

**Dynatest International
A/S**
Gladsaxevej 342
2860 Søborg
Central Business Registration
No 64532413

Annual report 2017

The Annual General Meeting adopted the annual report on 29.06.2018

Chairman of the General Meeting

Name: Nicholas Liebach

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Entity details

Entity

Dynatest International A/S
Gladsaxevej 342
2860 Søborg

Central Business Registration No: 64532413
Registered in: Gladsaxe
Financial year: 01.01.2017 - 31.12.2017

Board of Directors

Christian Møller Christensen, formand
Anders Sørensen
Johannes Sloth
Lars Christian Pallesen
Jacob Thalsgård Schambye

Executive Board

Christian Lanng Nielsen, CEO
Lars Ytting, CFO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Dynatest International A/S for the financial year 01.01.2017 - 31.12.2017.

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 31.12.2017 and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017.

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.

Søborg, 28.06.2018

Executive Board

Christian Lanng Nielsen
CEO

Lars Ytting
CFO

Board of Directors

Christian Møller Christensen
formand

Anders Sørensen

Johannes Sloth

Lars Christian Pallesen

Jacob Thalsgård Schambye

Independent auditor's report

To the shareholders of Dynatest International A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Dynatest International A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016, and of the results of their operations and the consolidated cash flows 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 the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the 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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements

Independent auditor's report

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 financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the 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 consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the 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 consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 28.06.2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jens Sejer Pedersen
State Authorised Public Accountant
Identification number (MNE) mne14986

Management commentary

	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000
Financial highlights					
Key figures					
Revenue	135.239	115.192	155.400	155.706	118.357
Gross profit/loss	39.095	23.992	37.315	55.684	35.553
Operating profit/loss	(14.246)	(53.392)	(35.529)	3.823	6.075
Net financials	(5.761)	(4.905)	(696)	(469)	(782)
Profit/loss for the year	(19.603)	(49.093)	167	(1.849)	4.031
Total assets	126.353	115.989	108.952	99.594	66.742
Investments in property, plant and equipment	4.321	7.139	22.844	5.216	3.610
Equity incl minority interests	21.685	34.620	44.758	17.163	22.035
Employees in average	125	155	144	107	92
Ratios					
Gross margin (%)	28,9	20,8	24,0	35,8	30,0
Net margin (%)	(14,5)	(42,6)	0,1	(1,2)	3,4
Return on equity (%)	(69,6)	(128,6)	0,5	(9,4)	20,2
Equity ratio (%)	17,2	29,8	41,1	17,2	33,0

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2010" 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 (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity incl minority interests}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity incl minority interests} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

Dynatest International Group ("Group") is a leading international provider of pavement engineering consulting services and equipment., including unique software tools for use in planning and maintenance of pavements for airports and roads.

The Parent company of the Group; Dynatest International A/S has its headquarter in Copenhagen, Denmark focusing on Group Management, research and developments activities (RD) and holdings in subsidiaries in Denmark, USA, UK, South America and New Zealand.

The Dynatest Group is selling its products and services globally.

Development in activities and finances

2017 has been a year of turning the Group's activities around.

The Group was in 2017 expected to realize a small operational profit, which due to a lower than expected revenue recognition was not realized. Although expectations were not met the turnaround has had a large positive impact on the financial performance in 2017 which has improved substantially compared to 2016. Besides, 2017 is not reflecting a normal operational development as many turnaround activities have impact on costs, sales, productivity and profitability. The business platform of the Group has now been adjusted to fit the current level of activities and prepared to support the growthplans for the Group for the coming years.

The Dynatest brand remains as highly valued by the market and our customers and the Group is able to attract important orders all over the world in all our business areas.

The Group's R&D activities in equipment and software, that is expected to improve our capabilities within pavement analysis, have been continued in 2017, see note 7. The projects are financed from operational earnings and the Danish Innovation Fund. One project was finalized in 2017 and is now put in operation, two more projects are expected to be finalized in 2018.

During 2017 the Group has been driven under a tight liquidity handling funded by ordinary and temporary credit lines in Sydbank and activity related guarantees from the Danish Export Credit Agency (EKF). The Group received a capital infusion by its owners Blue Equity in 2016 to cover the excessive loss in 2016 and secure daily operations in 2017. No further capital infusion has been necessary in 2017.

In January 2017 Investment Fund for Developing Countries ("IFU") invested in the Group's South American activities contributing to a cash inflow of 12,5 million DKK with a commitment to invest additional DKK ('000) 2.500.

Management commentary

Uncertainty related to recognition and measurement

When preparing the Group and the Company's annual report, it is necessary that Management, in accordance with legislative provisions, makes a number of accounting judgements and estimates which form the basis for the annual report. Material accounting judgements and estimates made by Management are described in the paragraph "managements material judgements and estimates" under accounting policies, to which we refer. The accounting judgements and estimates made primarily relates to

- The sufficiency of the Group's financing, see note 1
- The recognition and measurement of development costs, see note 7
- The measuring of the stage of completion and the value of contract work in progress, see note 11

Such estimates are made on the basis of assumptions which Management considers reasonable and realistic, but which by nature are uncertain.

Outlook

The substantial growth in activities and earnings that have been realized in 2017 is expected to continue in 2018. 2018 is expected to deliver a topline growth together with a positive operational profit and a positive cash flow from operations. The order intake and financial performance of Q1 and subsequent months promise that the budgeted goals for 2018 are realistic.

The expected positive cash flow from operations is intended to be invested in the Group's development activities and fixed assets to maintain a sustainable platform and portfolio of fixed assets both to support the long-term profitability and development of the Group. In addition the investments are expected to open up new market opportunities.

Much of the financing of sales activities in 2018 will be generated from operational earnings. The Credit line-structure with Sydbank and EKF is expected to be maintained as supporting funding. Liquidity from operations combined with expected funding possibilities from our banking partners are considered to deliver sufficient liquidity to cover the need for financing during 2018. In addition, a RD-tax refunding similar to the RD-tax refunding in 2017, will add liquidity to the financing of 2018 activities.

On this basis it is Management's assessment that the Consolidated Financial Statements and Parent Financial Statements for the financial year 2017 are presented under a going concern assumption.

Events after the balance sheet date

No essential events have occurred after the balance sheet date which can influence the evaluation of this annual report.

Consolidated income statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Revenue		135.239.284	115.192
Production costs	2	(96.144.174)	(91.200)
Gross profit/loss		39.095.110	23.992
Other operating expenses		(106.508)	0
Distribution costs	2	(6.484.671)	(10.964)
Administrative costs	2	(46.750.065)	(66.420)
Operating profit/loss		(14.246.134)	(53.392)
Income from investments in associates		(18.564)	358
Other financial income	3	68.099	138
Other financial expenses	4	(5.810.611)	(5.401)
Profit/loss before tax		(20.007.210)	(58.297)
Tax on profit/loss for the year	5	404.325	9.204
Profit/loss for the year	6	(19.602.885)	(49.093)

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Completed development projects		3.623.445	4.630
Development projects in progress		24.207.615	13.511
Intangible assets	7	27.831.060	18.141
Land and buildings		156.031	177
Other fixtures and fittings, tools and equipment		29.765.767	34.165
Property, plant and equipment	8	29.921.798	34.342
Investments in associates		3.111.793	3.131
Deposits		691.225	695
Fixed asset investments	9	3.803.018	3.826
Fixed assets		61.555.876	56.309
Raw materials and consumables		19.379.461	12.445
Assets held for sale		2.204.148	2.504
Prepayments for goods		83.055	956
Inventories		21.666.664	15.905
Trade receivables		22.732.848	25.345
Contract work in progress	11	8.756.066	5.182
Other receivables		0	15
Income tax receivable		1.515.586	4.406
Prepayments	12	2.869.082	2.790
Receivables		35.873.582	37.738
Cash		7.257.133	6.037
Current assets		64.797.379	59.680
Assets		126.353.255	115.989

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Contributed capital		15.971.298	15.971
Retained earnings		6.943.427	18.649
Equity attributable to the Parent's owners		22.914.725	34.620
Share of equity attributable to minority interests		(1.229.365)	0
Equity		21.685.360	34.620
Deferred tax	13	1.595.000	0
Other provisions	14	719.566	611
Provisions		2.314.566	611
Bank loans		2.539.515	4.760
Finance lease liabilities		11.549.566	0
Debt to other credit institutions		4.967.357	0
Prepayments received from customers		132.236	456
Other payables		1.597.179	1.986
Deferred income	15	7.578.236	4.822
Non-current liabilities other than provisions	16	28.364.089	12.024
Current portion of long-term liabilities other than provisions	16	4.451.588	2.183
Bank loans		32.799.283	35.554
Prepayments received from customers		3.427.486	6.315
Contract work in progress	11	0	620
Trade payables		19.284.873	9.509
Income tax payable		270.188	267
Other payables		13.755.822	14.286
Current liabilities other than provisions		73.989.240	68.734
Liabilities other than provisions		102.353.329	80.758
Equity and liabilities		126.353.255	115.989
Going concern	1		
Associates	10		
Mortgages and securities	18		
Group relations	19		
Subsidiaries	20		

Consolidated statement of changes in equity for 2017

	Contributed capital DKK	Retained earnings DKK	Share of equity attributable to minority interests DKK	Total DKK
Equity beginning of year	15.971.298	18.648.498	0	34.619.796
Increase of capital	0	0	2.516.667	2.516.667
Exchange rate adjustments	0	(1.120.463)	288.912	(831.551)
Other equity postings	0	8.414.382	(3.431.049)	4.983.333
Profit/loss for the year	0	(18.998.990)	(603.895)	(19.602.885)
Equity end of year	15.971.298	6.943.427	(1.229.365)	21.685.360

Consolidated cash flow statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Operating profit/loss		(14.246.134)	(53.391)
Amortisation, depreciation and impairment losses		5.909.103	7.519
Other provisions		108.996	(1.676)
Working capital changes	17	120.401	2.816
Cash flow from ordinary operating activities		(8.107.634)	(44.732)
Financial income received		68.099	138
Financial income paid		(5.810.611)	(5.401)
Income taxes refunded/(paid)		5.328.928	7.447
Cash flows from operating activities		(8.521.218)	(42.548)
Acquisition etc of intangible assets		(10.698.748)	(9.186)
Acquisition etc of property, plant and equipment		(4.320.918)	(7.138)
Sale of property, plant and equipment		1.546.103	2.768
Acquisition of fixed asset investments		(2.997)	(12)
Cash flows from investing activities		(13.476.560)	(13.568)
Loans raised		4.002.541	4.173
Incurrence of lease obligations		16.000.000	0
Reduction of lease commitments		(1.529.108)	0
Cash increase of capital		7.500.000	73.000
Cash flows from financing activities		25.973.433	77.173
Increase/decrease in cash and cash equivalents		3.975.655	21.057
Cash and cash equivalents beginning of year		(29.517.805)	(50.575)
Cash and cash equivalents end of year		(25.542.150)	(29.518)
Cash and cash equivalents at year-end are composed of:			
Cash		7.257.133	6.037
Short-term debt to banks		(32.799.283)	(35.555)
Cash and cash equivalents end of year		(25.542.150)	(29.518)

Notes to consolidated financial statements

1. Going concern

As described in the management commentary and in the section Accounting policies – Management’s material judgements and estimates, to which we refer, the planned activities for 2018 expects to generate a positive EBITDA. Based on this, combined with expected funding possibilities from the company’s banking partners, Management find that the Group have sufficient financing resources.

Based heron the Consolidated Financial Statements and Parent Financial Statements for the financial year 2017 are presented under the going concern assumption. The planned activities is based on assumptions which Management consider to be reasonable and realistic, but which by nature include a level of uncertainty.

	2017 DKK	2016 DKK'000
2. Staff costs		
Wages and salaries	59.497.925	72.327
Pension costs	1.872.528	2.480
Other social security costs	7.154.138	8.294
Other staff costs	839.186	1.307
	69.363.777	84.408
Average number of employees	125	155
	Remunera- tion of manage- ment 2017 DKK	Remunera- tion of manage- ment 2016 DKK'000
Total amount for management categories	4.903.000	4.432
	4.903.000	4.432
	2017 DKK	2016 DKK'000
3. Other financial income		
Interest income	2.156	6
Exchange rate adjustments	65.943	132
	68.099	138

Notes to consolidated financial statements

	2017 DKK	2016 DKK'000
4. Other financial expenses		
Interest expenses	1.979.239	4.406
Exchange rate adjustments	3.831.372	995
	5.810.611	5.401
	2017 DKK	2016 DKK'000
5. Tax on profit/loss for the year		
Tax on current year taxable income	(1.347.297)	(4.100)
Change in deferred tax for the year	1.595.000	(35)
Adjustment concerning previous years	(652.028)	(5.069)
	(404.325)	(9.204)
	2017 DKK	2016 DKK'000
6. Proposed distribution of profit/loss		
Retained earnings	(18.998.990)	(49.093)
Minority interests' share of profit/loss	(603.895)	0
	(19.602.885)	(49.093)
	Completed develop- ment projects DKK	Develop- ment projects in progress DKK
7. Intangible assets		
Cost beginning of year	8.614.701	13.510.797
Additions	1.930	10.696.818
Cost end of year	8.616.631	24.207.615
Amortisation and impairment losses beginning of year	(3.984.790)	0
Amortisation for the year	(1.008.396)	0
Amortisation and impairment losses end of year	(4.993.186)	0
Carrying amount end of year	3.623.445	24.207.615

Development projects in progress

Development projects in progress comprise 4 projects. 2 projects related to new equipment and 2 projects related to new analysis- and software tools. With effect from January 1, 2018 a new software tool, with a book value of DKK ('000) 1.800 has been launched. Also in 2018 a new cloud based software related to managing pavement data and analysis will be launched. It is expected from 2019 that the software also will enhance scalability on pavement consulting jobs.

Notes to consolidated financial statements

The most material project amounting to approximately half the total amount of development costs relates to "Dynatest RAPTOR", a rolling weight deflectometer, measuring continuous bearing capacity movements at normal driving speed. The project, which will be launched in 2018, is partly financed by Danish Innovation Fund (see note 15).

In 2019 equipment related to faster collection of pavement data is expected to be launched.

The development projects in progress, will once finalized, contribute to faster and better analysis, thus reducing the cost per analyzed kilometer roadpavement considerably. The new products also expects to give Dynatest competitive advantages and expects to result in annual increase in revenue.

Completed development projects comprise projects finalized in 2015 and earlier. Revenue and profit has since the launch of these products been in line with budgetted expectations, thus not giving any indication of impairment.

	Land and buildings DKK	Other fixtures and fittings, tools and equipment DKK
8. Property, plant and equipment		
Cost beginning of year	177.271	62.035.896
Exchange rate adjustments	(21.240)	(4.186.352)
Additions	0	4.320.917
Disposals	0	(2.360.497)
Cost end of year	156.031	59.809.964
Depreciation and impairment losses beginning of the year	0	(27.870.332)
Exchange rate adjustments	0	1.871.406
Depreciation for the year	0	(4.900.707)
Reversal regarding disposals	0	855.436
Depreciation and impairment losses end of the year	0	(30.044.197)
Carrying amount end of year	156.031	29.765.767

Notes to consolidated financial statements

	Investments in associates DKK	Deposits DKK
9. Fixed asset investments		
Cost beginning of year	95.950	694.222
Disposals	0	(2.997)
Cost end of year	95.950	691.225
Revaluations beginning of year	3.034.407	0
Share of profit/loss for the year	(18.564)	0
Revaluations end of year	3.015.843	0
Carrying amount end of year	3.111.793	691.225
	Registered in	Equity inte- rest %
10. Associates		
Dynatest Asia-Pacific Sd. Bhd	Malaysia	49,0
Dynatest Africa Ltd.	Sydafrika	50,0
	2017 DKK	2016 DKK'000
11. Contract work in progress		
Contract work in progress	8.756.066	11.443
Progress billings regarding contract work in progress	0	(6.881)
Transferred to liabilities other than provisions	0	620
	8.756.066	5.182
12. Prepayments		
Prepayments comprise prepaid expenses.		

Notes to consolidated financial statements

	2017 DKK
13. Deferred tax	
Intangible assets	6.123.000
Property, plant and equipment	1.145.660
Liabilities other than provisions	(1.714.000)
Tax losses carried forward	(3.959.660)
	1.595.000
Changes during the year	
Recognised in the income statement	1.595.000
End of year	1.595.000

14. Other provisions

Other provisions comprise warranty obligations.

15. Long-term deferred income

The company has received part public funding of an ongoing development project. The deferred income will be set off against the amortization of the cost of the development project, once this is finalized and in use.

	Instalments within 12 months 2017 DKK	Instalments within 12 months 2016 DKK'000	Instalments beyond 12 months 2017 DKK	Outstanding after 5 years DKK
16. Liabilities other than provisions				
Mortgage debts	0	244	0	0
Bank loans	1.530.252	1.777	2.539.515	0
Finance lease liabilities	2.921.336	0	11.549.566	0
Debt to other credit institutions	0	0	4.967.357	3.330.000
Prepayments received from customers	0	0	132.236	0
Other payables	0	162	1.597.179	0
Deferred income	0	0	7.578.236	4.800.000
	4.451.588	2.183	28.364.089	8.130.000

Notes to consolidated financial statements

	2017	2016
	DKK	DKK'000
17. Change in working capital		
Increase/decrease in inventories	(6.060.912)	210
Increase/decrease in receivables	464.134	6.893
Increase/decrease in trade payables etc	5.717.179	(4.287)
	120.401	2.816

18. Mortgages and securities

Dynatest International A/S has issued a Letter of Support in regards to the subsidiaries Dynatest UK Ltd., Dynatest New Zealand Ltd. and Dynatest Denmark A/S.

Dynatest International A/S has entered into lease agreements for office supply with a lease obligation of DKK ('000) 1,045 for a 2 years period.

As a security for debt to banks of DKK ('000) 15,500 Dynatest Denmark A/S has issued a floating charge of a nominal amount of DKK ('000) 7,000. The floating charge includes inventory, trade receivables and fixtures and equipment, with a total carrying amount as at 31 December 2017 of DKK ('000) 31,305.

Dynatest Denmark A/S has issued guarantees to customers in the amount of DKK ('000) 710, and has lease payments (operating lease) of DKK ('000) 178 until 2021.

Dynatest Denmark A/S has signed a tenancy rental agreement with 53 months interminability at 31 December 2017 corresponding to a rent of DKK ('000) 7,375.

Dynatest Denmark A/S has an obligation to purchase assets held under finance leases for DKK ('000) 1,600 at the end of the lease period.

Dynatest Consulting Inc has lease and rental agreements in the amount of DKK ('000) 23,560 with expiry in the period until 2026.

As security for debt to banks and lenders Dynatest Consulting Inc. has provided the following security for:

Property, inventory, trade receivables and fixtures and equipment, with a total carrying amount as at 31 December 2017 of DKK ('000) 39,196.

The Danish companies in the Dynatest International A/S-Group participates in a Danish joint taxation arrangement in which Dynatest Finance ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc. for the jointly taxed companies and also for obligations, if any, relating to withholding tax on interest, royalties and dividend for the jointly taxed companies.

Notes to consolidated financial statements

19. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Dynatest Finance ApS, Gladsaxevej 342, 2860 Søborg

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Dynatest Finance ApS, Gladsaxevej 342, 2860 Søborg

The following shareholder is recorded in the company's register of shareholders as owning minimum 5% of the votes or minimum 5% of the share capital :

Dynatest Holding ApS
Gladsaxevej 342
2860 Søborg

	<u>Registered in</u>	<u>Corpo- rate form</u>	<u>Equity inte- rest %</u>	<u>Equity DKK</u>	<u>Profit/loss DKK</u>
20. Subsidiaries					
Dynatest North America Inc.	Atlanta, USA	Inc.	100,0	835.333	(13.230.280)
Dynatest Denmark A/S	Søborg, Danmark	A/S	100,0	(36.653.316)	(6.985.159)
Dynatest UK Ltd.	England	Ltd.	100,0	(2.707.158)	161.477
Dynatest New Zealand Ltd.	New Zealand	Ltd.	100,0	(902.509)	158.175
Dynatest Chile SpA	Chile	SpA	67,0	(3.425.876)	190.184
Dynatest Columbia SpA	Columbia	SpA	67,0	(5.790.095)	(647.784)
Dynatest Peru SpA	Peru	SpA	67,0	(2.407.261)	(872.486)
Dynatest South America Holding ApS	Søborg, Danmark	ApS	67,0	7.068.402	(481.598)
Dynatest Poland	Polen	Inc.	100,0	0	0
Dynatest Nederland B.V.	Holland	B.V.	100,0	0	0
Internal profit on fixed assets			100,0	(2.800.306)	(12.670)

Parent income statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Revenue		17.067.661	23.565
Production costs		(3.336.616)	(7.471)
Gross profit/loss		13.731.045	16.094
Administrative costs	1	(8.563.442)	(14.865)
Operating profit/loss		5.167.603	1.229
Income from investments in group enterprises		(21.222.755)	(57.768)
Income from investments in associates		(18.564)	358
Other financial income	2	679.603	2.650
Other financial expenses	3	(3.453.342)	(2.894)
Profit/loss before tax		(18.847.455)	(56.425)
Tax on profit/loss for the year	4	(151.535)	7.332
Profit/loss for the year	5	(18.998.990)	(49.093)

Parent income statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Completed development projects		3.623.445	4.630
Development projects in progress		24.207.615	13.511
Intangible assets	6	27.831.060	18.141
Other fixtures and fittings, tools and equipment		0	1
Property, plant and equipment	7	0	1
Investments in group enterprises		835.334	13.122
Receivables from group enterprises		23.010.982	7.725
Investments in associates		3.111.793	3.131
Deposits		44.700	45
Fixed asset investments	8	27.002.809	24.023
Fixed assets		54.833.869	42.165
Receivables from group enterprises		0	1
Other receivables		648.637	285
Income tax receivable		1.400.000	4.100
Prepayments	9	231.742	367
Receivables		2.280.379	4.753
Cash		0	86
Current assets		2.280.379	4.839
Assets		57.114.248	47.004

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK'000</u>
Contributed capital	10	15.971.298	15.971
Reserve for development expenditure		17.861.663	7.165
Retained earnings		(19.332.618)	11.484
Equity		14.500.343	34.620
Deferred tax	11	4.397.000	1.838
Provisions for investments in group enterprises	12	4.521.867	0
Provisions		8.918.867	1.838
Deferred income	13	7.578.236	4.822
Non-current liabilities other than provisions	14	7.578.236	4.822
Bank loans		16.401.495	2.041
Trade payables		1.889.185	2.510
Payables to group enterprises		6.703.132	0
Other payables		1.122.990	1.173
Current liabilities other than provisions		26.116.802	5.724
Liabilities other than provisions		33.695.038	10.546
Equity and liabilities		57.114.248	47.004
Mortgages and securities	15		
Related parties with controlling interest	16		

Parent statement of changes in equity for 2017

	Contributed capital DKK	Reserve for development expenditure DKK	Retained earnings DKK	Total DKK
Equity beginning of year	15.971.298	7.164.845	11.483.653	34.619.796
Exchange rate adjustments	0	0	(1.120.463)	(1.120.463)
Profit/loss for the year	0	10.696.818	(29.695.808)	(18.998.990)
Equity end of year	15.971.298	17.861.663	(19.332.618)	14.500.343

Notes to parent financial statements

	2017 DKK	2016 DKK'000
1. Staff costs		
Wages and salaries	4.345.832	4.253
Pension costs	378.000	342
Other social security costs	12.321	6
	4.736.153	4.601
Average number of employees	2	3
	Remunera- tion of manage- ment 2017 DKK	Remunera- tion of manage- ment 2016 DKK'000
Total amount for management categories	4.903.000	4.432.000
	4.903.000	4.432.000
	2017 DKK	2016 DKK'000
2. Other financial income		
Financial income arising from group enterprises	679.346	827
Interest income	257	0
Exchange rate adjustments	0	1.823
	679.603	2.650
	2017 DKK	2016 DKK'000
3. Other financial expenses		
Financial expenses from group enterprises	48.341	0
Interest expenses	406.903	2.894
Exchange rate adjustments	2.998.098	0
	3.453.342	2.894
	2017 DKK	2016 DKK'000
4. Tax on profit/loss for the year		
Tax on current year taxable income	(1.400.000)	(4.100)
Change in deferred tax for the year	2.559.000	217
Adjustment concerning previous years	(1.007.465)	(3.449)
	151.535	(7.332)

Notes to parent financial statements

	2017 DKK	2016 DKK'000
5. Proposed distribution of profit/loss		
Transferred to other reserves	10.696.818	7.165
Retained earnings	(29.695.808)	(56.258)
	(18.998.990)	(49.093)
	Completed develop- ment projects DKK	Develop- ment projects in progress DKK
6. Intangible assets		
Cost beginning of year	8.614.701	13.510.797
Additions	1.930	10.696.818
Cost end of year	8.616.631	24.207.615
Amortisation and impairment losses beginning of year	(3.984.790)	0
Amortisation for the year	(1.008.396)	0
Amortisation and impairment losses end of year	(4.993.186)	0
Carrying amount end of year	3.623.445	24.207.615
Development projects in progress		
Development projects is further described in note 7 of the Consolidated Financial Statements.		
		Other fixtures and fittings, tools and equipment DKK
7. Property, plant and equipment		
Cost beginning of year		10.573.124
Disposals		(10.573.124)
Cost end of year		0
Depreciation and impairment losses beginning of the year		(10.573.124)
Reversal regarding disposals		10.573.124
Depreciation and impairment losses end of the year		0
Carrying amount end of year		0

Notes to parent financial statements

	Investments in group enterprises DKK	Receivables from group enterprises DKK	Investments in associates DKK	Deposits DKK
8. Fixed asset investments				
Cost beginning of year	51.233.538	52.190.448	85.950	44.700
Additions	0	20.235.427	0	0
Disposals	(150.000)	0	0	0
Cost end of year	51.083.538	72.425.875	85.950	44.700
Revaluations beginning of year	(82.578.283)	0	3.044.407	0
Exchange rate adjustments	(2.999.227)	0	0	0
Share of profit/loss for the year	(21.222.755)	0	(18.564)	0
Reversal regarding disposals	2.615.301	0	0	0
Revaluations end of year	(104.184.964)	0	3.025.843	0
Impairment losses beginning of year	0	(44.465.220)	0	0
Investments with negative equity depreciated over receivables	49.414.893	(4.949.673)	0	0
Investments with negative equity transferred to provisions	4.521.867	0	0	0
Impairment losses end of year	53.936.760	(49.414.893)	0	0
Carrying amount end of year	835.334	23.010.982	3.111.793	44.700

	Registered in	Equity interest %
Investments in associates comprise:		
Dynatest Asia-Pacific Sd. Bhd.	Malaysia	49,0
Dynatest Africa Ltd.	Sydafrika	50,0

9. Prepayments

Prepayments comprise prepayed expenses.

Notes to parent financial statements

	<u>Number</u>	<u>Par value DKK</u>	<u>Nominal value DKK</u>
10. Contributed capital			
Contributed capital	15.971	1000	15.971.298
	15.971		15.971.298

	<u>2017 DKK</u>	<u>2016 DKK'000</u>
11. Deferred tax		
Intangible assets	6.123.000	4.151
Property, plant and equipment	(199.000)	(266)
Provisions	(1.714.000)	(1.060)
Tax losses carried forward	187.000	(987)
	4.397.000	1.838

Changes during the year

Beginning of year	1.838.000
Recognised in the income statement	2.559.000
End of year	4.397.000

12. Provisions for investments in group enterprises

Investments in group enterprises with negative equity transferred from fixed asset investments.

13. Long-term deferred income

The company has received part public funding of an ongoing development project. The deferred income will be set off against the amortization of the cost of the development project, once this is finalized and in use.

	<u>Outstanding after 5 years DKK</u>
14. Liabilities other than provisions	
Deferred income	4.800.000
	4.800.000

15. Mortgages and securities

Dynatest International A/S has issued a Letter of Support in regards to the subsidiaries Dynatest UK Ltd., Dynatest New Zealand Ltd and Dynatest Denmark A/S.

Dynatest International A/S has issued a guarantee of payment for the total obligations of the Danish companies to the bank, a debt of DKK ('000) 15,500 as per 31 December 2016.

Notes to parent financial statements

Dynatest International A/S has issued a guarantee of payment for rent obligations of the US company amounting to DKK ('000) 23,560 for a 8 years period.

Dynatest International A/S has issued a guarantee of payment for rent obligations of the Danish companies amounting to DKK ('000) 7,375 for a 5 years period.

Dynatest International A/S has entered into lease agreements for office supply with a lease obligation of DKK ('000) 1,045 for a 2 years period.

Dynatest International A/S participates in a Danish joint taxation arrangement in which Dynatest Finance ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc. for the jointly taxed companies and also for obligations, if any, relating to withholding tax on interest, royalties and dividend for the jointly taxed companies.

16. Related parties with controlling interest

Dynatest International A/S' related parties having a significant influence comprise group enterprises and associates, as well as the companies' Board of Directors, Executive Boards and executive officers and their relatives. Relative parties include also companies in which the above mentioned group of persons has material interests.

The annual report discloses transactions with related parties that are not implemented on market terms.

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.

The accounting policies applied for this consolidated financial statements and parent financial statements are consistent with those applied last year.

Management's material judgements and estimates

When preparing the Group's and Company's annual report, it is necessary that Management makes a number of accounting judgments and estimates which form the basis for presentation, recognition and measurement of the Group's and the Company's assets and liabilities. In particular, such accounting judgments and estimates made by Management relate to:

- The sufficiency of the Group's financing to continue activities; The Management commentary and note 1 of the consolidated financial statements states how the Group's future activities are expected to be financed. The planned activities for 2018 expects to generate a positive EBITDA. Based on this, combined with expected funding possibilities from the Group's banking partners, Management find that the Group have sufficient financing resources to continue its activities. The Group's business, by nature, include sales and activities from which the timing of actual cash flow can be difficult to predict detailed. The planned activities - including continued strengthening of topline and EBITDA during the financial year 2018 compared to the financial year 2017 - is based on assumptions which Management consider to be reasonable and realistic, but which by nature include a level of uncertainty. If the assumptions is not realized as expected, the financing resources and thereby the sufficiency of liquidity for financing the Group's activities can be affected negatively, and/or the timing of investments being made, may be incurred
- The recognition and measurement of development costs as the value of development projects depend on such projects to be financed, finalized and commercialized as expected, c.f. note 6, and
- The measuring of the stage of completion and the value of contract work in progress. Stage of completion is calculated based on the a milestone structure which is estimated to reflect the actual stage of completion. The completion of the projects may proceed differently than expected.

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.

Accounting policies

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.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting rights and exercises significant, but not controlling influence are regarded as associates.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements. Minority interests' pro rata shares of the profit/loss and the net assets are disclosed as separate items in the income statement and the balance sheet, respectively.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the takeover date, with net assets having been calculated at fair value.

Business combinations

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Divested or wound-up enterprises are recognised in the consolidated income statement up to the time of their divestment or winding-up.

The purchase method is applied at the acquisition of new enterprises, under which identifiable assets and liabilities of these enterprises are measured at fair value at the acquisition date. On acquisition of enterprises, provisions are made for costs relating to decided and published restructurings in the acquired enterprise. Allowance is made for the tax effect of restatements.

Positive differences in amount (goodwill) between cost of the acquired share and fair value of the assets and liabilities taken over are recognised under intangible assets, and they are amortised systematically over the income statement based on an individual assessment of their useful life, however, no more than 20 years. Negative differences in amount (negative goodwill), corresponding to an estimated adverse development in the relevant enterprises, are recognised in the balance sheet under deferred income, and they are recognised in the income statement when such adverse development is realised.

Accounting policies

Profits or losses from divestment of equity investments

Profits or losses from divestment or winding-up of subsidiaries are calculated as the difference between selling price or settlement price and the carrying amount of the net assets at the time of divestment or winding-up, inclusive of non-amortised goodwill and estimated divestment or winding-up expenses

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 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.

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

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

Other operating expenses

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

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

Accounting policies

Administrative costs

Administrative expenses comprise 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 associates

Income from investments in associates comprises the pro rata share of the individual associates' profit/loss after elimination of internal profits or losses.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, payables and transactions in foreign currencies 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

Intellectual property rights etc

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.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The amortisation period is usually 3 years. Development projects are written down to the lower of recoverable amount and carrying amount.

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.

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 self-manufactured assets, cost comprises direct costs of materials, components, subsuppliers and labour costs.

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:

Buildings	31 - 39 years
Plant and machinery	3 - 10 years
Other fixtures and fittings, tools and equipment	3 - 10 years
Leasehold improvements	10 years

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 plus or minus unamortised positive, or negative, goodwill and minus or plus unrealised intra-group profits or losses.

Group enterprises with negative equity are measured at DKK 0, and any receivables from these enterprises are written down by the Parent's share of such negative equity value if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

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.

Investments in associates

Investments in associates are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the associates' equity value plus or minus unamortised positive, or negative, goodwill and minus or plus unrealised pro rata internal profits and losses.

Associates with negative equity are measured at DKK 0, and any receivables from these associates are written down by the share of such negative equity if it is deemed irrecoverable. If the negative equity value exceeds the amount receivable, the remaining amount is recognised under provisions if there is a legal or constructive obligation to cover the liabilities of the relevant associate.

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

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

Accounting policies

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 and direct labour costs.

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

Assets held for sale

Assets held for sale comprise land and buildings and are measured at carrying amount at the time the asset is put up for sale. The carrying amount is calculated as cost less accumulated depreciation and impairment losses. Land is not depreciated.

Land and buildings are written down to the lower of recoverable amount and carrying amount.

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

Receivables

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

Contract work in progress

Contract work in progress regarding individualized products 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 (working hours).

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.

Income tax payable or receivable

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.

Accounting policies

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

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.

Other provisions

Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructurings, 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.

If goods are sold on approval, a provision is made for the mark-up on the goods estimated to be returned as well as any expenses related to the returns.

Non-recourse guarantee commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

On acquisition of enterprises and investments in group enterprises, provisions are made for costs relating to restructurings in the acquired enterprise that were decided and published at the takeover date at the latest.

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.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Accounting policies

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

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.

Prepayments received from customers

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

Deferred income

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

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.