
Teledyne Reson A/S

Fabriksvangen 13, DK-3550 Slangerup

Annual Report for 1 January - 31 December 2018

CVR No 56 67 58 17

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
10/06 2019

Aldo Pichelli
Chairman of the General
Meeting

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 January - 31 December	10
Balance Sheet 31 December	11
Statement of Changes in Equity	13
Notes to the Financial Statements	14

Management's Statement

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

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

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

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

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

Slangerup, 10 June 2019

Executive Board

Ole Søre-Pedersen
CEO

Board of Directors

Aldo Pichelli
Chairman

Melanie Susan Cibik

Susan Lee Main

Independent Auditor's Report

To the Shareholder of Teledyne Reson A/S

Opinion

We have audited the Financial Statements of Teledyne Reson A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

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

Basis for opinion

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

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

Independent Auditor's Report

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

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

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

Independent Auditor's Report

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

København, 10 June 2019

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR No 33 96 35 56

Keld Juel Danielsen
statsautoriseret revisor
mne26741

Henrik Wolff Mikkelsen
statsautoriseret revisor
mne33747

Company Information

The Company

Teledyne Reson A/S
Fabriksvangen 13
DK-3550 Slangerup

CVR No: 56 67 58 17
Financial period: 1 January - 31 December
Municipality of reg. office: Frederikssund

Board of Directors

Aldo Pichelli, Chairman
Melanie Susan Cibik
Susan Lee Main

Executive Board

Ole Søe-Pedersen

Auditors

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 København S

Financial Highlights

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

	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK
Key figures					
Profit/loss					
Gross profit/loss	148.979	71.471	49.003	49.319	49.284
Profit/loss before financial income and expenses	91.760	24.488	7.614	12.025	-11.811
Net financials	76.588	3.266	15.337	1.353	1.843
Net profit/loss for the year	170.215	26.628	31.243	12.134	-8.493
Balance sheet					
Balance sheet total	451.446	321.703	287.315	218.400	241.758
Equity	386.218	216.003	214.575	183.332	171.198
Investment in property, plant and equipment	2.614	2.071	5.222	2.006	3.078
Number of employees	121	120	110	104	110
Ratios					
Return on equity	56,5%	12,4%	15,7%	6,8%	-4,8%
Solvency ratio	85,6%	67,1%	74,7%	83,9%	70,8%

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

In connection with changes to accounting policies, the comparative figures back to 2014 have not been restated. See the description under accounting policies.

Management's Review

Primary activities

Teledyne RESON develops, produces and sells underwater acoustic systems and solutions. This requires extensive activities within research and development of new products, ensuring high product quality and development of market opportunities and requires a comprehensive support of the system users. Quality is key for the company and a driver in ensuring its high market share.

The product program comprises multi-beam sonar systems for shallow water, medium depth and deep water applications, software for sonar systems, hydrophones, transducers, dredge systems and a number of peripheral products.

The market areas are hydrography, offshore, civil engineering & dredge and defense & security. Teledyne RESON continuously ensures that relevant products and services are developed for the market. These products and services are distributed to the customers through Teledyne RESON's own sales companies and through distributors all around the world.

The company is a fully owned entity of the American technology company Teledyne Technologies Inc., organized in its Marine section and through this Teledyne RESON is part of a family of technology companies supplying some of the world's leading high-tech solutions to the marine industry worldwide.

Development in the year

The income statement of the Company for 2018 shows a profit of TDKK 170,215, and at 31 December 2018 the balance sheet of the Company shows equity of TDKK 386,218.

Due to political issues with the end customer, our customer cancelled a multi year contract we had with them for delivery of sonars for a large project. This impacted 2018 positively by TDKK 52.240 as themilestone payments received were recognized as revenue. In addition, the Company have recognised TDKK 76.112 in income from investments in subsidiaries due to sale of subsidiaries in 2018.

Adjusted for extraordinary items, the income statement shows a profit of TDKK 41.863, which also is better than expected for the year.

Outlook

The market is expected to pick up from 2018 to 2019, with the first months of the year indicating acontinued high activity as was seen in the last quarter of 2018. New products were introduced during2018 and beginning of 2019, which have been received very well. Market is up driven by the stabilizedand higher oil price and by the higher activity level within defense and security. At the same timeTeledyne RESON has increased its level of activity by acquiring other Teledyne businesses andtransferring navigation technology and activities to Denmark. With this, we are expecting increased activities and profit in 2019 compared to ordinary profit in 2018.

Management's Review

Intellectual capital resources

Development, production and marketing of high-tech marine technology place great demands on employees' knowledge. Thus, Teledyne RESON attaches great importance to recruiting and retaining competent staff and to improving their strategic skills.

Environmental affairs

It is the Group's policy to continue to minimize the use of environmentally sensitive materials in accordance with environmental requirements and legislation as and when new products are launched on the market.

Research and Development activities

Research and development activities are performed by the company in Denmark and by the subsidiary in the Netherlands. These research and development activities comprise underwater acoustics and inertial navigation system technology, products, applications, solutions and services.

In recent years, the company has invested significant resources in research and development, aligned with the market needs; setting increasing demands for high quality, improvement of functionality and current launches of new products. While carrying out customer-specific projects, the company is also working on defined product plans for existing and new platforms which will improve the competitive position for the period ahead. On top of this the company has moved technologies from affiliated companies into the Danish site, with further product improvements and stabilization in the tail of it. This has strengthened the entire product portfolio and enhanced the company's position against competition.

Corporate social responsibility policies

The Teledyne RESON Group has implemented a standard of values as an integral part of its business strategy. This standard of values includes central areas of the Entity's operations and is communicated to staff regularly.

The standard of values defines the overall parameters for the Group's code of conduct in relation to customers, suppliers and staff and is evaluated regularly in connection with staff appraisal interviews and meetings with customers and suppliers.

Moreover, all key staff members have signed a set of ethics to ensure that the Group, both in its communication and actions, is perceived as a serious and socially responsible enterprise.

The Group is not obliged to make specific CSR disclosures and has not adopted specific policies for the CSR area.

Management's Review

Subsequent events

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

Income Statement 1 January - 31 December

	Note	2018 TDKK	2017 TDKK
Gross profit/loss		148.979	71.471
Distribution expenses	1	-29.772	-23.015
Administrative expenses	1	-27.447	-23.968
Operating profit/loss		91.760	24.488
Profit/loss before financial income and expenses	2	91.760	24.488
Income from investments in subsidiaries		76.113	7.435
Financial income	3	1.712	479
Financial expenses	4	-1.237	-4.648
Profit/loss before tax		168.348	27.754
Tax on profit/loss for the year	5	1.867	-1.126
Net profit/loss for the year		170.215	26.628

Balance Sheet 31 December

Assets

	Note	2018 TDKK	2017 TDKK
Completed development projects		32.654	26.725
Acquired rights		16.068	20.151
Goodwill		0	0
Intangible assets	6	48.722	46.876
Land and buildings		12.380	12.707
Plant and machinery		656	0
Other fixtures		6.625	7.868
Property, plant and equipment	7	19.661	20.575
Investments in group enterprises	8	17.213	18.488
Other receivables		118	468
Fixed asset investments		17.331	18.956
Fixed assets		85.714	86.407
Raw materials and consumables		45.135	33.712
Work in progress		12.701	11.300
Finished goods and goods for resale		28.343	30.343
Inventories		86.179	75.355
Trade receivables		34.631	44.969
Receivables from group enterprises		162.443	67.424
Other receivables		4.302	6.358
Deferred tax asset	9	23.928	15.000
Prepayments	10	2.122	1.229
Receivables		227.426	134.980
Cash at bank and in hand		52.127	24.961
Current assets		365.732	235.296
Assets		451.446	321.703

Balance Sheet 31 December

Liabilities and equity

	Note	2018 TDKK	2017 TDKK
Share capital		109.796	109.796
Reserve for net revaluation		2.852	2.852
Reserve for development costs		22.498	12.278
Retained earnings		251.072	91.077
Equity		386.218	216.003
Other provisions	11	1.018	1.239
Provisions		1.018	1.239
Prepayments received from customers		5.851	58.282
Trade payables		29.536	28.004
Payables to group enterprises		7.333	0
Corporation tax		186	1.126
Other payables		18.387	14.126
Deferred income	12	2.917	2.923
Short-term debt		64.210	104.461
Debt		64.210	104.461
Liabilities and equity		451.446	321.703
Distribution of profit	13		
Contingent assets, liabilities and other financial obligations	14		
Related parties	15		
Accounting Policies	16		

Statement of Changes in Equity

	Share capital	Reserve for net revaluation	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	109.796	2.852	12.278	91.077	216.003
Development costs for the year	0	0	10.220	-10.220	0
Net profit/loss for the year	0	0	0	170.215	170.215
Equity at 31 December	109.796	2.852	22.498	251.072	386.218

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
1 Staff		
Wages and Salaries	71.143	66.438
Pensions	6.146	5.033
Other social security expenses	0	461
Other staff expenses	7.015	4.739
	84.304	76.671
Average number of employees	121	120

Referring to section 98 b(3) of the Danish Financial Statements Act, remuneration of the Board of Executives and the Board of Directors have not been disclosed.

2 Special items

The Company have due to termination of a client project recognised TDKK 52.240 in Gross Profit. Furthermore, the Company have recognised TDKK 76.112 in income from investments in subsidiaries due to sale of subsidiaries in 2018

3 Financial income

Interest received from group enterprises	0	456
Other financial income	1.712	23
	1.712	479

4 Financial expenses

Interest paid to group enterprises	425	0
Other financial expenses	103	156
Exchange adjustments, expenses	709	4.492
	1.237	4.648

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
5 Tax on profit/loss for the year		
Current tax for the year	7.061	1.126
Deferred tax for the year	-8.928	0
	-1.867	1.126

6 Intangible assets

	Completed development projects TDKK	Acquired rights TDKK	Goodwill TDKK	Total TDKK
Cost at 1 January	177.385	25.507	9.892	212.784
Additions for the year	16.595	0	0	16.595
Disposals for the year	-105.763	0	0	-105.763
Cost at 31 December	88.217	25.507	9.892	123.616
Impairment losses and amortisation at 1 January	150.661	5.356	9.892	165.909
Amortisation for the year	10.665	4.083	0	14.748
Reversal of amortisation of disposals for the year	-105.763	0	0	-105.763
Impairment losses and amortisation at 31 December	55.563	9.439	9.892	74.894
Carrying amount at 31 December	32.654	16.068	0	48.722

The Company has in 2017 capitalised TDKK 8.846 in completed development projects. The technology is incorporated in future product portfolio. Booked value at 31/12-2018: TDKK 7.077

The Company has in 2018 capitalised TDKK 16.595 in completed development projects. The technology is incorporated in future product portfolio. Booked value at 31/12-2018: TDKK 16.595

Notes to the Financial Statements

7 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures	Total
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	16.321	5.602	28.337	50.260
Additions for the year	0	720	1.894	2.614
Disposals for the year	0	0	-2.265	-2.265
Cost at 31 December	16.321	6.322	27.966	50.609
Revaluations at 1 January	3.657	0	0	3.657
Revaluations at 31 December	3.657	0	0	3.657
Impairment losses and depreciation at 1 January	7.270	5.602	20.469	33.341
Depreciation for the year	328	64	3.137	3.529
Reversal of impairment and depreciation of sold assets	0	0	-2.265	-2.265
Impairment losses and depreciation at 31 December	7.598	5.666	21.341	34.605
Carrying amount at 31 December	12.380	656	6.625	19.661
Revaluation less amortisation, depreci- ation and impairment losses	2.654	0	0	
Carrying amount at 31 December before revaluations	9.726	656	6.625	

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
8 Investments in group enterprises		
Cost at 1 January	18.488	18.488
Disposals for the year	-1.275	0
Carrying amount at 31 December	17.213	18.488

Investments in group enterprises are specified as follows:

Name	Place of registered office	Share capital	Ownership share	Equity	Net profit/loss for the year
Teledyne RESON Inc.	USA	16.762	100%	29.606	3.010
Teledyne RESON UK Ltd.	GB	101	100%	16.850	0
Teledyne RESON PTE	Singapore	350	100%	350	0
				46.806	3.010

9 Deferred tax asset

Deferred tax asset at 1 January	15.000	15.000
Amounts recognised in the income statement for the year	8.928	0
Deferred tax asset at 31 December	23.928	15.000

Deferred tax assets are measured at net realizable value, and are based on Management's best estimate of the ability to use losses carried forward within a 3 years period.

10 Prepayments

Prepayments consist of insurance, subscription fees, etc. in respect of subsequent financial years.

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
11 Other provisions		
Warranty commitments	1.018	1.239
	1.018	1.239

Statement of warranty commitments is based on an estimate which includes historical data about the individual type of costs adjusted for the development in revenue.

12 Deferred income

Short-term deferred income include deferred revenue.

13 Distribution of profit

Retained earnings	170.215	26.628
	170.215	26.628

Notes to the Financial Statements

	2018 TDKK	2017 TDKK
14 Contingent assets, liabilities and other financial obligations		

Charges and security

The following assets have been placed as security with mortgage credit institutes:

There has been issued mortgage deed worth TDKK 10.000 (TDKK 10.000 as 31 December 2017), which the company holds, and therefore not provided as security for any liabilities.

Contingent assets

The company has a total deferred tax asset of TDKK 49.781, whereof TDKK 23.928 are included under current assets. The company's unrecognized deferred tax assets amount to TDKK 25.855.

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	658	604
	658	604

Other contingent liabilities

The company has bank guarantees and payment bonds worth DKK 220 thousand (DKK 220 thousand as 31 December 2017) as security in favour of customers and suppliers.

The company is jointly taxed with other group companies and is jointly liable with the other group companies for payable and unsettled corporation and withholding taxes. The total amount for payable corporate tax is shown in the annual report for Teledyne Denmark A/S. Any subsequent corrections to the corporate tax and withholding taxes can lead to a higher liability for the Company.

In addition, the Company is from time-to-time involved in disputes that are normal for its business. The outcome of ongoing disputes is not expected to have any significant impact on the Company's financial position.

Notes to the Financial Statements

15 Related parties

	<u>Basis</u>
Controlling interest	
Teledyne Denmark A/S	Parent company
Fabriksvangen 13, 3550 Slangerup, Denmark.	
Teledyne Technologies Inc.	Ultimate parent company
Thousand Oaks, California, USA	

Transactions

No disclosures of transactions with related parties as Management believes that all transactions with related parties has been carried out on arms length basis.

Consolidated Financial Statements

Following parent company compose consolidated financial statements:

<u>Name</u>	<u>Place of registered office</u>
Teledyne Technologies Inc.	Thousand Oaks, California, USA

The Group Annual Report of Teledyne Technologies Inc. may be obtained at the following address:
www.teledyne.com

Notes to the Financial Statements

16 Accounting Policies

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

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2018 are presented in TDKK.

Consolidated financial statements

Referring to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

The Financial Statement for Teledyne RESON A/S and affiliated subsidiaries are included in the consolidated financial statements for Teledyne Technologies Inc., Thousands Oaks, California, US.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Teledyne Technologies Inc., the Company has not prepared a cash flow statement.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

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

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.

Notes to the Financial Statements

16 Accounting Policies (continued)

Translation policies

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 one 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.

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).

Cost of sales

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 intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

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

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue and cost of sales.

Distribution expenses

Distribution expenses 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 intangible assets and property, plant and equipment attached to the distribution process.

Notes to the Financial Statements

16 Accounting Policies (continued)

Administrative expenses

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

Income from investments in group enterprises

Income from investments in group enterprises comprises dividends etc received from the individual associates in the financial year.

Other financial income and expenses

Other financial income comprises dividends etc received on other investments, 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 Danish Tax Prepayments Scheme etc.

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 Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

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

The Entity is jointly taxed with its Danish parent. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income {full allocation with a refund concerning losses}.

Notes to the Financial Statements

16 Accounting Policies (continued)

Balance Sheet

Intellectual property rights etc

Intellectual property rights etc. comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is 5 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

Intangible assets acquired from Teledyne Instruments Inc. at Net Booked Value for DKK 25.507 thousand follows the original straight-lined amortization plan, which is:

Customer relations	5 years/12 years
Proprietary Technology	10 years
Trade names	10 years

Goodwill

Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. The amortisation period is usually five years, however, in certain cases it may be up to 20 years for strategically acquired enterprises with a strong market position and a long-term earnings profile if the longer amortisation period is considered to give a better reflection.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Notes to the Financial Statements

16 Accounting Policies (continued)

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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.

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 self-manufactured assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

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

Buildings	50 years
Plant and machinery	5 years
Other fixtures and fittings, tools and equipment	3-10 years

Investments in group enterprises

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

Inventories

Inventories are measured at the lower of cost under 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.

Notes to the Financial Statements

16 Accounting Policies (continued)

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing 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.

Receivables

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

Prepayments

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

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Once it is likely 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.

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.

Deferred tax assets which are not expected utilised within 3 years have been disclosed in notes under contingent assets.

Notes to the Financial Statements

16 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Other financial liabilities

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

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

Financial Highlights

Explanation of financial ratios

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$

Return on equity

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