

ANDRITZ FEED & BIOFUEL A/S

Glentevej 5-7

6705 Esbjerg Ø

Central Business Registration

No 43854410

Annual report 2016

The Annual General Meeting adopted the annual report on 30.05.2017

Chairman of the General Meeting

Name: Humbert Köfler



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Entity details

Entity

ANDRITZ FEED & BIOFUEL A/S

Glentevej 5-7

6705 Esbjerg Ø

Central Business Registration No: 43854410

Founded: 08.09.1964

Registered in: Esbjerg

Financial year: 01.01.2016 - 31.12.2016

Phone: +4572160300

Fax: +4572160301

Website: www.andritz-fb.com

E-mail: Andritz-fb@andritz.com

Board of Directors

Humbert Köfler, Chairman

Dietmar Heinisser

Ernst Zsifkovits

Winnie Howard Brandt

Flemming Madsen

Executive Board

Martin Overgaard Hansen, Managing Director

Henrik Meldgaard Jepsen, Finance Director

Finn Normann Jensen, Sales Director

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Dokken 8

Postbox 200

6701 Esbjerg

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of ANDRITZ FEED & BIOFUEL A/S for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Esbjerg, 30.05.2017

Executive Board

Martin Overgaard Hansen
Managing Director

Henrik Meldgaard Jepsen
Finance Director

Finn Normann Jensen
Sales Director

Board of Directors

Humbert Köfler
Chairman

Dietmar Heinisser

Ernst Zsifkovits

Winnie Howard Brandt

Flemming Madsen

Independent auditor's report

To the shareholders of ANDRITZ FEED & BIOFUEL A/S

Opinion

We have audited the financial statements of ANDRITZ FEED & BIOFUEL A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent auditor's report

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

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

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Independent auditor's report

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

Esbjerg, 30.05.2017

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556

Jannick Kjersgaard

State Authorised Public Accountant

Peder Rene Pedersen

State Authorised Public Accountant

Management commentary

	2016	2015	2014	2013	2012
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Revenue	499,087	451,395	544,996	476,363	737,208
Gross profit/loss	108,657	92,437	146,268	103,235	111,208
Operating profit/loss	(46,474)	(53,266)	(8,767)	(34,646)	(3,818)
Net financials	432	(14,821)	(19,451)	(10,748)	(587)
Profit/loss for the year	(54,691)	(63,461)	(22,645)	(38,312)	(2,903)
Total assets	320,866	235,945	279,330	465,350	566,575
Investments in property, plant and equipment	1,062	3,772	1,419	24,805	81,448
Equity	32,253	(2,740)	18,050	16,568	57,808
Ratios					
Gross margin (%)	21.8	20.5	26.8	21.7	15.1
Net margin (%)	(11.0)	(14.1)	(4.2)	(8.0)	(0.4)
Return on equity (%)	(370.6)	(829.0)	(130.8)	(103.0)	(4.6)
Equity ratio (%)	10.1	(1.2)	6.5	3.6	10.2

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The Company develops and builds machines and process systems for the industrial production of animal feed, pet food, fish feed and bio fuel industry. This comprises unit equipment for grinding and mixing, expanding, pelleting, extruding, cooling, vacuum coating, and drying, as well as complete feed mill and bio fuel lines.

Development in activities and finances

The annual turnover amounts to DKK 499.1 million against DKK 451.4 million previous year. The result amounts to DKK -54.7 million against DKK -63.5 million previous year.

The result of the year is considered very unsatisfactory by management. The company has taken several measures to improve the situation and expect the result for 2017 to be break even.

The order backlog at the end of 2016 was DKK 212.1 million against DKK 197.1 million at the end of the previous year.

During 2016 the sole shareholder, ANDRITZ AG, has injected DKK 89.2 million of equity by converting inter-company loans.

Outlook

The company has on strategic level chosen to change its business model so that risk assessment on new projects takes place earlier and more intensely in order to avoid profit erosion on future projects and decrease activities in instable countries.

Particular risks

The Company primarily invoices in DKK., €, and US\$. In accordance with the Company's monetary policy significant currency risks are covered at entering of forward contracts.

Intellectual capital resources

It is important that the group restarts recruiting and holding on to employees with a high level of education and competence. This creates a demand for continuous updating and acquiring of new competences. The presence of the necessary knowledge in all employee groups is amongst others ensured by employment and continuous training. Training is organized both generally and individually.

Technology is of significant importance for the group's competitiveness. It makes heavy demands on flexible and changeable information technology. ANDRITZ FEED & BIOFUEL A/S has an up-to-date IT infrastructure that supports the present and future requirements to the Company's IT demands.

Environmental performance

ANDRITZ FEED & BIOFUEL A/S is eco-conscious and is continuously working on reducing environmental impacts from the Company's operation. We take care of our environment and climate and we initiate on-going initiatives to reduce our environment and climate impact.

Research and development activities

The research and development activities of 2016 have been concentrated on the increase of our product quality and on cost reduction of the material cost in our existing product program.

Management commentary

The development activities in 2016 amounted to DKK 17.0 million. All development costs are taken to the profit and loss account.

Statutory report on corporate social responsibility

The Company is subject to the CSR policies "ANDRITZ CODE OF BUSINESS CONDUCT AND ETH-ICS" elaborated by the parent company, which amongst others include:

- Anti-bribery
- Corruption
- Money laundering
- Insider information
- Protection of the environment
- Human Rights

which can be seen in the group's homepage:

www.andritz.com/en/gr-sustainability.htm

We comply with the "ANDRITZ CODE OF BUSINESS CONDUCT AND ETHICS" in the daily operation of the Company, and we estimate that this contributes to maintaining the Company's positive reputation and appeals to both present and future business relations and employees.

Statutory report on the underrepresented gender

The company aims at putting together a professional board, where the total qualifications are accommodated regardless of gender. There is also a wish for diversity in both the Board and the company's management team. It is our goal that the proportion of the underrepresented gender by 2017 is 33% of the members elected for the Board. The target is determined by 3 members elected. We will always ensure that, regardless of gender, a board member has the necessary skills, and that election of board members is based on the skills that are needed. The proportion of the under-represented gender in the board is 0% at 31.12.2016, not including members elected by the employees.

There is defined a policy for the other management levels in ANDRITZ FEED & BIOFUEL A/S in order to increase the proportion of the underrepresented gender. The policy in this area is that we want to have an open and unbiased culture in which the individual can use its competences best possible way, regardless of gender.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2016

	Notes	2016 DKK'000	2015 DKK'000
Revenue	1	499,087	451,395
Production costs	3, 4	<u>(390,430)</u>	<u>(358,958)</u>
Gross profit/loss		108,657	92,437
Distribution costs	3, 4	(136,520)	(122,795)
Administrative costs	2, 3, 4	(23,675)	(25,236)
Other operating income		<u>5,064</u>	<u>2,328</u>
Operating profit/loss		(46,474)	(53,266)
Income from investments in group enterprises		0	155
Other financial income	5	10,236	5,931
Other financial expenses	6	<u>(9,804)</u>	<u>(20,907)</u>
Profit/loss before tax		(46,042)	(68,087)
Tax on profit/loss for the year	7	<u>(8,649)</u>	<u>4,626</u>
Profit/loss for the year	8	<u>(54,691)</u>	<u>(63,461)</u>

Balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Land and buildings		36,695	36,439
Plant and machinery		2,851	5,300
Other fixtures and fittings, tools and equipment		1,269	1,029
Property, plant and equipment in progress		0	2,023
Property, plant and equipment	9	40,815	44,791
Investments in group enterprises		0	0
Receivables from group enterprises		0	0
Fixed asset investments	10	0	0
Fixed assets		40,815	44,791
Raw materials and consumables		66	69
Work in progress		2,745	3,502
Manufactured goods and goods for resale		48,772	51,658
Inventories		51,583	55,229
Trade receivables		81,374	45,090
Contract work in progress	11	35,125	13,135
Receivables from group enterprises		45,784	41,766
Deferred tax	12	0	8,782
Other receivables	13	5,302	6,600
Prepayments	14	2,066	2,184
Receivables		169,651	117,557
Cash		58,817	18,368
Current assets		280,051	191,154
Assets		320,866	235,945

Balance sheet at 31.12.2016

	Notes	2016 DKK'000	2015 DKK'000
Contributed capital	15	11,002	11,001
Revaluation reserve		23,058	24,998
Retained earnings		(1,807)	(38,739)
Equity		32,253	(2,740)
Other provisions	16	6,696	8,025
Provisions		6,696	8,025
Bank loans		47,777	9,134
Contract work in progress	11	57,429	71,386
Trade payables		32,122	23,807
Payables to group enterprises		78,811	70,210
Other payables	17	65,436	55,523
Deferred income	18	342	600
Current liabilities other than provisions		281,917	230,660
Liabilities other than provisions		281,917	230,660
Equity and liabilities		320,866	235,945
Unrecognised rental and lease commitments	19		
Contingent liabilities	20		
Related parties with controlling interest	21		
Transactions with related parties	22		
Group relations	23		

Statement of changes in equity for 2016

	Contributed capital DKK'000	Revaluation reserve DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	11,001	24,998	(38,739)	(2,740)
Increase of capital	1	0	89,212	89,213
Dissolution of revaluations	0	(1,940)	1,940	0
Other equity postings	0	0	604	604
Tax of equity postings	0	0	(133)	(133)
Profit/loss for the year	0	0	(54,691)	(54,691)
Equity end of year	11,002	23,058	(1,807)	32,253

Notes

	2016	2015
	DKK'000	DKK'000
1. Revenue		
Europe	290,519	249,623
Other world	208,568	201,772
	499,087	451,395

	2016	2015
	DKK'000	DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	254	284
Tax services	218	319
Other services	388	179
	860	782

	2016	2015
	DKK'000	DKK'000
3. Staff costs		
Wages and salaries	108,936	112,386
Pension costs	6,319	6,625
Other social security costs	10,386	11,657
	125,641	130,668
Average number of employees	153	172

	Remunera- tion of manage- ment 2016 DKK'000	Remunera- tion of manage- ment 2015 DKK'000
Executive Board	6,860	11,055
Board of Directors	16	16
	6,876	11,071

Notes

	2016 DKK'000	2015 DKK'000
4. Depreciation, amortisation and impairment losses		
Depreciation on property, plant and equipment	5,038	5,583
Profit/loss from sale of intangible assets and property, plant and equipment	0	(17)
	5,038	5,566
	2016 DKK'000	2015 DKK'000
5. Other financial income		
Financial income arising from group enterprises	11	18
Interest income	3	556
Exchange rate adjustments	10,222	5,357
	10,236	5,931
	2016 DKK'000	2015 DKK'000
6. Other financial expenses		
Financial expenses from group enterprises	1,576	1,546
Exchange rate adjustments	7,592	18,679
Other financial expenses	636	682
	9,804	20,907
	2016 DKK'000	2015 DKK'000
7. Tax on profit/loss for the year		
Change in deferred tax for the year	8,649	(4,761)
Adjustment concerning previous years	0	(169)
Effect of changed tax rates	0	304
	8,649	(4,626)
	2016 DKK'000	2015 DKK'000
8. Proposed distribution of profit/loss		
Retained earnings	(54,691)	(63,461)
	(54,691)	(63,461)

Notes

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
9. Property, plant and equipment				
Cost beginning of year	40,908	32,678	4,341	2,023
Transfers	1,740	248	35	(2,023)
Additions	437	0	625	0
Cost end of year	43,085	32,926	5,001	0
Revaluations beginning of year	31,400	0	0	0
Revaluations end of year	31,400	0	0	0
Depreciation and impairment losses beginning of the year	(35,869)	(27,378)	(3,312)	0
Depreciation for the year	(1,921)	(2,697)	(420)	0
Depreciation and impairment losses end of the year	(37,790)	(30,075)	(3,732)	0
Carrying amount end of year	36,695	2,851	1,269	0
Carrying amount if asset had not been revalued	7,235	-	-	-

Notes

	Investments in group enterprises DKK'000	Receivables from group enterprises DKK'000
10. Fixed asset investments		
Cost beginning of year	7,465	8,928
Cost end of year	7,465	8,928
Impairment losses beginning of year	(7,465)	(8,928)
Impairment losses end of year	(7,465)	(8,928)
Carrying amount end of year	0	0

	Registered in	Corpo- rate form	Equity inte- rest %
Investments in group enterprises comprise: ANDRITZ FEED & BIOFUEL DO BRASIL Ltda.	Brazil	Ltda.	100.0

	2016 DKK'000	2015 DKK'000
11. Contract work in progress		
Contract work in progress	158,290	216,538
Progress billings regarding contract work in progress	(180,594)	(274,789)
Transferred to liabilities other than provisions	57,429	71,386
	35,125	13,135

Notes

	2016
	<u>DKK'000</u>
12. Deferred tax	
Changes during the year	
Beginning of year	8,782
Recognised in the income statement	(8,649)
Recognised directly in equity	<u>(133)</u>
End of year	<u>0</u>

Deferred tax assets amount to DKK 29,210k, of which carryforward losses amount to DKK 12,830k. Since it is uncertain how much of the deferred tax asset that can be used within the next 3-5 years, deferred tax assets are written down to DKK 0.

	2016	2015
	<u>DKK'000</u>	<u>DKK'000</u>
13. Other receivables		
Derivative financial instruments	736	132
Other receivables	<u>4,566</u>	<u>6,468</u>
	<u>5,302</u>	<u>6,600</u>

Derivative financial instruments comprise open forward contracts. In order to secure debtors in foreign currencies and future transactions for signed sale agreements the Company has entered into forward contracts. The market value of the forward contracts at the balance sheet date is positive by DKK 736k, which has been taken to equity and been provided under other receivables.

14. Prepayments

Prepayments include advance payments regarding rent, IT-expenses regarding exhibitions, rentals etc.

	Number	Par value	Nominal
		<u>DKK'000</u>	<u>value</u>
			<u>DKK'000</u>
15. Contributed capital			
Ordinary shares	1	6000	6,000
Ordinary shares	1	3950	3,950
Ordinary shares	2	300	600
Ordinary shares	2	50	100
Ordinary shares	30	10	300
Ordinary shares	<u>52</u>	<u>1</u>	<u>52</u>
	<u>88</u>		<u>11,002</u>

The mother company Andritz AG has in 2016 paid in 12 MEUR as new capital to cover the negative equity and to secure "Going concern". The increase is executed with 1 share with par value of 1.000 DKK.

Notes

16. Other provisions

Other provisions comprise expenses for warranty provisions.

	2016	2015
	DKK'000	DKK'000
17. Other payables		
VAT and duties	3,191	5,809
Wages and salaries, personal income taxes, social security costs, etc payable	4,804	3,917
Holiday pay obligation	8,824	9,056
Other costs payable	48,617	36,741
	65,436	55,523

18. Deferred income

Short-term deferred income include prepaid rental income and grant from EUDP regarding test plant.

19. Unrecognised rental and lease commitments

The remaining amounts due under leasing obligations amount to DKK 5,474k. Leasing payments for 2017 amount to DKK 3,195k. Leasing obligations relate to leases of equipment and cars for the years 2017 - 2020. Maturity after 5 years amounts to DKK 0k.

20. Contingent liabilities

The Company is liable for bills of exchange discounted to banks for an amount of DKK 19k.

Furthermore guarantees in connection with projects in progress have been given at a total amount of DKK 32.831k.

In order to secure debtors in foreign currencies and future transactions for signed sale agreements the Company has entered into forward contracts. The market value of the forward contracts at the balance sheet date is positive by DKK 736k, which has been taken to equity and been provided under other receivables.

21. Related parties with controlling interest

Related parties with control of ANDRITZ FEED & BIOFUEL A/S consist of the following:

Determining influence

Andritz AG, Austria holds 100% of the Company's contributed capital.

22. Transactions with related parties

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report. No such transactions have been conducted in the financial year.

Notes

23. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Andritz AG, Austria

The group report for the foreign parent company can be ordered from the following address.

Andritz AG, Stattegger Strasse 18, A-8045 Graz, Austria

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (big).

The accounting policies applied to these financial statements are consistent with those applied last year.

Consolidated financial statements

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Accounting policies

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question are classified directly as equity.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate at the time of acquisition or the time of any subsequent revaluation or write-down. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Accounting policies

Also, provisions for loss on contract work in progress are recognised under production costs.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to property, plant and equipment attached to the distribution process.

Administrative costs

Administrative costs comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to property, plant and equipment used for administration of the Entity.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income

Other financial income comprises interest income including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Revaluations of land and buildings are made on the basis of regular independent assessment of the fair value.

Accounting policies

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Office buildings	50 years
Factory buildings	25 years
Building improvements	10 years
Plant and machinery	5 years
Other fixtures and fittings, tools and equipment	3-5 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus or minus unrealised intra-group profits or losses.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Accounting policies

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Contract work in progress

Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as financing costs are recognised in the income statement as incurred.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

Other provisions comprise expected expenses for warranty provisions, loss on contract work in progress etc.

Accounting policies

Provisions for liabilities are recognized when the Company, as a consequence of a previous event, has legal or actual obligations, and when it is probable that fulfilment of the obligation will result in a usage of the Company's financial resources.

Warranty provisions comprise obligations for improvement of jobs within the warranty period. The provisions for liabilities are measured and recognized with basis in the annual turnover.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

A cash flow statement has not been elaborated in accordance with the Danish Financial Statements Act section 86(4).