor Fund IV Holding AB. On 26 February 2015, Norican A/S, a wholly owned subsidiary of the Parent Company, acquired Norican Holdings ApS and its subsidiary companies through the purchase of the entire share capital of Norican Holdings ApS, also a Danish company, pursuant to an agreement dated 18 December 2014.

The consolidated financial statements are presented in euros, as this is the major currency in which revenues and capital transactions are denominated.

The principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company, its wholly owned subsidiaries and its majority owned Indian subsidiary. All inter-company balances and transactions have been eliminated in consolidation. The interest of non-controlling shareholders is stated at the non-controlling shareholders' proportion of the respective entity's identifiable assets, liabilities and contingent liabilities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Company.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an initial maturity of three months or less to be cash equivalents. The carrying values of the Company's cash equivalents approximate their fair values at 31 December 2019.

Trade Receivables

Trade receivables are measured at fair value and subsequently at amortised cost, less adjustments for doubtful receivables. Adjustments for doubtful receivables are calculated based on historical experience and by reviewing individual receivable balances, taking into account contractual terms, payment history and other available evidence of whether the receivable is

collectible. Receivable balances are written off only when there is no prospect of any further collections.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overhead costs that have been incurred in bringing the inventories to their present location and condition. Cost is determined using the first-in, first-out ("FIFO") method, or a method that approximates the use of the FIFO method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event that it is probable will result in an outflow of economic benefits that can be reasonably estimated.

The Company warrants its products against certain manufacturing and other defects. These product warranties are generally provided for a period of one year but may vary depending on the nature of the product, the geographic location of its sale and other factors. The accrued product warranty costs are based on historical experience of actual warranty claims as well as current information on repair costs. Where some or all of the expenditure required to settle a claim is expected to be reimbursed by another party, the reimbursement is recognised only when reimbursement is virtually certain. The amount to be reimbursed is recognised as a separate asset.

Property, Plant and Equipment

Property, plant and equipment are stated at cost if purchased, or fair value as of the acquisition date if obtained in an acquisition. Depreciation on property and equipment is calculated on the straight-line method over 20 to 50 years for buildings and improvements and three to ten years for equipment and other assets.

Additional costs, which extend the useful life of the property, plant and equipment, are capitalised and depreciated over the revised remaining useful life of the asset. Maintenance and repair costs are charged to expense as incurred. Upon the sale or retirement of an asset, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognised. Residual value is determined at the time of acquisition using estimates of the asset value when fully depreciated and is reassessed annually.

Financial Instruments

The Company has adopted all requirements of IFRS 9 Financial Instruments as of 1 January 2018.

The Company has assessed its existing financial assets and liabilities in terms of the requirements in IFRS based on the facts and circumstances that existed on 1 January 2018. Under IFRS 9, financial assets are classified according to their cash flow characteristics and the business model in which they are managed. The Company has categorized its financial assets to financial assets measured at amortized cost, at fair value through other comprehensive income and at fair value through the statement of operations. The new classification requirements have not impacted on the classification, measurement and carrying amount of the Company's financial assets. Financial assets and liabilities previously measured at amortised cost under IAS 39 continue to be measured at amortised cost under IFRS 9, as the business model is to collect the contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. The effect of the change from the 'incurred loss' model in IAS 39 to the 'expected credit loss' model in IFRS 9 is immaterial.

The Company has entered into a currency swap net investment hedge, an interest rate swap cash flow hedge and forward currency delivery contracts to hedge future transactions and cash flows. Hedges are measured at fair value with changes in their values reflected in other comprehensive income as gains/losses on hedging instruments. The application of IFRS 9 has not changed the measurement or classification of swaps. Further, the Company's accounting policy to record financial liabilities at amortised cost is unchanged.

Debt Issuance Costs

Debt issuance costs are included in the value of debt and are amortised using a method that approximates the effective interest rate method over the term of the underlying credit facility or note.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of identifiable net assets acquired in a business combination. Goodwill is recognised as an asset and is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired. On disposal of a subsidiary, the amount attributable to unamortised goodwill that has not been subject to impairment is included in the determination of the gain or loss on disposal.

Intangible assets other than goodwill are valued at cost less accumulated amortisation and any impairment losses. Trade-marks have been assigned an indefinite useful life. Capitalised development costs are amortised on a straight-line basis over

a six-year useful life. Customer relationships, patents and other intangibles are amortised on a straight-line basis over a 10- to 20-year useful life. Costs for acquired assets represent the purchase price at acquisition.

Impairment of Non-Current Assets

Non-current assets are tested for impairment in accordance with IAS 36 and are reviewed annually to determine whether events or changes in conditions indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the Company estimates the asset's recoverable amount as the higher of the asset's fair value less selling costs and value-in-use, which is the present value of the cash flows expected from the asset's use and eventual disposal. If necessary, an impairment loss is recorded in the statement of operations to the extent that the carrying amount of the asset exceeds its recoverable amount.

Revenue Recognition

The Company provides equipment, parts, technology and services to customers by manufacturing equipment and parts and providing technology and services which enable our customers to mould, melt, cast, clean, strengthen or polish their metallic parts.

The Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), effective 1 January 2018. IFRS 15 contains a framework which provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised products or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those products or services. The effect of adoption of IFRS 15 on the financial statements at 1 January 2018 was immaterial.

Revenue from product sales is generally recognized at a point in time, which is typically upon delivery of the products, provided there are no significant uncertainties regarding customer acceptance, persuasive evidence of an arrangement exists, the sales price is fixed and determinable, and it is probable that the sale is collectible. For arrangements that include multiple performance obligations, the Company allocates revenue to each performance obligation based on estimates of the price that would be charged to the customer for each promised product or service if it were sold on a standalone basis.

Service revenues are recognized in the period in which the services are performed.

Allowances for returns, discounts and uncollectible accounts are recorded when circumstances indicate there is a risk an account is uncollectible. Amounts billed to customers for shipping and handling are included in net sales and are recorded

upon delivery of goods to customers. Costs of providing these services are included in cost of sales. Capital equipment sales generally require the customer to make advance cash payments as work progresses. Revenue associated with advance payments is generally recognised when the significant risk and rewards of ownership have passed to the customer, typically at delivery.

The Company does not have any material contracts where the period between the transfer of the promised products to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust any of the transaction prices for the time value of money.

Leasing

The Company implemented IFRS 16 effective 1 January 2019, which replaced IAS 17, Leases, and related interpretations. IFRS 16 requires that all leases are reflected in the balance sheet of a lessee as a right-of-use asset and lease liability. The Company has implemented the standard according to the modified retrospective method with no restatement of comparable figures for 2018, which are presented in accordance with IAS 17. The Company has applied the lease recognition exemptions for short-term lease contracts and low-value assets. Furthermore, lease payments are not discounted as the effect of discounting is not considered to be material to the Company on a consolidated basis.

Right-of-use assets are measured at cost comprising the following: (i) the amount of the initial measurement of lease liability; (ii) any lease payments made at or before the commencement date less any lease incentives received; (iii) any initial direct costs and, if applicable, and (iv) restoration costs. Payments associated with short-term leases and leases of low-value assets are recognized as an expense in the income statement as they are incurred.

Lease liabilities are measured at the total value of the following: (i) fixed lease payments, (ii) variable lease payments that are based on an index or a rate and, if applicable, (iii) amounts expected to be payable by the lessee under residual value guarantees, and (iv) the exercise price of a purchase option if it is reasonably expected to be exercised. Lease liabilities do not include any non-lease components that may be included in the related contracts.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended past the initial termination date.

For the periods prior to 1 January 2019, leases are presented in accordance with IAS 17 and are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Foreign Currencies

Transactions in foreign currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and/or currency swaps. Gains and losses arising on exchange are included in net income for the period. Monetary assets and liabilities denominated in foreign currencies other than the functional currency are retranslated at the rates prevailing on the balance sheet date.

On consolidation, the assets and liabilities of the Company's operations are translated into presentation currency (euros) at the exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Where loans are made between two subsidiaries with different functional currencies, currency translation differences arise in one or both subsidiaries. In accordance with IAS 21, currency translation differences for intercompany loans that are not considered part of the investment in subsidiaries are recognised in net income. Amounts are presented within non-operating expense.

Retirement Benefit Costs

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with valuations carried out at each balance sheet date in accordance with IAS 19, Employee Benefits. Actuarial gains and losses are recognised immediately in other comprehensive income as they are incurred.

The pension liability recognised in the balance sheet represents the present value of defined benefit obligations and is reduced by the fair value of plan assets. If benefit plan membership or benefits are significantly reduced by a restructuring, or an event or transaction that results in the Company's benefit obligations being settled, the effects are recorded in the statement of operations when the restructuring or settlement occurs.

Research and Development

Where expenditures relate to the development of research findings, or other knowledge, for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use, they are generally capitalised. Costs related to a specific customer and research and development expenditures not yet in the application phase are expensed as incurred.

Development expenditures of €968 and €795 were capitalised as intangible assets for the year ended 31 December 2019 and 2018, respectively. Additional costs not related to specific customer orders of €6,436 and €6,206 were expensed for the year ended 31 December 2019 and 2018, respectively.

Income Taxes

Income taxes for the year comprise current and deferred tax, using rates enacted or substantively enacted at the balance sheet date.

Current tax is the expected tax payable on the taxable income for the year and any adjustments to tax payable in respect of previous years. Deferred taxes are provided for the difference between asset and liability carrying amounts for financial reporting purposes and their tax basis. A valuation allowance is provided against deferred tax assets if realisation is not assured on a probable basis. The Company's tax provision or benefit includes a provision for taxes currently payable or receivable plus the change in deferred taxes for the period. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net tax basis.

Business Combinations

Newly acquired or newly established companies and activities are recognised in the consolidated financial statements from the date of acquisition or establishment. The date of acquisition is the date when control of the company or activity actually passes to the Group. Business combinations are accounted for using the acquisition method from the date of obtaining control, according to which the identifiable assets, liabilities and contingent liabilities of companies acquired are measured at fair value at the date of acquisition. Non-current assets held for sale are, however, measured at fair value less expected costs to sell.

The cost of a company or activity is the fair value of the consideration paid. If the final determination of the consideration is conditional on one or more future events these are recognised at their fair value as of the acquisition date. Any excess of the cost of an acquired company or activity over the fair value of the acquired assets, liabilities and contingent liabilities is recognised as goodwill and tested for impairment at least annually. Restructuring costs are only recognised in the take-over balance sheet if they represent a liability to the acquired company. The tax effect of revaluations is taken into account.

Costs that can be attributed directly to the transfer of ownership are recognised in the income statement when they are incurred. Adjustments to estimates of conditional consideration are generally recognised directly in the statement of operations.

If uncertainties regarding the measurement of acquired identifiable assets, liabilities, contingent liabilities or the consideration for the business combination exist at the acquisition date, initial recognition takes place on the basis of preliminary fair values. If identifiable assets, liabilities, contingent liabilities and the consideration for the business combination are subsequently determined to have had a materially different fair value at the acquisition date than first assumed, goodwill is adjusted up until 12 months after the acquisition date. The effect of material adjustments is recognised in the opening equity, and the comparative figures are restated accordingly. Goodwill is not adjusted subsequently except in the event of material errors.

Sold or liquidated entities are excluded from consolidation at the date of transfer of the control of the enterprise. The date of disposal is the date when control of the company actually passes to a third party.

Non-controlling Interests

On initial recognition, non-controlling interests are measured either at fair value (including the fair value of goodwill related to non-controlling interests in the acquiree) or as non-controlling interests' proportionate share of the acquiree's identifiable assets, liabilities and contingent liabilities measured at fair value (excluding the fair value of goodwill related to non-controlling interests' share of the acquiree). The measurement basis for non-controlling interests is selected for each individual transaction.

Use of Estimates

Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in the preparation of these consolidated financial statements in conformity with IFRS. Actual results could differ from those estimates.

Effect of New Accounting Standards

Norican Group has adopted all new, amended or revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning on 1 January 2019. Such implementation has not had a material impact on the Group's financial statements, except for the effect of the implementation of IFRS 16, Leases (see note 11).

The Company adopted IFRIC Interpretation 23, *Uncertainty Over Income Tax Treatments* ("IFRIC 23"), effective 1 January 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation specifically addresses whether an entity considers uncertain tax treatments separately, the assumptions an entity

makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax losses, tax bases, unused tax losses, unused tax credits and tax rates) and how an entity considers changes in facts and circumstances related to uncertain tax treatments. The effect of adopting IFRIC 23 was not material.

Effect of New Accounting Standards Not Yet in Force

Revised or new standards and interpretations issued, but not yet effective or approved by the EU at the time of publication of this Annual Report, have not been included in this Annual Report.

In September 2019 the IASB issued amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, collectively the "Interest Rate Benchmark Reform". These amendments modify certain hedge accounting requirements in order to provide relief from potential effects of the uncertainty caused by the interbank offered rates (IBOR) reform and require companies to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties. These amendments are effective on or after 1 January 2020. The Company does not expect any material impact from the adoption of these amendments.

In January 2020 the IASB issued amendments to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-current* to clarify how to classify debt and other liabilities as current or non-current, and in particular how to classify liabilities with an uncertain settlement date and liabilities that may be settled by converting to equity. These amendments are effective on or after 1 January 2022. The Company does not expect any material impact from the adoption of these amendments.

Significant Accounting Estimates and Judgments

Post-Employment Benefits

The assumptions used to measure the expense and liabilities related to the Company's defined benefit pension plans are reviewed annually by external actuaries. The measurement of the expense for a period and of the benefit obligation at the period end requires judgement with respect to the following matters, among others: probable long-term rate of increase in pensionable pay; probable average future service lives of employees; probable life expectancy of employees; mix of investments in funded pension plans in the period; expected future rate of return on the investments in the funded pension plans, and how that rate will compare with the market rates of return observed in past economic cycles. Assumptions used to value the benefit obligation at 31 December are updated

based on actual experience when appropriate. Variances are caused principally by external financial market movements in corporate bond yields used to benchmark the discount rate, and in asset prices that affected the actual return on assets. These factors are outside the Company's direct control, and it is reasonably possible that future variances could exceed past variances. See Note 13.

Deferred Tax Assets

Tax losses are recognised as deferred tax assets when it becomes probable that they will be utilised in the future. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which tax losses can be utilised. In making this assessment, the Company considers the scheduled reversal of deferred tax liabilities and projected future taxable income.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, as of 31 December 2019, the Company believes that it is more likely than not that the Company will realise the benefits of these deductible differences. The amount of the deferred tax asset considered realisable could be reduced in subsequent years if estimates of future taxable income during the carry forward period are reduced, or rulings by the tax authorities are unfavourable. Estimates are therefore subject to change due to both market and government related uncertainties, as well as the Company's own future decisions. See Note 17.

Tax Positions

The Company's policy is to comply fully with applicable tax regulations in all jurisdictions in which the Company's operations are subject to income taxes.

The Company's estimates of current income tax expense and liabilities are calculated on the assumption that all tax computations filed by the Company's subsidiaries will be subject to review or audit by the relevant tax authorities. Current income tax liabilities include the Company's best estimate of the tax that will ultimately be payable when the review or audits have been completed. Actual outcomes and settlements may differ from the estimates recorded in these consolidated financial statements. This may affect income tax expense, net income, and effective tax rates in future years' consolidated statement of operations. See Note 17.

Goodwill Impairment Test

The assessment of whether goodwill is impaired requires a determination of the value-in-use of the cash-generating units to which the goodwill amounts have been allocated. The determination of the value in use requires estimates of the expected future cash flows of each cash-generating unit using a reasonable discount rate.

The impairment test of goodwill and the associated particularly sensitive factors and sensitivity analyses are described in Note 7 to the consolidated financial statements.

Purchase Price Allocation in Business Combinations

In connection with allocation of the purchase price in business combinations, calculations are made of fair value of acquired assets and liabilities. As this determination is based on expected future cash flows related to the assets and liabilities acquired, the realisation of such cash flows as anticipated is subject to an inherent uncertainty.

2. DISCONTINUED OPERATIONS AND RESTRUCTURING

During 2019, the Company discontinued the Wheelabrator Vibro business and reclassified results of operations for the business to discontinued operations for all periods presented. Amounts reclassified from continuing operations and included in discontinued operations include the following for the periods ended 31 December:

	2019	2018
Revenues	€ 1,059	€ 581
Gross margin	256	198
SG&A	2,239	2,248
Net loss	(1,983)	(2,050)

The Company recorded a restructuring provision and impairment charge during 2019 in the amount of €6,460 primarily for severance costs relating to the restructuring of the Company's management including the elimination of certain management roles, and inventory impairment, lease impairment and severance costs for the Wheelabrator Vibro discontinued operation.

The Company recorded a provision during 2018 in the amount of €7,582 for the restructuring of certain German and North American operations. The Company has moved some of its German manufacturing operations to Czech Republic and Poland, has simplified its product range in Germany and has discontinued the heat treatment equipment product line there.

Additionally, the Company has relocated its Canadian equipment proposal, design and order fulfillment activities to its U.S. and Mexico facilities. Restructuring costs are comprised primarily of severance and lease terminations costs related to these activities.

3. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and in banks and investments in money market instruments totaling €112,310 and €96,164 at 31 December 2019 and 2018, respectively. The Company maintains cash deposits related to certain of its performance obligations for the manufacturing, delivery and installation of capital equipment sales. At 31 December 2019 and 2018, the amount of €1,323 and €2,152 were posted as cash bonds, respectively, and is included in cash and cash equivalents on the Company's balance sheet.

4. TRADE AND OTHER RECEIVABLES

Trade accounts receivable includes other receivables of €437 and €839 at 31 December 2019 and 2018, respectively. The movement in allowance for doubtful accounts is as follows:

	Year ended 31 December	
	2019	2018
Balance at beginning of period	€ 4,268	€ 4,622
Changes in provisions during the year	(376)	(375)
Currency translation	38	21
Balance at end of period	€ 3,930	€ 4,268

The Company has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

5. INVENTORY

Inventories, net of provisions, consist of the following at 31 December:

	2019	2018
Raw material	€ 11,864	€ 12,671
Work-in-process	36,010	42,331
Finished goods	41,331	39,495
Total	€ 89,205	€ 94,497

Cost of goods sold represents the Company's cost of inventory and related production costs.

6. PROPERTY, PLANT AND EQUIPMENT

	Land, Buildings and Improvements	Equipment and Other	Leased Assets	Total
Cost:				
Balance at 31 December 2017	€ 36,128	€ 85,972	€ —	€ 122,100
Additions	160	5,005	—	5,165
Disposals	(364)	(6,565)	—	(6,929)
Currency translation	138	127	—	265
Balance at 31 December 2018	36,062	84,539	—	120,601
Impact of IFRS 16 adoption (see note 11)	—	—	30,476	30,476
Additions	186	4,194	1,991	6,371
Disposals	(79)	(2,535)	(226)	(2,840)
Transfer	795	(713)	—	82
Currency translation	471	567	163	1,201
Balance at 31 December 2019	€ 37,435	€ 86,052	€ 32,404	€ 155,891
Accumulated Depreciation:				
Balance at 31 December 2017	€ (19,389)	€ (71,267)	€ —	€ (90,656)
Depreciation expense	(1,026)	(4,216)	—	(5,242)
Disposals	330	6,324	—	6,654
Currency translation	(159)	(142)	—	(301)
Balance at 31 December 2018	(20,244)	(69,301)	—	(89,545)
Depreciation expense	(976)	(4,263)	(8,075)	(13,314)
Disposals	77	2,483	163	2,723
Transfers	118	(118)	—	—
Impairment (see note 2)	—	—	(399)	(399)
Currency translation	(286)	(425)	(136)	(847)
Balance at 31 December 2019	€ (21,311)	€ (71,624)	€ (8,447)	€ (101,382)
Carrying amount at 31 December 2018	€ 15,818	€ 15,238	—	€ 31,056
Carrying amount at 31 December 2019	€ 16,124	€ 14,428	€ 23,957	€ 54,509

7. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Other ^(b)	Total
Cost:			
Balance at 31 December 2017	€ 237,476	€ 203,112	€ 440,588
Additions	5,700	840	6,540
Disposals	—	(322)	(322)
Currency translation	(179)	455	276
Balance at 31 December 2018	242,997	204,085	447,082
Additions	—	968	968
Disposals	—	(1,721)	(1,721)
Currency translation	296	120	416
Balance at 31 December 2019	€ 243,293	€ 203,452	€ 446,745
Accumulated Amortisation:			
Balance at 31 December 2017	€ —	€ (23,793)	€ (23,793)
Amortisation expense	—	(10,696)	(10,696)
Disposals	—	322	322
Currency translation	—	(349)	(349)
Balance at 31 December 2018	—	(34,516)	(34,516)
Amortisation expense	—	(10,267)	(10,267)
Impairment	(30,000)	—	(30,000)
Disposals	—	1,721	1,721
Currency translation	—	(137)	(137)
Balance at 31 December 2019	€ (30,000)	€ (43,199)	€ (73,199)
Carrying amount at 31 December 2018	€ 242,997	€ 169,569	€ 412,566
Carrying amount at 31 December 2019	€ 213,293	€ 160,253	€ 373,546

^(b)The gross (and net) carrying values of intangibles other than goodwill consists of customer relationships €85,815 (€69,405), patents €22,250 (€13,313), trademarks €53,939 (€53,939) and other €41,448 (€23,596) at 31 December 2019. The gross (and net) carrying values of intangibles other than goodwill consists of customer relationships €85,709 (€73,410), patents €22,215 (€15,104), trademarks €53,870 (€53,870) and other €42,291 (€27,185) at 31 December 2018.

The Company consists of four cash-generating units. However, management monitors goodwill at the level of the following business areas, effective for the year ended 31 December 2019: Legacy Norican and Aluminium. Goodwill is tested for impairment at least annually at the level of these business areas. In the impairment test, applying a 9.5% estimated weighted average cost of capital for the years ended 31 December 2019 and 2018, the discounted value of future net cash flows are compared with the carrying amounts of goodwill and other net assets in each cash-generating unit. Future cash flows are based on a forecast for the next five years at a terminal value assuming a minimal growth rate. Projections included in the forecast are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The conclusion of the 2019 analysis resulted in an impairment to goodwill of €30,000 during the year ended 31 December 2019. The impairment is attributed to underperformance of the Aluminium business purchased in 2017. No impairment losses have been incurred during the year ended 31 December 2018.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments at 31 December 2019 included in other long-term liabilities consist of a currency swap net investment hedge with a market value liability of €3,453 and €1,613 as of 31 December 2019 and 2018, respectively, including accrued interest, and a maturity date of 15 November 2021, and foreign exchange and other swaps with a market value liability of €40 and €54 as of 31 December 2019 and 2018, respectively. The fair value of the currency swap is classified based on the maturity of the underlying contract at 31 December 2019. The swap is used to manage exposure to currency movements affecting the net investment in the Company's U.S. operations with a nominal value of €50,000, an interest rate of 7.6% payable in US dollars and an interest rate of 4.5% receivable in euros.

The Company utilises forward currency delivery contracts to hedge future transactions and cash flows. The Company is party to a variety of foreign currency forward contracts in the management of exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Company's principal markets and are designated and effective as hedging instruments carried at fair value. All forward contracts outstanding at 31 December 2019 mature within a period of one year.

The fair value of derivatives is determined based on observable market data using generally accepted methods (level 2 in the fair value hierarchy).

9. ACCRUED LIABILITIES AND PROVISIONS

Accrued liabilities and provisions on the balance sheet include the following:

Year ended 31 December	2019	2018
Warranty		
Balance at beginning of period	€ 10,092	€ 9,167
Additional provisions	1,782	3,598
Reductions through utilisation	(1,507)	(2,702)
Transfers	(10)	—
Foreign exchange adjustment	74	29
Balance at end of period	€ 10,431	€ 10,092
Restructuring		
Balance at beginning of period	€ 4,507	€ 7
Additional provisions	6,460	7,582
Reductions through payments	(5,216)	(3,183)
Transfers	(2,247)	—
Foreign exchange adjustment	31	101
Balance at end of period	€ 3,535	€ 4,507

10. BORROWINGS

Borrowings at amortised cost consist of the following at 31 December:

	2019	2018
Senior Secured Notes due 2023	€ 340,000	€ 340,000
Other	—	45
	340,000	340,045
Debt issuance costs	(5,645)	(7,242)
	€ 334,355	€ 332,803

All of the outstanding borrowings are denominated in euros at 31 December 2019.

Senior Secured Notes Due 2023 (the "Notes") and Super Senior Revolving Credit Facility (the "Revolver")

On 17 May 2017, the Company issued €340,000 in 4.5% Senior Secured Notes due 2023. The Notes were admitted to trading on the Official List of The International Stock Exchange on 21 June 2017.

Additionally, the Company has entered into a €75,000 revolving credit facility (the “Revolver”) with availability from 31 May 2017 to 30 October 2022. Cash availability within the Revolver is limited to €55,000. Interest on the Revolver is variable based on LIBOR and the performance of the Company. There is no cash amount outstanding under the Revolver as of 31 December 2019; however commercial guarantees have been issued at 31 December 2019 and 2018 which reduce the availability of the Revolver by €19,083 and €23,007, respectively.

The Notes and Revolver are secured by first-priority pledges of the shares of certain significant subsidiaries of the Company and a first-priority security interest over the intra-group receivables between certain subsidiaries in addition to the majority of assets of Company guarantors, as defined in the indenture.

The borrowings under the Notes and Revolver are secured equally and ratably by first-priority security interests, however, the holders of the Notes will only receive proceeds from the enforcement of the collateral after certain super senior priority obligations including obligations under the Revolver and certain hedging obligations have been paid in full.

Interest on the Notes is payable semi-annually in arrears on 15 November and 15 May each year. The Notes mature on 15 May 2023. The Company may redeem, at its option, all or a portion of the Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, plus any applicable premium, subject to the limitations and conditions as described in the Notes.

The Company may, from time to time, depending on market conditions and other factors, repurchase outstanding Notes, whether or not such indebtedness trades above or below its face amount, for cash in open market purchases, in privately negotiated transactions or otherwise.

Scheduled repayments of the Company’s borrowings are as follows at 31 December 2019:

Within one year	€	—
Between two and five years (2023)		340,000
Total		<u>€ 340,000</u>

Net finance cost of €19,868 includes net interest expense and amortisation of debt issuance costs of €18,249 and €1,619, respectively, for the year ended 31 December 2019. Net finance cost of €19,662 includes net interest expense and amortisation of debt issuance costs of €18,050 and €1,612, respectively, for the year ended 31 December 2018.

11. LEASES

Effective 1 January 2019, the Company recognizes leases in accordance with IFRS 16, using the modified retrospective method with no restatement of comparable prior year amounts. The Company has applied the recognition criteria only to leases previously identified in accordance with IAS 17 and IFRIC 4 and to leases with a total value greater than ten thousand euros at inception of the lease. Following the initial implementation date of 1 January 2019, leases with an initial lease term of twelve months or less are excluded from the group’s definition of a lease for purposes of capitalization under IFRS 16.

The lease term includes both the non-cancellable periods for which the Company has the right to use the underlying assets and also any renewal periods if the Company is reasonably certain to exercise the related renewal option.

As of 1 January 2019, the Company had total non-cancellable operating lease commitments of approximately €31,943. Of these commitments, the Company recognized right-of-use assets and related lease liabilities of €30,476, with the difference comprised of lease contracts for which the underlying asset is of low value. Lease expense related to short-term leases and leases of low-value asset is €1,433 during the year ended 31 December 2019.

The implementation of IFRS 16 on 1 January 2019 resulted in an increase in lease liabilities included in Current Liabilities, and Pension and Other Liabilities of €8,798 and €21,678, respectively. There was no effect on equity as a result of the implementation of IFRS 16 as of 1 January 2019.

Upon adoption, the Group did not recognize any deferred tax assets or liabilities in respect of temporary differences arising on initial recognition of right-of-use assets and lease liabilities as the initial recognition does not affect accounting profit or taxable profit. The Company does not record interest expense relative to lease liabilities as the effect of discounting the leases is not considered significant to the overall financial statements.

There were no impacts arising on the application of IFRS 16 from the Group’s activities as lessor.

The following amounts relate to leased assets included in property, plant and equipment, recognized in accordance with IFRS 16:

	1 January 2019	31 December 2019	2019 Depreciation Expenses
Right-of-use buildings	€ 26,874	€ 20,761	€ 6,150
Right-of-use vehicles	3,059	2,740	1,793
Right-of-use machinery and equipment	246	230	43
Right-of-use information technology	297	226	89
Total	€ 30,476	€ 23,957	€ 8,075

Scheduled lease commitment payments are as follows at 31 December 2019:

	2019
Within one year	€ 7,813
Between two and five years	16,290
After five years	961
Total	€ 25,064

12. LITIGATION

Silicosis

Subsidiaries of the Company in the United States have been named in various cases involving alleged exposure to silica by employees of its customers. In accordance with the terms of the Silicosis Litigation Management and Indemnification Agreement (the "Indemnity"), Water Application & Systems Corp. (formerly known as United States Filter Corp.) is liable for all silicosis claims arising from equipment or product sales prior to 19 August 2003 for subsidiaries of WGH Holding Corp. ("WGH") at that date. With respect to claims against non-United States subsidiaries of WGH at that date, the Indemnity expired 19 August 2018. With respect to United States subsidiaries of WGH, the Indemnity is not limited in time. There are no claims at present for exposure related to non-United States subsidiaries for equipment sales subsequent to 19 August 2003.

Other Claims

The Company has been named in litigation arising in the ordinary course of business. In the opinion of legal counsel and management, the Company has meritorious defences against such claims and is covered by insurance and has reserves to cover self-insured retentions for any material adverse outcome in most claims. For claims for which insurance coverage may not be available, the Company has established reserves deemed adequate to cover possible adverse outcomes and related fees. As a result, these cases are not expected to have a significant negative impact on future results of operations or the financial condition of the Company.

13. BENEFIT PLANS

The Company's pension plan benefit obligations consist of multiple plans that provide benefits to employees of operations in Switzerland, United Kingdom, Germany, United States and India which have largely similar risk profiles.

The following table sets forth the significant components of the Company's pension plan benefit obligations, fair value of plan assets and funded status as at and for the years ended 31 December:

	2019	2018
Change in Benefit Obligation		
Benefit obligation at beginning of period	€ 138,609	€ 142,576
Service cost	789	875
Interest cost	2,481	2,143
Plan participants' contributions	416	458
Actuarial (gain)/loss	14,672	(2,086)
Benefits paid	(7,669)	(8,110)
Past service loss/(gain)	—	319
Impact of foreign currency changes	5,754	2,434
Benefit obligation at end of period	€ 155,052	€ 138,609
Change in Plan Assets		
Fair value of plan assets at beginning of period	€ 114,054	€ 112,923
Actual return on plan assets	13,088	4,868
Company contributions	1,314	1,295
Participant contributions	416	458
Benefits paid and expenses	(6,819)	(7,329)
Other	668	(670)
Impact of foreign currency changes	5,084	2,509
Fair value of plan assets at end of period	€ 127,805	€ 114,054
Accrued benefit liability per balance sheet at end of period	€ 27,247	€ 24,555
Of which arising from:		
Funded plans	€ 16,356	€ 13,392
Unfunded plans	€ 10,891	€ 11,163

The Company's estimate of employer contributions to be paid to defined benefit plans for the year ended 31 December 2020 is €2,046. Actual payments could differ materially from this estimate if any new funding regulations or laws are enacted or due to changes in business and market conditions during 2020.

The fair values of the assets of the Company's defined benefit pension plans are as follows at 31 December:

	2019		2018	
	Fair Value	%	Fair Value	%
Equities	€ 41,373	32%	€ 36,229	32%
Property	34,729	27%	27,232	24%
Bonds	35,644	28%	37,286	33%
Other assets	16,059	13%	13,307	11%
Fair value of assets	€ 127,805	100%	€ 114,054	100%

The plan assets do not include any assets used by the Company or any shares in the Company.

Principal actuarial assumptions, expressed as weighted averages and components of net periodic pension cost, are as follows at 31 December:

	2019	2018
Benefit cost:		
Discount rate	1.5%	2.0%
Expected return on plan assets	1.0%	1.5%
Rate of compensation increase	2.2%	2.1%
Benefit obligation:		
Discount rate	1.1%	1.6%
Rate of compensation increase	1.7%	1.9%
Future pension increase	1.2%	1.3%
Components of net periodic pension cost:		
Service cost	€ 789	€ 875
Interest cost	2,481	2,143
Expected return on plan assets	(1,714)	(1,594)
Past service cost loss/(gain)	—	319
Net periodic pension cost	€ 1,556	€ 1,743

Accumulated actuarial gains included in the statement of comprehensive income are as follows:

	2019	2018
Balance at beginning of period	€ 5,946	€ 2,110
Actuarial losses for the year, net of deferred tax	(2,269)	3,895
Currency translation	(427)	(59)
Balance at end of year	€ 3,250	€ 5,946

Norican Group, through its Swiss subsidiary, participates in the Pensionskasse Georg Fischer and Durach-Stiftung (together, the "Georg Fischer Plan"), which are separate legal entities. The Georg Fischer Plan Foundation is responsible for the governance of the plan, and the governance board is composed of an equal number of representatives from the employers and

employees chosen from all affiliated companies. The accrued benefit liability attributed to the Swiss pension is €244 and €0 as of 31 December 2019 and 2018, respectively.

14. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company's financial risk exposures have not changed significantly in 2019.

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Indian rupee and the Chinese renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities, and net investments in foreign operations. The Company's individual subsidiaries predominately transact their operational activities in their respective functional currencies. However, the global nature of the business leads to transactional risk at the balance sheet date. This arises because the amount of local currency received or paid for transactions denominated in a foreign currency varies due to changes in foreign exchange rates. Transactional committed risk for which the Company has a contractual obligation that is recorded on the balance sheet is primarily managed through the use of forward foreign exchange contracts.

The Company's Notes, which make up substantially all of the outstanding debt balances at 31 December 2019, are denominated in euros; therefore, most of the Company's debt is not exposed to foreign currency risk. However, translation exposure arises from consolidation of foreign currency-denominated financial statements of the Company's subsidiaries. The risk arising from translation of the Company's U.S. subsidiary balance sheets (the effect of which is a currency impact in consolidated Company equity) is partially hedged. A 10% change in the currency translation rate between the U.S. dollar and the euro could positively or negatively affect revenue by approximately €9,983, and the net income impact on equity is approximately €603 based on results for the year ended 31 December 2019. The Company has entered into a foreign currency swap to hedge the currency exposure to the US dollar of its net investment in U.S. operations. The risk from equity fluctuations in other currencies is not considered significant. See Note 8.

Commodity Price Risk

Commodity price fluctuations also affect aspects of the Company's business. Changes in commodity prices can affect the profitability of the Company's operations and its net cash flows.

The Company does not consider commodity price risk to be a significant financial statement risk, as most of the machine orders are completed within six months and the portion of commodity cost in the cost of finished goods inventory is not considered significant. For large orders, the Company mitigates exposure to commodity price risk by committing to raw materials purchases periodically throughout the year as sales occur. Inventory pricing is reviewed periodically to reduce the risk of commodity purchase price changes.

Interest Rate Risk

The Company is exposed to fluctuations in interest rates on its Revolver borrowings. While there are no outstanding borrowings under the Revolver at 31 December 2019, to the extent the Company has future outstanding borrowings under the Revolver, the amount outstanding would be exposed to interest rate fluctuations.

Credit Risk

The exposure to credit risk is represented by the balance sheet values of the receivables and positive market values of derivatives that are carried at the balance sheet date.

Credit quality of customers is assessed taking into account the customer's financial position, past experience and other factors. Individual risk limits are set based on internal and external ratings. The utilisation of credit limits is regularly monitored. Although the Company monitors the credit ratings of its customers, changes in the financial position of its customers

can adversely affect the Company's future collection of the receivables and the Company's cash flows.

Liquidity Risk

The Company's principal source of liquidity consists of cash and cash equivalents, cash generated from operations, and borrowings available under the Revolver. See Note 10.

Capital Risk Management

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce its cost of capital.

Other Risk

At 31 December 2019, €19,083 in commercial guarantees related to equipment orders were outstanding that are not reflected on the balance sheet but expose the Company to a potential, albeit minimal risk.

Classes of Financial Instruments

Besides cash and cash equivalents, trade and other receivables as well as long-term debt, trade payables and other payables, which are financial instruments measured at amortised cost, the Group has entered into a currency swap, which is a financial instrument designated for net investment hedge accounting. The Group does not have financial instruments classified at fair value through profit and loss.

15. EQUITY

	Share Capital	Other Reserves	Retained Earnings	Shareholders Equity	Minority Interests	Total Equity
Balance at 11 December 2017	€ 1,552	€ 157,415	€ 21,096	€ 180,063	€ 3,636	€ 183,699
Employee share purchase	—	130	—	130	—	130
Total comprehensive income	—	4,131	11,854	15,985	576	16,561
Non-controlling interest dividend	—	—	—	—	(11)	(11)
Balance at 31 December 2018	€ 1,552	€ 161,676	€ 32,950	€ 196,178	€ 4,201	€ 200,379
Employee share transactions	3	(2,400)	—	(2,397)	—	(2,397)
Total comprehensive income	—	(4,261)	(24,824)	(29,085)	1,096	(27,989)
Non-controlling interest dividend	—	—	—	—	(12)	(12)
Balance at 31 December 2019	€ 1,555	€ 155,015	€ 8,126	€ 164,696	€ 5,285	€ 169,981

Common Shares

The Company is authorised to issue up to 12,992,604 common shares, each with a par value of one Danish krone. Shares are entitled to one vote per share. There are 11,579,604 shares issued and outstanding at 31 December 2019. During the year ended 31 December 2019, the Company acquired 69,146 shares from a former management employee. Total shares held in treasury are 69,679 at 31 December 2019.

Other Reserves

Other reserves consist of the following at 31 December:

	2019	2018
Capital reserves	€ 149,155	€ 151,555
Actuarial gains on pension benefit obligation, net of deferred tax	3,250	5,946
Unrealised holding (losses)/gains on derivatives designated as cash flow hedges, net of deferred tax	(2,145)	(724)
Currency translation	4,755	4,899
	<u>€ 155,015</u>	<u>€ 161,676</u>

Non-controlling Interest

The Company's majority owned Indian subsidiary, DISA India Ltd. ("DIL"), is listed on the Bombay Stock Exchange. As a result, the Company recognises the non-controlling interest's share of the net asset value of DIL as a component of equity.

16. COMMON STOCK WARRANTS

The Company has issued 1,091,058 common stock warrants to management and directors of the Company. The warrants were issued at fair market value and therefore no compensation expense is recognised. The warrants give the holder the right (without pre-emption right for the Company's existing shareholders) to subscribe for up to 1,091,058 shares in the Company with a par value of one Danish Krone, by cash contribution at exercise. The common stock warrants expire at the earliest of (i) a change of control of the Group or an IPO or (ii) the year 2023. The Company's share capital may be increased in order to make it possible for the holders of the warrants to exercise the warrants. During the years ended 31 December 2019 and 2018, 58,521 and 13,935 warrants were issued to management, respectively, at fair market value and therefore no compensation expense has been recognised. During the year ended 31 December 2019, 180,501 warrants were reacquired from a former management employee.

17. INCOME TAX RECOGNISED IN PROFIT OR LOSS

The composition of income tax expense is as follows for the years ended 31 December:

	2019	2018
Current tax expense	€ 9,438	€ 9,309
Deferred tax (benefit)/expense relating to the origination and reversal of temporary differences	(5,243)	(3,316)
Total income tax expense	<u>€ 4,195</u>	<u>€ 5,993</u>
Deferred tax (benefit)/expense recognised directly in equity	€ 838	€ (495)

Deferred taxes consist of the following at 31 December:

Net operating and other deferred loss carryovers	€ 2,740	€ 1,842
Current assets and liabilities, net	6,049	4,769
Property, plant and equipment	249	(159)
Pension	3,940	3,474
Goodwill and identifiable intangible assets	(29,015)	(31,260)
Other	3,024	1,944
Net deferred tax liability	<u>€ (13,013)</u>	<u>€ (19,390)</u>

Income tax expense attributable to income before income taxes differed from the amounts computed by applying the Danish income tax rate of 22% for the years ended 31 December, are due to the following:

	2019	2018
Income tax benefit/(expense) calculated at 22%	€ 4,285	€ (4,083)
Effect of non-taxable income	(1,095)	(761)
Effect of non-deductible expenses	(7,730)	(1,684)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(272)	(1,182)
Effect of previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	311	168
Effect of different tax rates of subsidiaries operating in other jurisdictions, and other rate effects	617	991
	<u>(3,884)</u>	<u>(6,551)</u>
Adjustments recognised in the current year in relation to the current tax of prior years	(311)	558
Income tax expense recognised in net income	<u>€ (4,195)</u>	<u>€ (5,993)</u>

Danish, United Kingdom and Canadian loss carryovers do not expire.

Beginning in 2017, the Danish companies of the group are participating in a Danish joint taxation arrangement in which Nortre Administration ApS, a related party, serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Danish companies of the group are therefore liable for income taxes for the jointly taxed companies and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for the jointly taxed companies. As a result of the joint taxation arrangement, the tax deductibility of interest incurred by Danish subsidiaries of the group was reduced by €252 for the both of the years ended 31 December 2019 and 2018.

18. EMPLOYEE BENEFIT EXPENSE

	2019	2018
Wages and salaries	€ 133,968	€ 137,914
Pension costs, defined benefit	1,556	1,742
Pension costs, defined contribution	3,643	3,586
	<u>€ 139,167</u>	<u>€ 143,242</u>

Average number of employees	2,590	2,666
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Employee benefit expenses are deducted in arriving at the Company's operating income, excluding net interest cost and past service cost included in defined benefit pension cost. See Note 13.

19. RELATED PARTIES

Executive Board and Directors

The remuneration of the executive board is as follows:

	2019	2018
Short-term benefits	€ 1,652	€ 1,154
Post-employment and terminations benefits	916	23
Total	<u>€ 2,568</u>	<u>€ 1,177</u>

The remuneration of the executive board is determined by the remuneration committee of the board of directors having regard to the performance of individuals and market trends. During the leadership transition in 2019, the composition of the executive board changed in conjunction with the appointment of a new CEO.

Shareholders

Directors and management own common shares and common share warrants of the Company. As of 31 December 2019, Altor Fund IV Holding AB has controlling shareholding positions in the Parent Company. Costs for strategic advisory and management services of €362 and €543 were accrued to the benefit of Altor Fund IV Holding AB for the years ended 31 December 2019 and 2018, respectively.

Fees paid to directors during the years ended 31 December 2019 and 2018 are €160 and €90, respectively.

As of 31 December 2019, the Company has issued 327,159 and 68,466 common stock warrants to the executive board and board of directors, respectively. As of 31 December 2018, the Company has issued 449,139 and 68,466 common stock warrants to the executive board and board of directors, respectively.

Joint Taxation Agreement

The Company participates in a Danish joint taxation arrangement in which Nortre Administration ApS serves as the administration company (see Note 17). Nortre Administration ApS and Norican Group share common owners through the Company's controlling shareholder.

20. AUDIT FEES

Fees to auditors appointed at the General Meeting are as follows:

	2019	2018
Audit fee: Deloitte	€ 583	€ 583
Other services: Deloitte	€ 7	€ 17

21. LIST OF MAJOR SUBSIDIARY COMPANIES

Name of Subsidiary	Country of Origin	% Owned*	Type of Company
Norican A/S	Denmark	100%	Holding
Norican Global A/S	Denmark	100%	Holding
Norican Group ApS	Denmark	100%	Holding
DISA Holding A/S	Denmark	100%	Holding
DISA Industries A/S	Denmark	100%	Manufacturing
WGH Holding Corp.	British Virgin Islands	100%	Holding
Wheelabrator Group (Canada) ULC	Canada	100%	Sales
DISA (Changzhou) Machinery Ltd.	China	100%	Manufacturing
Italpresse Industrie (Shanghai) Co. Ltd.	China	100%	Sales
StrikoWestofen Thermal Equipment (Taicang) Co. Ltd.	China	100%	Manufacturing
Wheelabrator Czech s.r.o.	Czech Republic	100%	Manufacturing
Matrasur Composites SAS	France	100%	Manufacturing
Wheelabrator Group SAS	France	100%	Manufacturing
Wheelabrator Group GmbH	Germany	100%	Manufacturing
Wheelabrator Group Holding GmbH	Germany	100%	Holding
LMCS Group Holding GmbH	Germany	100%	Holding
Light Metal Casting Solutions Group GmbH	Germany	100%	Holding
SWO Holding GmbH	Germany	100%	Holding
Norican Digital GmbH	Germany	100%	Sales
Light Metal Casting Equipment GmbH	Germany	100%	Holding
StrikoWestofen GmbH	Germany	100%	Sales
DISA Limited Hong Kong	Hong Kong	100%	Sales
DISA India Ltd.	India	75%	Manufacturing
DISA Technologies Private Ltd.	India	100%	Manufacturing
Italpresse Industrie S.r.l.	Italy	100%	Manufacturing
Gauss Automazione S.p.A.	Italy	100%	Manufacturing
DISA K.K.	Japan	100%	Sales
WG Plus de Mexico S de RL de CV	Mexico	100%	Manufacturing
StrikoWestofen de Mexico, S.A. de C.V.	Mexico	100%	Sales
IP Mexico Die Casting S.A. de C.V.	Mexico	100%	Sales
Wheelabrator Schlick Sp. Z.o.o.	Poland	100%	Manufacturing
SWO Polska Sp. Z.o.o.	Poland	100%	Manufacturing
Wheelabrator Group SLU	Spain	100%	Sales
DISA Industrie AG	Switzerland	100%	Manufacturing
DISA Holding AG	Switzerland	100%	Holding
WGH UK Holdings Limited	United Kingdom	100%	Holding
WGH UK Ltd.	United Kingdom	100%	Holding
Wheelabrator Technologies (UK) Ltd.	United Kingdom	100%	Holding
Wheelabrator Group Ltd.	United Kingdom	100%	Sales
Striko UK Ltd.	United Kingdom	100%	Sales
DISA Industries Inc.	United States	100%	Sales
WG Global LLC	United States	100%	Holding
DISA Holding LLC	United States	100%	Holding
Wheelabrator Group Inc.	United States	100%	Manufacturing
Wheelabrator (Delaware) LLC	United States	100%	Holding
StrikoWestofen Dynarad Furnace Corp.	United States	100%	Sales

* Ownership percentage corresponds to voting rights.

PARENT COMPANY

Balance Sheets

(Amounts in Thousands)

	Note	31 December	
		2019	2018
CURRENT ASSETS:			
Cash		€ 1,023	€ 2,112
Intercompany receivables		—	1,302
Total current assets		1,023	3,414
INVESTMENT IN SUBSIDIARY COMPANIES	2	153,291	153,291
TOTAL ASSETS		€ 154,314	€ 156,705
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Income tax payable	1	€ 3	€ 8
Total current liabilities		3	8
SHAREHOLDERS' EQUITY:			
Common shares		1,555	1,552
Additional paid-in capital		152,549	154,949
Retained result, etc.		207	196
Total shareholders' equity	3	154,311	156,697
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		€ 154,314	€ 156,705

Statements of Income

(Amounts in Thousands)

	Note	31 December	
		2019	2018
OPERATING INCOME		€ —	€ —
NON-OPERATING INCOME			
Net finance income		14	37
Total non-operating income		14	37
INCOME BEFORE INCOME TAX		14	37
INCOME TAX EXPENSE	1	(3)	(8)
NET INCOME		€ 11	€ 29

PROPOSED DISTRIBUTION OF RESULT FOR THE YEAR:

Proposed dividend for the year	€ —	€ —
Transfer to retained result	11	29
	€ 11	€ 29

Statements of Cash Flows

(Amounts in Thousands)

	Note	31 December	
		2019	2018
CASH FLOWS FROM OPERATIONS:			
Net income		€ 11	€ 29
Adjustments to reconcile net income to net cash from operations, changes in working capital:			
Intercompany receivables		1,302	(44)
Accrued income tax payable		(5)	(2)
Net cash from operations		1,308	(17)
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Investments in subsidiaries		—	—
Net cash from investing activities		—	—
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (payments)/proceeds from share transactions	3	(2,397)	130
Loan and accrued interest to Norican A/S		—	—
Net cash from financing activities		(2,397)	130
NET CHANGE IN CASH		(1,089)	113
CASH, BEGINNING OF PERIOD		2,112	1,999
CASH, END OF PERIOD		€ 1,023	€ 2,112

1. INCOME TAX RECOGNISED IN NET INCOME

The Danish companies of the group are jointly and severally liable for the Danish group's joint taxable income.

Tax expense consists of the following:

	Year ended 31 December	
	2019	2018
Current tax expense	€ 3	€ 8
Deferred tax expense relating to the origination and reversal of temporary differences	—	—
Total income tax expense	€ 3	€ 8

Income tax expense attributable to income before income taxes is computed by applying the Danish income tax rate of 22% for the years ended 31 December 2019 and 2018.

2. INVESTMENT IN SUBSIDIARY COMPANIES

Investments in subsidiary companies, with a carrying value of €153,291 at 31 December 2019 and 2018, have been provided as security for loans to the Company. Investment in subsidiary companies are reported at cost.

3. SHAREHOLDERS' EQUITY

	Share Capital	Retained Results	Total
Equity at 11 December 2017	€ 156,371	€ 167	€ 156,538
Transfer to retained result	—	29	29
Employee share purchase	130	—	130
Equity at 31 December 2018	€ 156,501	€ 196	€ 156,697
Transfer to retained result	—	11	11
Employee share transactions	(2,397)	—	(2,397)
Equity at 31 December 2019	€ 154,104	€ 207	€ 154,311

Common Shares

The Company is authorised to issue up to 12,992,604 common shares, each with a par value of one Danish krone. Shares are entitled to one vote per share. There are 11,579,604 shares issued and outstanding at 31 December 2019. During the year ended 31 December 2019, the Company acquired 69,146 shares from a former management employee.

Further details on the Parent Company's equity and related party transactions are provided in notes 15, 16 and 19, to the Company's consolidated financial statements, respectively.

4. AUDIT FEES

	Year ended 31 December	
	2019	2018

Fees to auditors appointed at the General Meeting were as follows:

Audit fee: Deloitte	€ 2	€ 2
Other services: Deloitte	—	—