Annual Report 2016/17

TERMA
ALLIES IN INNOVATION

Terma A/S
Hovmarken 4
8520 Lystrup
Denmark
Central Business Register No. 41 88 18 28

Terma A/S
Hovmarken 4
8520 Lystrup
Denmark

T +45 87 43 60 00
F +45 87 43 60 01
www.terma.com
terma.hq@terma.com

Central Business Register No. 41 88 18 28
Founded 1 December 1949
Situated in Aarhus Municipality

Production: CBC

Images: European Space Agency, Lockheed Martin Corporation, Royal Danish Navy, David Bering, and Terma

Printing: Baurs Offset

Board of Directors
Flemming H. Tomdrup (Chairman)
Jørgen Huno Rasmussen (Deputy Chairman)
Anders Eldrup
Christina Grumstrup Sørensen
Bo Laursen
Martin Anders Hedegaard
Benny Daugaard Laursen

Executive Management
Jens Maaløe, President & CEO
Per Thiesen, Executive Vice President & CFOO
Steen M. Lynenskjold, Executive Vice President & CCO

Auditors
ERNST & YOUNG
Godkendt Revisionspartnerselskab

Annual General Meeting
The annual general meeting is held at the Group's address in Lystrup on 19 May 2017.

Meeting Chairman
Morten Halskov

Contents

Statement by the Board of Directors and Executive Management

From left: Steen M. Lynenskjold, Jens Maaløe, Per Thiesen

The Board of Directors and Executive Management have today discussed and approved the Annual Report of Terma A/S for the 2016/17 fiscal year.

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

In our opinion, the Consolidated and Parent Company Financial Statements give a true and fair view of the Group's and Parent Company's financial position at 28 February 2017 and of the results of the Group's and the Parent Company's operations and the Group's cash flows for 2016/17.

Further, we consider the Management's Review to present a fair disclosure of the development in the Group's and Parent Company's operations and financial conditions, the results for the year, cash flows, and financial position as well as a description of the most significant risks and uncertainty factors that the Group and the Parent Company face.

We recommend that the Annual Report be approved at the annual general meeting.

Lystrup, 19 May 2017

Executive Management

Jens Maaløe
President & CEO

Per Thiesen
Executive Vice President & CFOO

Steen M. Lynenskjold
Executive Vice President & CCO

From left: Anders Eldrup, Benny Daugaard Laursen, Martin Anders Hedegaard, Bo Laursen, Christina Grumstrup Sørensen, Flemming H. Tomdrup, Jørgen Huno Rasmussen

Board of Directors

Flemming H. Tomdrup
Chairman

Jørgen Huno Rasmussen
Deputy Chairman

Anders Eldrup

Christina Grumstrup Sørensen

Bo Laursen

Martin Anders Hedegaard

Benny Daugaard Laursen

Independent Auditor's Report

TO THE STOCKHOLDERS OF TERMA A/S

Opinion
We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Terma A/S for the financial year 1 March 2016 - 28 February 2017, which comprise an Income Statement, Balance Sheet, Statement of Changes in Equity, and Notes, including a summary of significant Accounting Policies, for both the Group and the Parent Company, as well as Consolidated Statement of Cash Flows. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 28 February 2017 and of the results of the Group's and Parent Company's operations as well as the Consolidated Cash Flows for the financial year 1 March 2016 - 28 February 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISA) and 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 Company Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the Consolidated Financial Statements and the Parent Company Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Parent Company Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company Financial Statements unless Management either intends to liquidate the Group or the Parent Company 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 Company Financial Statements
Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Parent Company 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 ISA's and 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 Parent Company Financial Statements.

As part of an audit conducted in accordance with ISA's and 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 Company Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Consolidated Financial Statements and the Parent Company 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is 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 Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and contents of the Consolidated Financial Statements and the Parent Company Financial Statements, including the note disclosures, and whether the Consolidated Financial Statements and the Parent Company 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.

Statement on the Management's Review

Management is responsible for the Management's Review.

Our opinion on the Consolidated Financial Statements and the Parent Company Financial Statements does not cover the Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Parent Company Financial Statements, our responsibility is to read the Management's Review and, in doing so, consider whether the Management's Review is materially inconsistent with the Consolidated Financial Statements or the Parent Company Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on our procedures, we conclude that the Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's Review.

Aarhus, 19 May 2017

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jesper Ridder Olsen	Jes Lauritzen
State-Authorized Public Accountant	State-Authorized Public Accountant

Financial Highlights
CONSOLIDATED

DKK million	2016/17	2015/16	2014/15	2013/14	2012/13
Key figures:					
Order intake	1,411	1,671	1,394	1,455*	2,037*
Order backlog, year-end	2,431*	2,739*	2,567*	2,507*	2,188*
Revenue	1,719	1,499	1,308	1,137	1,140
EBITDA	288	220	174	159	130
Depreciation, amortization, and write-downs	147	107	74	75	57
Operating profit	141	113	100	84	73
Financial income and costs	(21)	(28)	(29)	(30)	(30)
Earnings before tax (EBT)	120	85	71	54	43
Profit for the year	**91**	**66**	**53**	**53**	**29**
Non-current assets	899	839	796	788	785
Current assets	892	862	763	714	755
Total assets	**1,791**	**1,701**	**1,559**	**1,502**	**1,540**
Investment in property, plant, and equipment	129	56	30	26	12
Equity	**562**	**572**	**491**	**490**	**440**
Subordinated loans	125	0	0	0	0
Capital base**	**687**	**572**	**491**	**490**	**440**
Provisions	146	149	127	123	137
Non-current liabilities other than provisions (excl. subordinated loans)	298	344	394	440	399
Current liabilities other than provisions	660	637	547	449	564
NIBD (excl. subordinated loans)	306	418	389	431	393
Cash flows from operating activities	285	120	133	50	128
Cash flows for investing activities	(208)	(139)	(81)	(77)	(52)
hereof investments in property, plant, and equipment	(134)	(70)	(35)	(28)	(12)
Cash flows from financing activities	(36)	17	(67)	(47)	(13)
Total cash flows	**41**	**(2)**	**(15)**	**(75)**	**63**
Financial ratios:					
EBITDA margin	16.8	14.6	13.3	14.0	9.3
EBT margin	7.0	5.7	5.4	4.7	3.8
Return on investments	8.2	7.0	6.6	5.9	5.3
Liquidity ratio	135	135	139	159	134
Solvency ratio (capital base)	38.4	33.6	31.5	32.6	28.7
Return on equity	16.1	12.5	10.8	11.4	6.8
Leverage ratio	1.1	1.9	2.2	2.7	3.7
Average number of full-time employees	**1,257**	**1,174**	**1,117**	**1,065**	**1,080**

* *Including five-year framework agreements relating to the F-35 Joint Strike Fighter program.*
** *Capital base is defined as equity and subordinated loans.*
Financial ratios are calculated in accordance with "Recommendations and financial ratios 2015" of the Danish Finance Society.

Definitions

EBITDA margin: $\frac{\text{EBITDA x 100}}{\text{Revenue}}$

EBT margin: $\frac{\text{Earnings before tax x 100}}{\text{Revenue}}$

Return on investments: $\frac{\text{Operating profit x 100}}{\text{Average operating assets}}$

Operating assets: Total assets less cash at bank and in hand, other interest-bearing assets, and equity interest in affiliated companies

Liquidity ratio: $\frac{\text{Current assets x 100}}{\text{Current liabilities other than provisions}}$

Solvency ratio: (Capital base) $\frac{\text{Capital base x 100}}{\text{Total liabilities at year-end}}$

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

Leverage ratio: $\frac{\text{NIBD (excl. subordinated loans)}}{\text{EBITDA}}$

Terma at a Glance

2016/17 IN NUMBERS

MAIN CONCLUSIONS

In 2016/17, Terma continued a positive development in all Business Areas. This formed the basis for yet another satisfactory financial result. The order intake for the year was MDKK 1,411, resulting in an order backlog at year-end of MDKK 2,431. The order backlog provides for a comfortable business base in 2017/18 as well as in following years.

Order intake (DKK million)
1,411
Down from 1,671

Order backlog, year-end (DKK million)
2,431
Down from 2,739

Revenue (DKK million)
1,719
Up from 1,499

EBITDA (DKK million)
288
Up from 220

Earnings before tax (EBT) (DKK million)
120
Up from 85

Return on investments (%)
8.2
Up from 7.0

Leverage ratio
1.1
Down from 1.9

Capital base (DKK million)
687
Up from 572

Management's Review 2016/17

Result for 2016/17
In 2016/17, Terma continued a positive development in all Business Areas. This formed the basis for yet another satisfactory financial result.

The order intake for the year was MDKK 1,411, resulting in an order backlog at year-end of MDKK 2,431. The order backlog provides for a comfortable business base in 2017/18 as well as in following years. Order intake is impacted by F-35 program multi-year agreements; the next multi-year agreements are expected in 2017/18.

Revenue for the fiscal year was MDKK 1,719, as compared to MDKK 1,499 in 2015/16, i.e. a year-over-year growth of 15% – a strong growth for the third year in a row.

94% of the revenue was generated outside Denmark. The defense market constitutes 67% of the revenue. Non-defense markets constitute 33%.

EBITDA improved from MDKK 220 in 2015/16 to MDKK 288 in 2016/17, a 31% growth. The EBITDA margin improved correspondingly.

Earnings before tax increased to MDKK 120 in 2016/17 from MDKK 85 the year before, i.e. a year-over-year growth of 40%.

The net interest-bearing debt (NIBD) was reduced compared to 2015/16, from MDKK 418 to MDKK 306, despite significant investments in the F-35 program ramp-up as well as investments in product development. The positive development is primarily driven by recent years' efforts to reduce working capital.

At year-end, total staff was 1,339 Full-Time Employees (FTE), an increase of 150 FTE during 2016/17.

Sustainable efforts to manage risks, streamline processes, and mature a performance culture have contributed to a very satisfactory overall result for 2016/17.

The Board of Directors and Executive Management greatly appreciate the dedication, commitment, and efforts of our employees worldwide.

Outlook for 2017/18

In 2017/18, Terma expects a consolidated organic growth >10% in revenue. The positive outlook is based on a solid order backlog to be delivered in 2017/18.

Earnings before tax (EBT) are expected to be slightly better than the 2016/17 result.

Terma is predominantly a business-to-business supplier. The U.S. and Europe will continue to be important growth markets for Terma. From an end user perspective, we also foresee growth in the Middle East and Asia Pacific, including India.

Another significant growth driver for Terma will be the ongoing ramp-up in the F-35 program. Following the June 2016 Danish Government decision to acquire 27 F-35 fighter aircraft, as replacement for Denmark's F-16 fighter aircraft, negotiations were initiated for Low Rate Initial Production (LRIP) 12-14 orders. The LRIP12-14 order intake may exceed 1 billion DKK; order intake is expected to take place during 2017 and early 2018.

The debt level for 2017/18 is expected to improve marginally, primarily due to working capital improvements offsetting higher investments.

The overall strategy of Terma stands on three fundamental pillars:

1. Growing the top line
2. Breaking the cost curve
3. Developing the organization

The continued strategic direction builds on growing the top line and breaking the cost curve whereas developing the organization has been added during 2016/17. The objective of all three strategic initiatives is to ensure a profitable and sustainable growth.

Business activities

Terma provides mission critical solutions for the aerospace, defense, and security industry. We are guided by one overall purpose: to deliver security for countries, alliances, and individuals. Security is a means to maintaining and developing prosperity and protecting human lives and sovereignty.

Terma consists of five Business Areas: Command, Control & Sensor Systems; Airborne Systems; Global Support & Services; Space; and Aerostructures.

Command, Control & Sensor Systems provides radar systems for coastal surveillance and traffic control in sea ports and airports, radars for naval vessels as well as radars for wind turbine interference mitigation and obstruction light control. The activities also cover command, control, and communications solutions for naval vessels and air defense systems, self-protection systems for naval vessels as well as systems for security surveillance of critical infrastructures.

Airborne Systems provides self-protection, 3D-Audio, and Active Noise Reduction applications and applied aerostructures solutions for all types of military aircraft as well as Electronics Manufacturing Services for high-technology radar and power electronics solutions for aircraft and satellites.

Global Support & Services provides maintenance, support, and update of Terma products and solutions as well as third-party supplier equipment.

Space develops and supplies electronics, software, and services for satellites, space control centers, and for test and validation tasks related to development of new satellites and spacecraft.

Aerostructures designs and manufactures advanced metal and composite structures for the global defense and commercial aerospace markets.

Terma is active in more than 40 countries worldwide. In the recent year, Terma continued strengthening existing locations outside Denmark.

Within all business activities and programs, Terma utilizes nationally as well as internationally based suppliers and partners. Our global supplier list for production and project execution encompasses well over 700 suppliers and partners.

Terma successfully secured its fourth recertification for another three years towards AS9100 from Bureau Veritas Certification UK. The certification covers nine Terma facilities in four countries. The international AS9100 (equivalent to EN9100) standard for Quality Management Systems in the aerospace and defense industry is required by most major customers and is a prerequisite for doing business in most segments. AS9100 comprises all ISO 9001 requirements and adds industry specific requirements.

In addition to maintaining the AS9100 certifications, Terma holds AQAP 2310, AQAP 2210, and AQAP 2110 certifications from the Danish Defence Acquisition and Logistics Organization (DALO) and some civil aviation approvals.

BUSINESS AREAS

Command, Control & Sensor Systems

2016/17 was the most successful year for the Command, Control & Sensor Systems Business Area to date with high revenue growth, a significant radar sale, and a growing command and control systems pipeline.

Terma's core radar markets, i.e. Vessel Traffic Service (VTS) and Coastal Surveillance Systems (CSS) applications, maintain a strong market position. This year, we witnessed significant growth with closure of several large orders of the high-end SCANTER 5000 radar for coastal surveillance.

Terma experienced a breakthrough by receiving its first three orders for the German market of windfarm Obstruction Light Control (OLC) radar solutions.

In Denmark, Terma obtained approval from the Danish authorities for a five-year operational test period at the national test center for large wind turbines in Østerild.

Two additional orders were secured for Terma's unique radar solutions, which can detect small aircraft flying over large windfarms.

Terma received its first three orders for the German market of windfarm Obstruction Light Control (OLC) radar solutions

The market for Critical Infrastructure Protection (CIP) looks promising, and we receive very positive feedback on our new T.react CIP product's performance and functionality.

In the next years, an increased focus will be on smaller command and control (C2) systems to be used in policing and light combat vessels. Our approach to the market has generated significant interest from end users and shipyards, generating a promising C2 order pipeline.

There was significant order intake from the C-Guard naval self-protection and SCANTER radar products, both in Europe and in Asia Pacific. These orders increased the Terma profile in the naval market where the reference list is a prominent sales advantage.

Airborne Systems

The Airborne Systems Business Area supplies complete aircraft self-protection, Electronic Warfare (EW), solutions to large systems integrators and aircraft manufacturers worldwide.

The upgrade of F-16 pylons to PIDS+®, optionally integrating the MILDS-F missile warning sensors, and adding a flare-dispense capability (Flare-up®), strengthened our market position. This year, the U.S. Air National Guard and the Royal Netherlands Air Force (RNLAF) signed contracts for such upgrades. The development of the next-generation Advanced Countermeasure Dispense System (ACMDS) progresses as planned. The contract with the RNLAF for Terma's modular self-protection solution (MASE®) for their fleet of NH90 is progressing well, and more NH90 users have shown interest in the solution.

The Electronic Manufacturing Services area is growing steadily following the ramp-up of F-35, as a supplier of radar electronics to Northrop Grumman Corporation and electronics for Raytheon Company for the ESSM (Evolved Sea Sparrow Missile) Block 2 program.

Global Support & Services

Global Support & Services is growing the service business in all defense and security product areas of Terma.

Terma's Maintenance, Repair & Overhaul (MRO) capabilities are expanding in both The Netherlands and in the U.S. Strong and mature MRO capabilities, together with a dedicated business development effort, are important enablers for pursuing and capturing MRO services for third-party OEMs.

In the coming year, Terma will strengthen the global support and service footprint by consolidating activities in the U.S. and Europe and grow activities in the Middle East and Asia Pacific regions.

Global Support & Services will focus on activities ensuring capture of service contracts for third-party OEMs, as well as investigate possibilities of service business expansion through strategic partnerships. Service capacity and capability near Terma's end users are also focus areas in the coming year, with a notable expansion of our service partner portfolio.

Space

The worldwide space market is developing positively, and our product development over the last years has placed Terma in a comfortable position for a number of new opportunities in Europe, the U.S., and in the Far East. This applies to electronics and software solutions as well as space engineering services.

During 2016/17, major space missions were pursued, like the ESA missions for Earth observation as well as Juicy, ExoMars 2020, and the telecom platform Electra. Additionally, European defense and commercial constellation programs were pursued. For all missions, significant successes were achieved, paving the way forward for a promising 2017/18 and following years.

Contracts for the current generation of Star Trackers, as well as a new generation of test and control systems, continued in 2016/17, with customers inside and outside Europe.

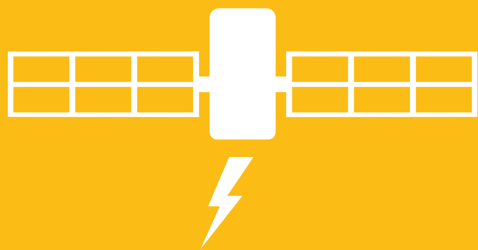
The development of a new generation of Star Trackers is well underway, based on technology that reduces the size and weight of the system's camera and computer.

Building on the power electronics delivered for the ExoMars 2016 mission, a new power electronic product series was successfully introduced and new contracts secured in the defense and the telecom markets.

Terma is the prime contractor for the ASIM project – The Atmospheric Space Interactions Monitor – with the objective of measuring high altitude lightning in the upper atmosphere. The observatory is planned for launch on a SpaceX launcher in late 2017.

Terma develops the software that controls the Solar Orbiter's positioning

Terma is the prime contractor for the Atmospheric Space Interactions Monitor



and orbit. The satellite will conduct observations close to the Sun. Terma's software is crucial for the satellite's correct positioning relative to the Sun. Building on that success, a major software program is under development for the ExoMars 2020 mission as well as for ESA's Earth observation program JASON.

The Electrical Ground Support Equipment (EGSE) products of Terma used to test satellites during assembly have developed positively, with significant contracts in ESA Science and Earth Observation programs as well as for commercial constellations.

Aerostructures

The down-selection of the F-35 as Denmark's next fighter aircraft fulfilled a critical pre-condition for the expansion of the production capacity in the Aerostructures facility in Grenaa, Denmark.

In 2016/17, phase 1 of the investment plan was completed. The investment ensures necessary production capacity for F-35 annual full-rate of 170 aircraft. In October 2015, ground-breaking took place, and in August 2016, a world-class layup workshop was ready for production. During the second half of 2016, new advanced machinery was installed. The bonding facility is now ready for full-rate production. In 2017, additional equipment will be added to ensure full-rate readiness in all departments.

In 2017, Terma will deliver parts for 57 aircraft. In 2018, the number will increase to 94.

In 2015/16, Terma was awarded a contract for Boeing 777-200/300 structural empennage parts, and qualification was successfully completed in 2016/17. Production is about to commence.

Another achievement during 2016/17 was the successful design of a component for the Sikorsky S-92 helicopter. The component was earlier offered as a build-to-print component in aluminum; however, due to Terma's advanced composites capabilities, a solution for conversion into carbon fiber composite was awarded. The order validates our strategy to provide for continuous cost reduction for our customers. Recurring production has now been initiated.

INTERNATIONAL ACTIVITIES AND REGIONS

Market Development

Since starting our journey in 1949, Terma has maintained deep and proud roots in Denmark. Denmark is our center, as we do business around the world. Terma believes in international partnerships and strong strategic alliances. Rooted in a small country, we depend on our ability to reach out to partners – and create solutions together.

Terma works closely with national defense forces, public authorities, and international organizations around the world. Our global expansion, with the purpose of being closer to key customers and end users, continued in 2016/17 and will accelerate in the years to come.

Denmark & Nordics

During 2016/17, Terma strengthened its focus on the Danish home market. The Market Development Denmark department handles the Danish market, with a holistic approach towards customer and stakeholder engagement with the armed forces, Danish political leadership, and relevant key government authorities.

Production capacity for F-35 annual full-rate of 170 aircraft

In 2016/17, Terma defined a Nordic region including Denmark, Finland, Norway, Sweden, Iceland, and the three Baltic States. These countries tend to have common security interests, political cooperation, and interesting industry dynamics to be further explored.

Our liaison office in Brussels supports the Danish home market, the integration of business development, and external affairs with other companies and regions in the Terma Group. Terma's office in Brussels works closely with key partners and policy-makers within NATO, the EU institutions, industry organizations, and other international partners.

Market Development Denmark is tasked with developing Terma's business in Turkey. Turkey was designated a special focus market for Terma based on high-potential opportunities.

Terma's Industrial Cooperation and offset function is part of Market Development Denmark and works across Business Areas and hand-in-hand with Terma's regions.

Furthermore, Market Development Denmark is responsible for Customer Insight which includes collecting information for analyzing and providing insight into our customers' perception of Terma and how Terma can create even more value for our customers.

Europe

Terma B.V., the Dutch subsidiary, has the regional responsibility for central Europe, with focus on The Netherlands, Germany, and the United Kingdom. In The Netherlands, Terma B.V. focuses primarily on space activities, aircraft survivability equipment, and the Terma activities within aerospace and defense.

Terma continued its years of collaboration with the Royal Netherlands Air Force (RNLAF), by signing a new contract for upgrading their F-16 pylons to PIDS+® integrating the MILDS-F missile warning sensor and adding a flare-dispense capability (Flare-up®). This solution is offered to other F-16 customers, with similar needs as The Netherlands. This process illustrates Terma's special ability to collaborate and maintain dialog with customers for decades and jointly develop new solutions in concert with changing operational requirements.

Terma and the Woensdrecht Logistics Centre have worked together for many years to support the RNLAF fleet through development and supply of advanced integrated self-protection systems currently installed on almost all RNLAF aircraft. The airborne EW service and support facility established at the Woensdrecht Air Base is today fully operational and sustains an expanding range of equipment from the Terma EW product lines.

Space activities in The Netherlands include in-house turnkey system integration and development, specializing in spacecraft test, simulation, and in-orbit management systems together with the provisioning of highly specialized engineering consultants to ESA's European Space Research and Technology Centre (ESTEC) in Noordwijk, The Netherlands.

Terma GmbH, the German subsidiary, focuses on support and services. For the spacecraft prime contractors, Terma GmbH supplies key components for the facilities they use for validating their mission critical spacecraft flight software. Within ESA, we have provided the ExoMars, BepiColombo, and Solar Orbiter Mission Control Systems and the ExoMars Operational Simulator. Terma secured new framework contracts with the European Space Operations Centre (ESOC), covering both systems and services. We have an increased presence in the European Organisation for the Exploitation of Meteorological Satellites (EUMETSAT), providing services including IT Support Services.

Terma experienced a breakthrough by receiving the first three orders for the German market of windfarm Obstruction Light Control (OLC) radar solutions. Terma is the second company to obtain step 1 approval (Anerkennung) from the German Aviation Authorities represented by DFS Deutsche Flugsicherung GmbH. The system keeps the obstruction lights switched off when the airspace around a windfarm is empty of aircraft, reducing light pollution. We see a significant interest in connection with local German authorities mandating OLC for new windfarms.

In Harwell Oxford, Terma (UK) Ltd. focuses on space activities, initially established with the purpose of supplying engineering services to the UK space industry and ECSAT, the European Centre for Space Applications and Telecommunications.

In the UK, Terma secured contracts for SCANTER radar products for two additional Offshore Patrol Vessels (OPVs) for Royal Navy. NATS ordered solutions for two additional airports (Edinburgh and Glasgow), where Terma's SCANTER radars are used to detect small aircraft flying over large windfarms.

North and Central America

Terma North America Inc. is headquartered in the Washington D.C. area and facilitates business growth through close proximity to key customers and business partners. Terma North America's focus includes the U.S., Mexico, Canada, and Central America plus the Caribbean, as well as global export from the U.S.

The U.S. remains the most important market for Terma, and the F-35 Joint Strike Fighter is Terma's largest program. Terma North America strengthens Terma's role in the F-35 program, Long Term Agreements (multi-year buys), and opportunities for sustainment and follow-on initiatives. Besides the F-35 program, other future opportunities for Terma include the P-8 Maritime Patrol Aircraft, wind energy solutions, Canadian Surface Combatant, Federal Aviation Administration, and U.S. and Canadian naval radar modernization programs.

Terma North America looks to accelerate growth through closer customer relationships, investing in next-generation solutions, and strengthened management. Expanded facilities in Warner Robins and an engineering and innovation center in Atlanta, Georgia are being established.

An engineering and innovation center is being established in Atlanta, Georgia

Terma North America projects were launched to develop and produce next-generation self-protection systems. Terma North America delivers aircraft systems to the U.S. Air Force, U.S. Air National Guard, and prime integrators such as Lockheed Martin Corporation, Northrop Grumman Corporation, and Raytheon Company. Via both U.S. Foreign Military Sales and Direct Commercial Sales programs, Terma North America provided self-protection equipment to international customers and SCANTER radars to Bahrain, Canada, and Tunisia.

At the beginning of the year, a contract was signed with the U.S. Air National Guard to upgrade their F-16 PIDS pylons to enable flare-dispense (Flare-Up®).

The collaboration with IOMAX USA to provide the aircraft self-protection suite for their second-generation Archangel aircraft continues. Following a succesfull flight test, scheduled delivery commenced for the end customer in United Arab Emirates.

A major order received during the fiscal year was the Shop Replaceable Unit redesign project for the U.S. Air Force. This contract underscores the strength of Terma being able to provide life-time extending value propositions for Terma's customers through a dedicated aftermarket approach.

Terma is only the second company to get their Obstruction Light Control solution approved by the Federal Aviation Administration in the U.S., and in 2016/17, Terma has built a promising pipeline of opportunities. Depending on passage of potential new legislation in individual states, it could lead to significant future growth for Terma North America.

Asia Pacific

The merged and consolidated setup of Terma Singapore Pte. Ltd. as the regional headquarters and India being part of the region has been in operation for a year now.

The Asia Pacific region is a challenging region with a buzz of activities and diverse demands. The geography of the region, combined with the geopolitical tensions being a reality, throws challenges in addressing the opportunities.

Terma continues to access the strategically important Chinese market with respect to civil radar systems for airport surveillance and Vessel Traffic Service.

Apart from the radar requirements in the naval and security domain, we are seeing a positive regional outlook for command and control, naval self-protection systems, and also protection of critical infrastructure applications.

The Asia Pacific airport market continues to be a niche of interest for Terma. Last year, two large Surface Movement Radar (SMR) projects, one for Jakarta Airport, Indonesia and the other for the new Beijing Airport, China were secured.

In the naval domain, there has been a significant order intake in Asia Pacific for the C-Guard naval self-protection and SCANTER radar products, including the Indian Navy and the Royal Australian Navy. These orders have significantly increased the Terma profile in the naval market where the reference list is a prominent sales advantage.

In partnership with Tata Advanced Systems Ltd.'s subsidiary Tata Nova, Terma won India's first "Buy & Make (India)" naval radar program, Surface Surveillance Radar (SSR). Under this program, Terma will supply 31 SCANTER 6002 radar systems to the Indian Navy.

A main focus area for 2016/17 was to expand, restructure, and gear the organization to cater for the Asia Pacific region's growth strategies. With an ambition to increase the market share as well as to cater for the imperative importance of having a strong program and sales support organization in place as sales grow, the Asia Pacific region team has been strengthened on several key positions.

We are currently closely monitoring and examining in particular the South Korean market which appears to be a market where Terma's niche airborne products fit the multitude of potential modernizations and new build programs in the country well.

Middle East and North Africa
Terma and Al Maskari Holding signed an agreement in February 2017 that marked the establishment of a joint venture, Terma Middle East LLC, which will serve as the local interface to Terma's partners, customers, and clients in the UAE.

A partnership between Terma and Atlas Telecom UAE for the promotion and sale of T.react CIP in the UAE was formally entered into. Atlas Telecom UAE has been demonstrating our T.react CIP solution at the Mirfa Hotel in Abu Dhabi for months leading up to the biannual IDEX exhibition in Abu

Significant growth in Terma's core radar market within Coastal Surveillance Systems

Dhabi in February 2017. The approach has proved successful with the right end users experiencing the system at Mirfa and culminating in a massive interest at IDEX where Atlas Telecom UAE dedicated a large portion of their 350 square meter stand to displaying our T.react CIP software and SCANTER 1002. Work will continue in 2017/18 together with Atlas Telecom UAE as well as supporting GET Group, which also signed up for a demo unit in Egypt within the last year.

This year, we witnessed a significant growth in Terma's core radar market within Coastal Surveillance Systems (CSS) with closure of two large orders to Saudi Arabia and Morocco of the high-end SCANTER 5000.

Risks

Terma's leading risk is execution of large programs. Terma seeks to reduce this risk by increased focus on contract management and financial control.

Terma has the required credit lines available and the support of our financial partners to implement the planned short-term and long-term activities and investments.

Being the first corporate transaction in Denmark to be guaranteed under the European Fund for Strategic Investments, heart of the Investment Plan for Europe, the European Union supports Terma with a MEUR 28 loan from the European Investment Bank – a strategic partner to the European Commission. The loan entails research, development, and innovation investments for the development of radar technology and high-tech products for space applications.

Terma is minimally exposed to changes in interest rates. The interest risk is hedged via fixed-rate mortgage loans and interest swap.

Terma primarily sells and buys in DKK, EUR, and USD currencies. Risks relative to USD are hedged by entering into forward exchange contracts in connection with the acceptance and conclusion of contracts.

In general, there is no significant credit risk relative to individual customers.

In January 2014, Terma A/S terminated a contract with the Polish Armaments Inspectorate (IU), the Ministry of National Defence, regarding the supply of aircraft survivability equipment for Polish helicopters of the Mi-17 and Mi-24 types. Subsequently, Terma has taken out a writ of summons against the Polish Ministry of National Defence. The dispute between Terma and IU relates to contractual matters. It has not been possible to reach a compromise and form common grounds for a successful way forward. As part of the court proceedings, the Polish Ministry of National Defence has filed a counter claim covering liquidated damages and repayment of the advance payment made according to the contract. Based on external legal evaluation, it is the opinion of the Executive Management that the outcome of the dispute with the Polish Armaments Inspectorate will not affect the financial position apart from what is already recognized in the Assets and Liabilities in the Balance Sheet at 28 February 2017.

Corporate Social Responsibility and Equal Representation of Genders

Statutory report on Corporate Social Responsibility pursuant to the Danish Financial Statements Act section 99a

Based on Terma's values of working with integrity, showing passion, and working globally, we wish to impact our industry and society in a positive way. Terma's Corporate Social Responsibility program (CSR) takes place in close interaction with customers, partners, employees, the local community, and the world around us.

Terma has been focusing its work with Corporate Social Responsibility (CSR) on its main stakeholders and challenges. In Terma's CSR report for 2016/17, you can read more about our work relative to our customers, suppliers, employees, community, and environment. The CSR report forms an integral part of the Management's Review and is available at:
http://www.terma.com/static/csr_report2016-17/index.html

Policy to Target an Equal Representation of Genders pursuant to the Danish Financial Statements Act section 99b

The policy on Equal Representation of Genders in 2016/17 which forms an integral part of the Management's Review is available at:
http://www.terma.com/static/csr_report2016-17/index.html

Income Statement

1 MARCH - 28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Revenue	3,4	**1,718,809**	**1,499,171**	**1,148,622**	**977,193**
Production costs	5	(1,330,172)	(1,159,352)	(898,020)	(766,254)
Gross profit		**388,637**	**339,819**	**250,602**	**210,939**
Distribution costs	5	(145,366)	(137,193)	(113,187)	(102,844)
Administrative costs	5,6	(103,217)	(90,198)	(61,026)	(53,066)
Other operating income	7	1,453	1,437	39,003	32,715
Other operating costs	7	(610)	(465)	(5,332)	(3,455)
Operating profit		**140,897**	**113,400**	**110,060**	**84,289**
Profit in subsidiaries after tax	8	-	-	21,350	16,558
Financial income	9	6,786	9,027	2,785	7,905
Financial costs	9	(27,962)	(37,000)	(22,448)	(28,531)
Earnings before tax (EBT)		**119,721**	**85,427**	**111,747**	**80,221**
Tax on profit	10	(28,280)	(18,938)	(20,306)	(13,732)
Profit for the year		**91,441**	**66,489**	**91,441**	**66,489**
Proposed profit appropriation	26				

Balance Sheet

28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2017	CONSOLIDATED 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
ASSETS					
Non-current assets					
Intangibles					
Software		26,637	27,834	26,579	27,758
Software in process		342	0	342	0
Development projects completed		276,039	294,818	238,628	252,056
Development projects in process		133,139	142,077	119,957	142,077
	11	**436,157**	**464,729**	**385,506**	**421,891**
Property, plant, and equipment					
Land and buildings		262,037	223,870	262,037	223,870
Plant and machinery		121,969	112,410	26,639	25,360
Fixtures and fittings, tools and equipment		16,063	10,427	8,319	5,686
Property, plant, and equipment under construction		62,554	27,162	10,950	22,721
	12	**462,623**	**373,869**	**307,945**	**277,637**
Investments					
Investments in subsidiaries	8	-	-	292,864	282,800
		-	-	292,864	282,800
Total non-current assets		**898,780**	**838,598**	**986,315**	**982,328**
Current assets					
Inventories					
Raw materials and consumables		206,633	180,049	156,141	129,297
Work in process		73,217	101,116	51,670	75,144
Prepayments to suppliers		12,043	16,201	11,771	16,201
		291,893	**297,366**	**219,582**	**220,642**
Receivables					
Trade receivable	13	243,187	271,857	130,670	93,590
Construction contracts	14	287,427	263,385	121,304	130,747
Amounts owed by subsidiaries		-	-	117,050	139,040
Corporate tax receivable	15	219	1,433	0	0
Other receivables		15,165	13,159	9,794	7,596
Deferred tax asset	16	1,028	2,294	0	0
Prepayments and deferred charges	17	7,452	8,449	6,658	8,224
		554,478	**560,577**	**385,476**	**379,197**
Cash at bank and in hand		**45,498**	**4,525**	**34,826**	**94**
Total current assets		**891,869**	**862,468**	**639,884**	**599,933**
Total assets		**1,790,649**	**1,701,066**	**1,626,199**	**1,582,261**

DKK thousand	Note	CONSOLIDATED 2017	CONSOLIDATED 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
EQUITY AND LIABILITIES					
Equity					
Capital stock		18,000	18,000	18,000	18,000
Net revaluation according to the equity method		-	-	31,085	21,032
Reserve for development costs		-	-	43,009	-
Retained earnings		544,190	543,776	470,096	522,744
Proposed dividends		0	10,000	0	10,000
Total equity	18	**562,190**	**571,776**	**562,190**	**571,776**
Provisions					
Warranty provisions	19	12,179	9,993	12,179	9,993
Provisions regarding construction contracts		1,381	3,423	1,104	3,328
Deferred tax	16	132,755	135,729	117,756	121,060
Total provisions		**146,315**	**149,145**	**131,039**	**134,381**
Liabilities other than provisions					
Non-current liabilities other than provisions					
Subordinated loans	20	125,000	0	125,000	0
Credit institutions		104,066	139,437	104,066	139,437
Mortgage credit institutions		193,485	204,099	193,485	204,099
	21	**422,551**	**343,536**	**422,551**	**343,536**
Current liabilities other than provisions					
Current portion of non-current liabilities	21	10,409	10,270	10,409	10,270
Construction contracts	14	121,406	136,766	90,163	116,967
Prepayments received from customers		68,150	72,631	56,369	49,733
Trade payables		150,669	113,205	105,329	86,599
Amounts owed to Parent Company		66,173	58,564	66,173	58,564
Amounts owed to subsidiaries		-	-	34,668	58,898
Corporate tax	15	5,919	3,970	0	0
Other payables		236,867	241,203	147,308	151,537
		659,593	**636,609**	**510,419**	**532,568**
Total liabilities other than provisions		**1,082,144**	**980,145**	**932,970**	**876,104**
Total equity and liabilities		**1,790,649**	**1,701,066**	**1,626,199**	**1,582,261**

Accounting policies	1
Special items	2
Contingent liabilities and security	22
Related parties	23
Events after the Balance Sheet date	24
Financial instruments and financial risks	25

Statement of Changes in Equity

1 MARCH – 28 FEBRUARY

CONSOLIDATED

DKK thousand	Note	Capital stock	Net revaluation according to the equity method	Reserve for development costs	Retained earnings	Proposed dividends	Total
Equity at 1 March 2015		18,000			463,008	10,000	491,008
Dividends paid		-			-	(10,000)	(10,000)
Profit for the year		-			56,489	10,000	66,489
Translation adjustment relating to foreign entity		-			893	-	893
Changes in value of hedging instruments, etc. (before tax)		-			31,244	-	31,244
Tax on changes in value of hedging instruments		-			(7,858)	-	(7,858)
Equity at 1 March 2016		**18,000**			**543,776**	**10,000**	**571,776**
Dividends paid, ordinary		-			-	(10,000)	(10,000)
Dividends paid, extraordinary		-			(90,000)	-	(90,000)
Profit for the year		-			91,441	-	91,441
Translation adjustment relating to foreign entity		-			659	-	659
Changes in value of hedging instruments, etc. (before tax)		-			(2,162)	-	(2,162)
Tax on changes in value of hedging instruments		-			476	-	476
Equity at 28 February 2017		**18,000**			**544,190**	**0**	**562,190**

PARENT COMPANY

DKK thousand	Note	Capital stock	Net revaluation according to the equity method	Reserve for development costs	Retained earnings	Proposed dividends	Total
Equity at 1 March 2015		18,000	9,230	-	453,778	10,000	491,008
Dividends paid		-	-	-	-	(10,000)	(10,000)
Dividends received from subsidiaries		-	(14,310)	-	14,310	-	0
Profit for the year	26	-	16,230	-	40,259	10,000	66,489
Translation adjustment relating to foreign entity		-	893	-	-	-	893
Changes in value of hedging instruments, etc. (before tax)		-	12,206	-	19,038	-	31,244
Tax on changes in value of hedging instruments		-	(3,217)	-	(4,641)	-	(7,858)
Equity at 1 March 2016		**18,000**	**21,032**	**-**	**522,744**	**10,000**	**571,776**
Dividends paid, ordinary		-	-	-	-	(10,000)	(10,000)
Dividends paid, extraordinary		-	-	-	(90,000)	-	(90,000)
Dividends received from subsidiaries		-	(12,675)	-	12,675	-	0
Profit for the year	26	-	21,370	43,009	27,062	-	91,441
Translation adjustment relating to foreign entity		-	659	-	-	-	659
Changes in value of hedging instruments, etc. (before tax)		-	896	-	(3,058)	-	(2,162)
Tax on changes in value of hedging instruments		-	(197)	-	673	-	476
Equity at 28 February 2017		**18,000**	**31,085**	**43,009**	**470,096**	**0**	**562,190**

Cash Flow Statement

1 MARCH – 28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16
Earnings before tax		**119,721**	**85,427**
Adjustments:			
Depreciation, amortization, and write-downs, etc.		147,820	106,698
Provisions		144	(1,381)
Financial income and costs		21,176	27,973
		169,140	**133,290**
Changes in working capital	27	21,306	(56,799)
Cash flows generated from operations before financial items		**310,167**	**161,918**
Net financial items, paid and received		(21,723)	(28,283)
Cash flows from operations before tax		**288,444**	**133,635**
Corporate tax paid	15	(3,189)	(14,017)
Cash flows from operating activities		**285,255**	**119,618**
Capitalized development costs	8	(73,487)	(68,760)
Acquisition of software, property, plant, and equipment	9	(134,442)	(69,920)
Cash flows for investing activities		**(207,929)**	**(138,680)**
Repayments, non-current liabilities		(149,912)	(42,238)
Proceeds, new non-current liabilities		104,066	0
Subordinated loans		125,000	0
Loan from Parent Company		(15,507)	68,986
Dividends paid		(100,000)	(10,000)
Cash flows from financing activities		**(36,353)**	**16,748**
Net cash flows from operating, investing, and financing activities		**40,973**	**(2,314)**
Cash at bank and in hand at 1 March		4,525	6,839
Cash at bank and in hand at 28 February		**45,498**	**4,525**

The Cash Flow Statement cannot be directly derived from the Balance Sheet and the Income Statement.

Notes

1. ACCOUNTING POLICIES

The Annual Report of Terma A/S for 2016/17 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities. The Consolidated Financial Statements of Terma A/S are included in the Consolidated Financial Statements of the Parent Company, Thrige Holding A/S, Lystrup.

Effective 1 March 2016, the Company has implemented act No. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Annual reassessment of residual value of property, plant, and equipment
2. Reserve for development costs
3. Prepayment from customers reducing inventory

Item 1: In future, residual values of property, plant, and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant, and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions* with future effect only as a change in accounting estimates with no impact on equity.

Item 2: An amount corresponding to development costs recognized will, in future, be tied up in the Parent Company in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognized are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under the equity. If the recognized development costs are written down, a corresponding part of the reserve for development costs is reversed. The reserve for development costs is also reduced by amortization charges and taxes, and therefore, the reserve will not exceed the amount recognized in the Balance Sheet as development costs after tax. Limitation of the special reserve recognized in the equity applies only to development costs recognized after 1 March 2016 in accordance with section 4 of the executive order on transitional provisions.

Item 3: Prepayments from customers are classified as current liabilities other than provisions. Previously, the part of the prepayments relating to inventory reduced the inventory as well as the prepayments. The change has been implemented at the beginning of the financial year with adjustments of the comparative figures.

None of the above changes impacts the Income Statement or the equity for 2016/17 or the comparative figures, except for item 3, which is immaterial.

Major production plants used for the production of aircraft components are in future depreciated on a straight-line basis as opposed to previously being based on the units of production method, typically over 10 years. The effect is immaterial.

Recognition and measurement of derivative financial instruments are made in accordance with international accounting standards, cf. the Danish Financial Statements Act, § 37 section 5. This is not expected to have any significant effect on the profit for the year or the equity; however, reclassification of a few items is made. The comparative figures are restated.

Apart from the above and the new and changed presentation and disclosure requirements, which follow from act No. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Consolidated Financial Statements

The Consolidated Financial Statements comprise the Parent Company Terma A/S and subsidiaries over which Terma A/S has control, i.e. the power to govern the financial and operating policies so as to obtain benefits from its activities. Control is obtained when the Company directly or indirectly holds more than 50% of the voting rights in the subsidiary or, in some other way, controls the subsidiary.

The Consolidated Financial Statements have been prepared as a consolidation of the Financial Statements of the Parent Company and subsidiaries, prepared according to the Group's accounting policies. On consolidation, intra-group income and costs, stockholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated.

Entities acquired or formed during the year are recognized in the Consolidated Financial Statements from the date of acquisition or formation. Entities which are disposed of or wound up are recognized in the Consolidated Income Statement until the date of disposal or winding-up. The comparative figures are not restated for entities acquired, disposed of, or wound up.

Foreign currency translation

Transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the Income Statement as financial income or financial costs.

** The executive order on transitional provisions based in connection with application of certain provisions in the Danish Financial Statements Act, as amended by act No. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.*

Receivables, payables, and other monetary items denominated in foreign currencies, which are not settled on the Balance Sheet date, are translated at the exchange rates at the Balance Sheet date. The difference between the exchange rates at the Balance Sheet date and at the date at which the receivable or payable arose or was recognized in the latest Financial Statements is recognized in the Income Statement as financial income or financial costs.

Upon recognition of subsidiaries that are foreign entities, the Income Statements are translated at an average rate of exchange for the month, and the Balance Sheet items are translated at the exchange rates at the Balance Sheet date. Currency translation differences arising upon translation of foreign subsidiaries' equity at the beginning of the year to the exchange rates at the Balance Sheet date and upon translation of Income Statements from the average rates of exchange to the exchange rates at the Balance Sheet date are recognized directly in the equity.

Foreign exchange adjustment of balances with foreign entities which are considered part of the investment in the entity is recognized in the Consolidated Financial Statements in the equity.

Upon recognition of foreign subsidiaries that are integrated entities, monetary items are translated at the exchange rate at the Balance Sheet date. Non-monetary items are translated at the exchange rate at the date of acquisition or the time of the subsequent revaluation or impairment of the asset. The items in the Income Statement are translated at the exchange rate at the date of transaction. However, items derived from non-monetary items are translated at the historical conversion rate of the non-monetary item.

Derivative financial instruments
Derivative financial instruments are initially recognized in the Balance Sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the Income Statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognized directly in other receivables or other payables and in the equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts which were previously recognized in the equity are transferred at the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or costs, amounts previously recognized in the equity are transferred to the Income Statement in the period in which the hedge item affects the profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized in the Income Statement on a regular basis.

Changes in the fair value of derivative financial instruments used for the hedging of net investments in foreign entities are recognized directly in the equity.

INCOME STATEMENT

Revenue
Revenue comprises the deliveries for the year and the value of construction contracts in process with significant customization.

Revenue from contract work in process with an insignificant degree of customization is recognized in the Income Statement when the transfer of risk to the customer has taken place. Any discounts allowed are deducted from the revenue.

Construction contracts with significant customization are recognized as revenue by reference of the percentage of completion method, which means that revenue corresponds to the selling price of work performed during the year.

Production costs
Production costs comprise costs, including depreciation, amortization, and salaries, incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, depreciation of production plants, and other production costs.

Production costs also comprise research and development costs that do not qualify for capitalization and amortization of capitalized development costs.

Production costs also comprise provisions for losses on construction contracts.

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

1. ACCOUNTING POLICIES, CONTINUED

Administrative costs
Administrative costs comprise costs incurred during the year for the Management and administration, including costs related to administrative staff, office premises and office expenses, and depreciation.

Other operating income and costs
Other operating income and costs comprise items secondary to the principal activities, including gains and losses on disposal of intangibles and property, plant, and equipment. In the Parent Company, other operating income also comprises management fees from subsidiaries.

Profit in subsidiaries
The individual subsidiaries' profit after tax is recognized in the Income Statement for the Parent Company following elimination of intercompany gains/losses.

Financial income and costs
Financial income and costs comprise interest income and costs, gains and losses on receivables, payables, and other transactions denominated in foreign currencies, amortization of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit for the year
The Parent Company is subject to the compulsory Danish joint taxation method for the Thrige Holding Group's Danish subsidiaries. Subsidiaries are part of the joint taxation from the time of the consolidation in the Group's Financial Statements and until the time when they are left out of the consolidation.

Thrige Holding A/S is the administrative company for the joint taxation, and as a consequence, it settles all tax payments with the authorities.

The current Danish corporate income tax is allocated by payment of the joint taxation contribution between the jointly taxed companies relative to the taxable income. In this respect, companies with tax loss receive joint taxation contributions from companies which have used this loss to reduce their own tax profit.

Tax for the year comprises current tax for the year, the joint taxation contribution, and changes in deferred tax. The tax expense relating to the profit for the year is recognized in the Income Statement, and the tax expense relating to amounts directly recognized in equity is recognized directly in the equity.

BALANCE SHEET

Intangibles

Development projects
Development projects comprise costs, salaries, and amortization directly attributable to the development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources, and a potential future market or development opportunities can be evidenced, and where it is intended to produce, market, or use the project, are recognized as intangibles, provided that the cost can be measured reliably, and that there is sufficient assurance that future earnings can cover production costs, selling costs, administrative costs, and development projects. Other development projects in process are recognized in the Income Statement when incurred.

Capitalized development projects are recognized at cost less accumulated amortization and impairment losses.

Following the completion of development projects, capitalized development costs are amortized concurrently with the sale of the developed products, alternatively on a straight-line basis over the estimated useful life. The amortization period is usually 5-15 years.

Gains and losses on the disposal of development projects are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognized in the Income Statement under other operating income and other operating costs, respectively.

Patents and licenses are measured at cost less accumulated depreciation and impairment loss. Patents are depreciated on a straight-line basis over the remaining patent period, and licenses are depreciated over the contract period, however, not longer than 8 years.

Property, plant, and equipment
Land and buildings, plant and machinery, and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, subcontractors, and wages and salaries. No interest is included.

The cost of a total asset is divided into separate elements which are depreciated separately if the useful life of the individual elements varies.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	10-50 years
Plant and machinery	3-15 years
Fixtures and fittings, tools and equipment	3-7 years

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized.

In case of changes in the depreciation period or the residual value, the effect on the amortization charges is recognized prospectively as a change in accounting estimates.

Depreciation is recognized in the Income Statement as production costs, distribution costs, and administrative costs, respectively.

Gains and losses on the disposal of property, plant, and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. The gains or losses are recognized in the Income Statement as other operating income or other operating costs, respectively.

Investments in subsidiaries

Investments in subsidiaries are measured according to the equity method.

Investments in subsidiaries are measured in the Balance Sheet at the subsidiaries' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealized intra-group profits and losses.

Net revaluation of investments in subsidiaries is shown as a reserve for net revaluation according to the equity method under equity to the extent that the carrying value exceeds the cost. Subsidiary dividends are transferred from the net revaluation to the distributable reserves at the time of distribution.

Impairment of non-current assets

The carrying amount of intangibles and property, plant, and equipment as well as equity interests in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortization.

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

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

Previously recognized impairment will only be reversed if the reason for impairment no longer exists.

Leases

Payments relating to operating leases are recognized in the Income Statement over the term of the lease. The Company's total liabilities relating to operating leases are disclosed in the notes.

Inventories

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

Raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

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

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

Receivables

Receivables are measured at amortized cost. Write-down is made to meet expected losses based on an individual assessment.

Construction contracts

Construction contracts are measured at the selling price of the work performed.

1. ACCOUNTING POLICIES, CONTINUED

The selling price is measured on the basis of the stage of completion at the Balance Sheet date and total expected income from the individual contract work. When the selling price of a contract cannot be measured reliably, the selling price is measured at the costs incurred or at net realizable value, if this is lower.

The individual construction contract is recognized in the Balance Sheet under either receivables or liabilities, depending on the net amount of the selling price less payables. Net assets are constituted by the sum of the construction contracts where the selling price of the work performed exceeds the amount which has been invoiced on account. Net liabilities are constituted by the sum of the construction contracts where the amount which has been invoiced on account exceeds the selling price.

Selling costs and costs incurred in securing contracts are recognized in the Income Statement when incurred.

Prepayments

Prepayments recognized under current assets comprise costs incurred concerning subsequent fiscal years.

Equity

Reserve for net revaluation according to the equity method (Parent Company)

Net revaluation of investments in subsidiaries and associates is recognized at cost in the reserve for net revaluation according to the equity method. The reserve cannot be recognized at a negative amount.

Reserve for development costs (Parent Company)

The reserve for development costs comprises recognized development costs reduced by amortizations and taxes. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognized development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Proposed dividend

Dividend proposed is recognized as a liability at the date when they are adopted at the general meeting (declaration date). Dividend during the year (extraordinary) or dividend expected to be distributed for the year are disclosed separately under equity.

Current tax and deferred tax

Current tax payable and receivable is recognized in the Balance Sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Payable and receivable joint tax contributions are recognized in the Balance Sheet under balances for the Parent Company.

Deferred tax is measured using the Balance Sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognized on temporary differences relating to goodwill which is not deductible for tax purposes and other items in which temporary differences – excluding acquisitions – have arisen on the date of acquisition, without affecting the profit/loss for the year or taxable income. Where different tax rules can be applied to determine the tax base, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively. Adjustment is made to deferred tax resulting from elimination of unrealized intra-group profits and losses.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognized at the expected value of their utilization, either as a set-off against tax on future income or as set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the Balance Sheet date.

Provisions

Provisions comprise anticipated costs related to warranties and losses related to construction contracts in process. Provisions are recognized when, as a result of past events, the Group has a legal or a constructive obligation, and it is probable that settlement of the obligation will result in an outflow of financial resources.

Warranties comprise obligations to make good any defects within the warranty period. Provisions for warranties are measured at net realizable value and recognized based on past experience.

If it is probable that the total costs related to a construction contract will exceed the total income, the expected total loss of the construction contract is recognized as a provision.

Liabilities other than provisions

Financial liabilities are recognized at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the Income Statement over the term of the loan.

Other liabilities are measured at amortized cost.

Fair value

Fair value measurements are based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximizes the price of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierachy, see below:

Level 1: Value in an active market for similar assets/liabilities
Level 2: Value based on recognized valuation methods on the basis of observable market information
Level 3: Value based on recognized valuation methods and reasonable estimates (non-observable market information).

CASH FLOW STATEMENT

The Cash Flow Statement shows the Group's cash flows from operating, investing, and financing activities for the year, the year's changes in cash as well as the Group's cash at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's profit adjusted for non-cash operating items, changes in working capital, corporate tax paid, and receivable/joint taxation contribution.

Cash flows for investing activities

Cash flows for investing activities comprise payments in connection with capitalized development costs (cash effect) and acquisitions and disposals of other intangibles, property, plant, and equipment, and investments.

Cash flows from financing activities

Cash flows from financing activities comprise payments to and from the Group's stockholders and related costs as well as raising of loans and repayment of interest-bearing debt.

Cash at bank and in hand

Cash at bank and in hand comprises cash reduced by current borrowings in credit institutions.

SEGMENT INFORMATION

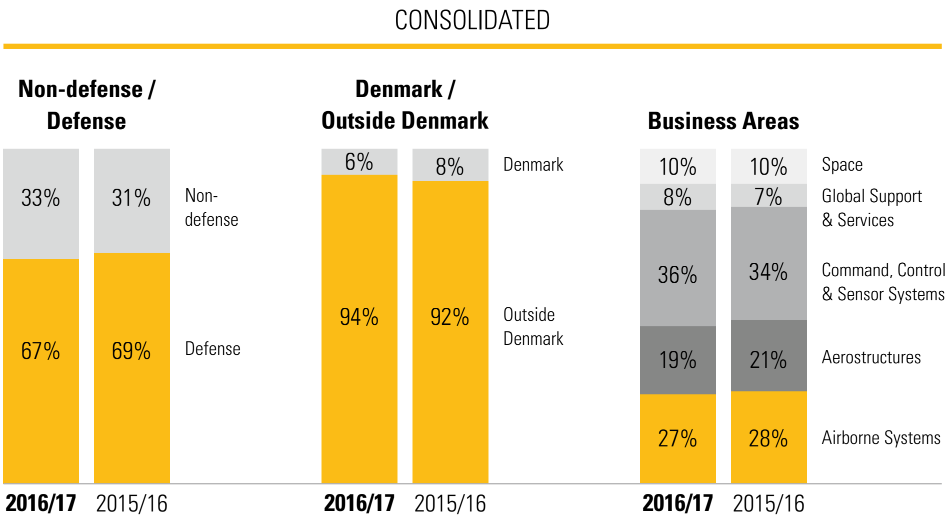
Revenue has been allocated according to business segments and geographical markets.

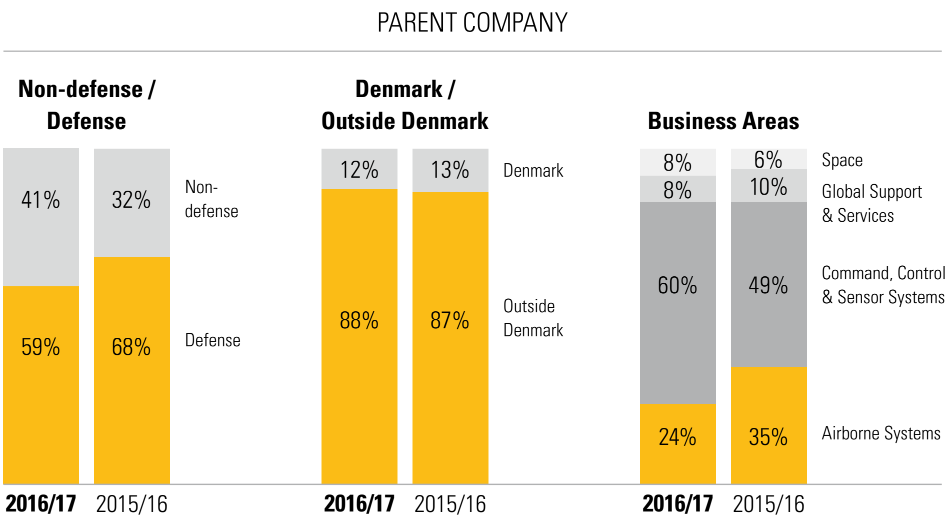
2. SPECIAL ITEMS

Special items comprise significant income and cost of a special character in relation to the Group's operating activities generating income, i.e. cost in connection with comprehensive structuring of processes and fundamental structural modifications and related gain and loss on disposals which will be of significance over a period of time. Special items also comprise other significant one-off expenses which according to the Management is not a part of the operating activities of the Group.

The profit for the year has not been impacted by any circumstances which according to the Management deviates from being a part of the operating activities.

3. SEGMENT INFORMATION, REVENUE





4. REVENUE

DKK thousand	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Goods and services	616,002	642,965	524,762	511,760
Construction contracts	1,102,807	856,206	623,860	465,433
	1,718,809	**1,499,171**	**1,148,622**	**977,193**

5. STAFF COSTS

	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Parent Company Board of Directors emoluments	1,275	1,275	1,275	1,275
Remuneration to Management registered in the Central Business Register	6,415	6,216	6,415	6,216
Wages and salaries	692,379	643,834	436,333	403,905
Pensions	42,873	39,367	32,030	30,066
Other social security costs	30,988	28,885	7,918	7,716
	773,930	**719,577**	**483,971**	**449,178**
Average number of full-time employees	1,257	1,174	764	721

Incentive programs have been established for the Management and employees in managerial positions. The programs comprise the possibility of settlement in cash depending on achievement of specific targets. The programs run mainly annually.

6. FEES PAID TO AUDITORS

Total fees to EY can be specified as follows:

	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16
Statutory audit	983	909
Other assurance engagements	65	11
Tax and VAT	814	525
Other non-audit services	209	161
	2,071	**1,606**

7. OTHER OPERATING INCOME AND COSTS

	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Management fees	1,006	1,000	32,830	26,769
Rental income	447	437	6,173	5,946
Other operating income	**1,453**	**1,437**	**39,003**	**32,715**
Loss on disposal of non-current assets	478	332	194	35
Costs related to premises rented out	132	133	5,138	3,420
Other operating costs	**610**	**465**	**5,332**	**3,455**

8. INVESTMENTS IN SUBSIDIARIES

PARENT COMPANY

DKK thousand	
Cost at 1 March 2016	269,192
Cost at 28 February 2017	**269,192**
Net revaluations at 1 March 2016	13,608
Translation adjustments at the beginning of the year	690
Dividends paid	(12,675)
Changes in value of hedging instruments (after tax)	699
Profit for the year	21,350
Net revaluations at 28 February 2017	**23,672**
Carrying amount at 28 February 2017	**292,864**

Name	Registered office	Ownership	Capital stock
Terma Aerostructures A/S	Grenaa, Denmark	100%	5,000 tDKK
Terma GmbH	Darmstadt, Germany	100%	51 tEUR
Terma B.V.	Leiden, The Netherlands	100%	750 tEUR
Terma North America Inc.	Delaware, USA	100%	150 tUSD
Terma Singapore Pte. Ltd.	Singapore, Singapore	100%	100 tSGD
Terma (UK) Ltd.	London, United Kingdom	100%	10 tEUR
Terma (India) Pvt. Ltd.	Delhi, India	99.9%	1,000 tINR

9. FINANCIAL INCOME AND COSTS

	CONSOLIDATED		PARENT COMPANY	
DKK thousand	**2016/17**	2015/16	**2016/17**	2015/16
Included in financial income and costs are:				
Interest income from subsidiaries	-	-	1,722	1,477
Interest costs to subsidiaries	-	-	3,956	4,324
Interest costs to Parent Company	3,999	1,028	3,999	1,028

10. TAX

	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Joint taxation contribution/current tax	29,378	4,784	22,847	(3,286)
Tax adjustment regarding previous years	90	(232)	90	(232)
Deferred tax	(1,664)	23,735	(3,304)	23,406
Reduced tax percentage, effect on deferred tax	0	(1,491)	0	(1,515)
Total tax	**27,804**	**26,796**	**19,633**	**18,373**
Specified as follows:				
Tax on profit	28,280	18,938	20,306	13,732
Tax on changes in equity	(476)	7,858	(673)	4,641
	27,804	**26,796**	**19,633**	**18,373**

11. INTANGIBLES

CONSOLIDATED

DKK thousand	Software	Software in process	Development projects, completed	Development projects, in process	Total
Cost at 1 March 2016	37,001	0	623,255	142,077	802,333
Additions	5,080	342	0	73,487	78,909
Transfers	0	0	82,425	(82,425)	0
Cost at 28 February 2017	**42,081**	**342**	**705,680**	**133,139**	**881,242**
Amortizations and impairments at 1 March 2016	9,167	0	328,437	0	337,604
Amortizations	6,277	0	90,412	0	96,689
Write-downs	0	0	10,792	0	10,792
Amortizations and impairments at 28 February 2017	**15,444**	**0**	**429,641**	**0**	**445,085**
Carrying value at 28 February 2017	**26,637**	**342**	**276,039**	**133,139**	**436,157**
Amortized over	3-5 years		5-15 years		

PARENT COMPANY

DKK thousand	Software	Software in process	Development projects, completed	Development projects, in process	Total
Cost at 1 March 2016	36,848	0	565,965	142,077	744,890
Additions	5,080	342	0	59,120	64,542
Transfers	0	0	81,240	(81,240)	0
Cost at 28 February 2017	**41,928**	**342**	**647,205**	**119,957**	**809,432**
Amortizations and impairments at 1 March 2016	9,090	0	313,909	0	322,999
Amortizations	6,259	0	83,876	0	90,135
Write-downs	0	0	10,792	0	10,792
Amortizations and impairments at 28 February 2017	**15,349**	**0**	**408,577**	**0**	**423,926**
Carrying value at 28 February 2017	**26,579**	**342**	**238,628**	**119,957**	**385,506**
Amortized over	3-5 years		5-15 years		

11. INTANGIBLES, CONTINUED

Development projects

Development projects comprise large and small projects in all Terma's Business Areas. Investments are made in the development of:

- Physical products or product platforms based on a set of technologies
- Software platforms, generic or actual applications
- Production processes with future profitability, supporting provision of one or more of the other assets.

A development project is initiated based on an assessment of the business potential described in a business case. Terma uses a gateway model ensuring ongoing follow-up of the development projects.

Recognition and measurement in the financial statements

It is a prerequisite for capitalization

- that an explicit sales evaluation exists describing whether the asset in itself or in a modified form may form the basis of repeated sales to one or more customers
- that the technological challenges are described and that ressource requirements of the development projects are described
- that a financial impact analysis is made.

Development projects are valued at cost less accumulated amortization and write-downs, or recoverable amount if this is lower.

Capitalized development costs are amortized concurrently with the sale of the developed products and platforms or concurrently with the utilization of the developed production process, alternatively on a straight-line basis over the estimated useful life.

The amortization profile is determined based on a business case, and the amortization base comprises both existing and expected orders. An estimated useful life of usually no more than 10 years is attached to the amortization profile, adjusted according to the investment amount. The amortization profile is reevaluated on an annual basis.

All development projects are evaluated to ensure that future earnings justify the carrying amount. An annual impairment test of the individual development project will ensure this, in which the discounted expected cash flow is compared with the carrying amount.

12. PROPERTY, PLANT, AND EQUIPMENT

CONSOLIDATED

DKK thousand	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant, and equipment under construction	Total
Cost at 1 March 2016	407,584	334,601	98,075	27,162	867,422
Foreign currency translation adjustments	0	205	355	0	560
Transfers	22,095	2,424	0	(24,519)	0
Additions	27,662	29,586	11,861	59,911	129,020
Disposals	(297)	(1,634)	(8,547)	0	(10,478)
Cost at 28 February 2017	**457,044**	**365,182**	**101,744**	**62,554**	**986,524**
Depreciation and impairments at 1 March 2016	183,714	222,191	87,648	0	493,553
Foreign currency translation adjustments	0	163	323	0	486
Depreciations	11,381	22,211	6,245	0	39,837
Disposals	(88)	(1,352)	(8,535)	0	(9,975)
Depreciations and impairments at 28 February 2017	**195,007**	**243,213**	**85,681**	**0**	**523,901**
Carrying amount at 28 February 2017	**262,037**	**121,969**	**16,063**	**62,554**	**462,623**
Depreciated over	10-50 years	3-10 years	3-7 years		

PARENT COMPANY

Cost at 1 March 2016	329,285	114,905	70,049	22,721	536,960
Transfers	22,095	69	0	(22,164)	0
Additions	27,662	8,888	6,077	10,393	53,020
Disposals	(297)	(758)	(4,620)	0	(5,675)
Cost at 28 February 2017	**378,745**	**123,104**	**71,506**	**10,950**	**584,305**
Depreciations and impairments at 1 March 2016	105,415	89,545	64,363	0	259,323
Depreciations	11,381	7,678	3,444	0	22,503
Disposals	(88)	(758)	(4,620)	0	(5,466)
Depreciations and impairments at 28 February 2017	**116,708**	**96,465**	**63,187**	**0**	**276,360**
Carrying amount at 28 February 2017	**262,037**	**26,639**	**8,319**	**10,950**	**307,945**
Depreciated over	10-50 years	3-10 years	3-7 years		

13. TRADE RECEIVABLE

DKK thousand	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
Falling due after more than 1 year following the end of the financial year	**2,404**	**1,627**	**5,792**	**4,502**

14. CONSTRUCTION CONTRACTS

	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
Selling price of construction contracts	1,727,396	1,525,081	1,254,186	1,072,433
Invoiced on account	(1,561,375)	(1,398,462)	(1,223,045)	(1,058,653)
	166,021	**126,619**	**31,141**	**13,780**
Recognized as follows:				
Construction contracts (assets)	287,427	263,385	121,304	130,747
Construction contracts (liabilities)	(121,406)	(136,766)	(90,163)	(116,967)
	166,021	**126,619**	**31,141**	**13,780**

15. CORPORATE TAX PAYABLE

DKK thousand	Consolidated 2016/17	Consolidated 2015/16	Parent company 2016/17	Parent company 2015/16
Corporate tax payable at 1 March	2,537	1,699	0	0
Tax adjustment regarding previous years	90	0	90	0
Tax for the year/joint taxation contribution	29,378	4,784	22,847	(3,286)
Corporate tax paid during the year	(3,189)	(14,017)	(863)	(10,766)
Transferred to intra-group balances	(23,116)	10,071	(22,074)	14,052
Corporate tax payable at 28 February	**5,700**	**2,537**	**0**	**0**
Recognized as follows:				
Corporate tax receivable	(219)	(1,433)	0	0
Corporate tax payable	5,919	3,970	0	0
	5,700	**2,537**	**0**	**0**

16. DEFERRED TAX

DKK thousand	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Deferred tax at 1 March	133,435	111,235	121,060	99,169
Foreign currency translation adjustments	(44)	(44)	0	0
Adjustment for the year	(1,664)	23,735	(3,304)	23,406
Reduced tax percentage	0	(1,491)	0	(1,515)
Deferred tax at 28 February	**131,727**	**133,435**	**117,756**	**121,060**
Recognized as follows:				
Deferred tax asset	(1,028)	(2,294)	0	0
Deferred tax liabilities	132,755	135,729	117,756	121,060
	131,727	**133,435**	**117,756**	**121,060**
Deferred tax relates to:				
Intangibles	89,727	96,613	79,785	86,709
Property, plant, and equipment	30,622	29,538	19,442	18,770
Current assets	21,700	22,461	21,563	22,004
Liabilities other than provisions	(10,322)	(9,977)	(3,034)	(1,731)
Tax loss carryforward	0	(5,200)	0	(4,692)
	131,727	**133,435**	**117,756**	**121,060**
Expected timeframe for elimination of deferred tax liabilities:				
0-1 year	31,958	29,233	32,595	31,675
1-5 years	71,773	74,290	66,853	72,597
>5 years	27,996	29,912	18,308	16,788
	131,727	**133,435**	**117,756**	**121,060**

17. PREPAYMENTS

	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Insurance premiums	664	666	513	545
Rent	553	0	553	0
Tax on real property	517	516	443	442
IT licenses, short term	3,657	5,264	3,657	5,264
Other prepayments and deferred charges	2,061	2,003	1,492	1,973
	7,452	**8,449**	**6,658**	**8,224**

18. EQUITY

Capital stock consists of:

1 stock at MDKK 18

The capital stock has remained unchanged during the preceding five years.

The Company does not hold any own shares at the Balance Sheet date. Buying or selling own shares have not taken place during the financial year, either.

19. WARRANTY PROVISIONS

DKK thousand	CONSOLIDATED 2016/17	CONSOLIDATED 2015/16	PARENT COMPANY 2016/17	PARENT COMPANY 2015/16
Warranty provisions at 1 March	9,993	10,150	9,993	10,150
Used during the year	(6,779)	(5,110)	(6,779)	(5,110)
Unused warranty provisions, reversed	(3,402)	(4,701)	(3,402)	(4,701)
Provisions for the year	12,367	9,654	12,367	9,654
Warranty provisions at 28 February	**12,179**	**9,993**	**12,179**	**9,993**
Expected maturity dates for warranty provisions:				
0-1 year	8,271	6,995	8,271	6,995
>1 year	3,908	2,998	3,908	2,998
	12,179	**9,993**	**12,179**	**9,993**

20. SUBORDINATED LOANS

Terma A/S has obtained subordinated convertible loans from the ultimate parent company Thomas B. Thrige Foundation with a total nominal value of MDKK 125. The loans expire 31 May 2019 without further notice. Once a year in February, the loan can be fully or part converted into shares in Terma A/S based on current value. However, not less than a share price of 100 per share amounting to 100.

21. NON-CURRENT LIABILITIES OTHER THAN PROVISIONS

CONSOLIDATED/PARENT COMPANY

DKK thousand	Liabilities	Fair value	Nominal value	Long-term liabilities	Short-term liabilities	Loans outstanding after five years
Subordinated loans	125,000	125,000	125,000	125,000	0	0
Credit institutions	104,066	104,066	104,066	104,066	0	52,150
Mortgage credit institutions	203,894	208,088	203,894	193,485	10,409	150,966
	432,960	**437,154**	**432,960**	**422,551**	**10,409**	**203,116**

22. CONTINGENT LIABILITIES AND SECURITY

DKK thousand	CONSOLIDATED 2017	CONSOLIDATED 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Contingent liabilities				
Lease liabilities (operating leases) falling due within five years (annual cost 11,867 tDKK) No lease liabilities are due after more than five years.	24,703	19,282	5,898	4,529
The Group's Danish companies are jointly liable for joint registration of VAT.				
Terma A/S is a party, as the plaintiff, to a court dispute with the Polish Ministry of National Defence regarding an EW program. Our claim is MDKK 164. Early 2015, a counter claim was filed to the defendant amounting to approx. MDKK 116 (MPLN 64), including repayment of the advance payment. Based on external legal evaluation, it is the opinion of the Executive Management that the outcome of the court dispute will not negatively affect the Group's and the Parent Company's financial position as reflected in the Balance Sheet at 28 February 2017.				
Terma A/S including Danish subsidiaries is jointly taxed with Thrige Holding A/S. Within the taxation group, the Company is jointly and severally liable in line with the other Group members for payment of corporate income tax and withholding tax in Denmark. As of 2013/14, the net obligations of the jointly taxed companies towards the Danish Central Tax Administration (SKAT) appear from the Thrige Holding A/S (CVR No. 26 31 16 83) annual accounts. Any corrections to the joint taxation income and withholding tax appearing at a later time may result in the Company being liable for a larger amount.				
Security				
The following assets have been provided as security for mortgage loans:				
Carrying amount of land and buildings	262,037	223,870	262,037	223,870
Other property, plant, and equipment estimated to be comprised by the collateral, cf. the provisions of the Danish Registration of Property Act	138,036	122,837	34,958	31,046
Terma A/S – acting as the Parent Company – has issued a letter of intent to third parties in connection with the establishment of credit facilities for its subsidiaries at a total amount of	-	-	38,113	37,142

23. RELATED PARTIES

Terma A/S is a wholly owned subsidiary of Thrige Holding A/S (CVR No. 26 31 16 83), which is wholly owned by the Thomas B. Thrige Foundation (CVR No. 10 15 62 11), jointly referred to as Parent Company.

Terma A/S' related parties exercising significant influence comprise the Board of Directors, Executive Management, managerial staff, and their family members. Further, related parties comprise companies in which the above-mentioned persons have substantial interests.

Transactions with related parties

	CONSOLIDATED	
DKK thousand	**2016/17**	2015/16
Sale of services to Parent Company	1,006	1,001
Interest paid to Parent Company	3,999	1,028
Reinvoicing of costs to Parent Company	8	28
Debt to Parent Company	66,173	58,564
Subordinated loans from Parent Company	125,000	0
Dividend paid to Parent Company	100,000	10,000

	PARENT COMPANY	
DKK thousand	**2016/17**	2015/16
Sale to Group companies	294,636	293,535
Purchase from Group companies	98,234	56,301
Sale of services to Parent Company	1,006	1,001
Sale of Services to Group companies	31,824	25,769
Rent from Group companies	5,726	5,509
Interest paid to Group companies	3,956	4,324
Interest paid from Group companies	1,722	1,477
Interest paid to Parent Company	3,999	1,028
Reinvoicing of costs to Group companies	6,233	3,875
Reinvoicing of costs from Group companies	8,546	14,837
Receivable from Group companies	117,050	139,040
Debt to Parent Company	66,173	58,564
Debt to Group companies	34,668	58,898
Subordinated loans from Parent Company	125,000	0
Dividend paid to Parent Company	100,000	10,000

24. EVENTS AFTER THE BALANCE SHEET DATE

Following the end of the fiscal year, no significant events have occurred which affect the assessment of the Group's and Parent Company's financial position as reported on 28 February 2017.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Through its operations, the Terma Group is exposed to a certain financial risk; this financial risk relates to and is defined as follows:

Liquidity risk	The risk that Terma Group is not able to meet its future cash flow needs
Credit risk	The risk of incurring a financial loss if a customer or counterparty fails to fulfill its contractual obligations
Market risk	The risk of losses in financial positions arising from movements in interest and currency rates to which Terma Group is exposed

Policies and objectives for handling financial risks are regularly assessed and approved by the Board of Directors.

Sensitivity analyses and stress tests are performed. Sensitivity information reported is calculated at Balance Sheet date and comprises only sensitivity relating to financial instruments, so the amounts disclosed do not necessarily give a complete picture of the Group's risk relating to changes in currency rates and interest rates.

LIQUIDITY RISK

Liquidity is managed at Group level. Liquidity forecasts are produced and updated regularly based on forecasts on operational cash flows, CAPEX, and investment commitments.

Investments are classified as financial assets at fair value through profit or loss (financial derivatives) or as loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial assets classified at fair value through profit or loss are investments that are measured and reported at fair value in the internal management reporting. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in trade receivable and other receivables in the statement of financial position.

The Group's loan portfolio consists of traditional mortgage loan, European Investment Bank loan, and a loan from Parent Company (intercompany balance).

In addition, the Company has subordinated loans of 125 MDKK.

At year-end February 2017, cash and cash equivalents amounted to MDKK 45.5. In addition to cash and cash equivalents, an unsecured overdraft facility for multi-currency short-term financing needs is in place as well as additional European Investment Bank loan facilities.

The Group's loan agreements include covenants (leverage ratio) with which we comply. The agreements do not include clauses where cash security has to be pledged.

Below is a maturity analysis of the financial liabilities at year-end, 28 February 2017 and 29 February 2016.

	2017				2016			
DKK thousand	Carrying amount/ contractual cash flow	0-1 year	1-5 years	>5 years	Carrying amount/ contractual cash flow	0-1 year	1-5 years	>5 years
Subordinated loans	125,000	-	125,000	-	-	-	-	-
Credit institutions	104,066	-	51,916	52,150	139,437	-	139,437	-
Mortgage credit institutions	193,485	-	42,519	150,966	204,099	-	42,448	161,651
Current liabilities other than provisions	659,593	620,201	39,392	-	636,609	598,044	38,565	-
	1,082,144	**620,201**	**258,827**	**203,116**	**980,145**	**598,044**	**220,450**	**161,651**

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS , CONTINUED

CREDIT RISK

Credit risk is the risk of incurring a financial loss if a customer or counterparty fails to fulfill their contractual obligations.

In 2016/17, Terma has not incurred any financial loss on debtors, and in general, there is no significant credit risk relative to individual customers.

Please refer to note 13 for further disclosure of the exposure to credit risk.

MARKET RISK

Market risk is the risk of losses on financial positions arising from movements in interest and currency rates to which the Group is exposed through financial instruments.

To a minor extent, the Group is exposed to other market risk factors that are considered less significant. These include risk on financial instruments related to raw material prices, freight rates, etc. Terma Group does not use derivatives to hedge these prices/rates.

Interest rate risk

Our policy is to have long-term borrowings to a large extent (69% of total interest-bearing dept excluding subordinated loans) at fixed rates. Net interest rate risk may be hedged via interest rate swaps and related instruments, if assessed as advantageous.

The exposure to floating interest rates at Balance Sheet date 28 February 2017 and 29 February 2016 are as follows:

	2017				2016			
DKK thousand	Notional principal amount	Value adjustment recognized in equity	Fair value	Expected life	Notional principal amount	Value adjustment recognized in equity	Fair value	Expected life
Interest rate swap	43,236	(4,035)	(5,393)	5 years	45,485	(4,710)	(6,265)	6 years
Interest rate swap	-	-	-		26,568	(391)	(603)	1 year
	43,236	**(4,035)**	**(5,393)**		**72,053**	**(5,101)**	**(6,868)**	

Changes in market values on derivatives could cause margin calls, but the risk is considered insignificant, and we have sufficient credit lines with our financial counterparties.

Sensitivity of interest rate risk

The calculated effect after tax based on a 1% point interest rate increase would affect profit/(loss) by (0.2) MDKK (2015/16: (1.4) MDKK) and equity by (0.2) MDKK (2015/16: (1.1) MDKK).

A 1% point interest rate decrease would as a minimum have a corresponding inverse effect (however, not below zero interest rates).

Currency risk

The operating and reporting currency is DKK, and thus, all amounts are recorded and reported in DKK.

The Group primarily sells and buys in DKK, EUR, and USD currencies. Our policy is to use derivative instruments to hedge the currency risks relating to mainly USD cash flows, and forward exchange contracts are entered into in connection with the acceptance and conclusion of contracts.

Sensitivity of currency risk

To measure currency risk in accordance with IFRS 7, sensitivity is calculated as the change in fair value of future cash flows from financial instruments as a result of fluctuations in exchange rates on the Balance Sheet date. Other things being equal and after tax, sensitivity to fluctuations in USD at Balance Sheet date based on a 10% decrease in currency translation rates against DKK would result in a net profit/(loss) of (2.3) MDKK (2015/16: (5.4) MDKK) and affect equity by (1.8) MDKK (2015/16: (4.2) MDKK). The effect of a 10% increase in the currency translation rates against DKK would have a corresponding inverse effect.

At year-end, the Group held the following derivatives:

DKK thousand

Currency	Payable/ maturity date	Receivables	Credit institutions	Liabilities other than provisions	Hedged by forward exchange contracts and currency swaps	Net position
USD	< 1 year	76,227	-	(99,503)	46,771	23,495
GBP	< 1 year	201	-	(8,690)	8,370	(119)
SEK	< 1 year	19	-	(810)	-	(791)
NOK	< 1 year	-	-	(272)	-	(272)
EUR	< 1 year	146,367	-	(123,590)	-	22,777
EUR	> 1 year	-	(104,066)	-	-	(104,066)
INR	< 1 year	24	-	(67)	-	(43)
SGD	< 1 year	1,903	-	(2,382)	-	(479)

Exchange rate contracts:

DKK thousand

		Contractual value		Gains and losses recognized in the equity	
Currency	Period	**2017**	2016	**2017**	2016
GBP	0-1 year	(29,631)	(19,191)	-	-
GBP	1-5 years	-	(7,155)	-	-
USD	0-1 year	301,297	517,552	(13,742)	(14,109)
USD	1-5 years	340,035	496,647	(10,742)	(7,620)
		611,701	**987,853**	**(24,484)**	**(21,729)**

26. PROPOSED PROFIT APPROPRIATION

PARENT COMPANY

DKK thousand	**2016/17**	2015/16
Proposed dividends	0	10,000
Reserve for net revaluation according to the equity method	21,370	16,230
Reserve for development costs	43,009	0
Retained earnings	27,062	40,259
	91,441	**66,489**

27. CHANGES IN WORKING CAPITAL

CONSOLIDATED

DKK thousand	**2016/17**	2015/16
Inventories	5,473	(16,070)
Receivables	3,619	(98,952)
Construction contracts and prepayments from customers	(19,841)	12,440
Trade payables and other payables	32,055	45,783
	21,306	**(56,799)**

TERMA

ALLIES IN INNOVATION

www.terma.com