Thrane & Thrane A/S

Lundtoftegårdsvej 93 D

DK-2800 Kongens Lyngby

Central Business Registration No.: 65 72 46 18

Annual Report for 2016

The most important thing we build is trust

Thrane & Thrane A/S trading as Cobham SATCOM

www.cobham.com/satcom

The Annual Report was presented and adopted at the Annual General Meeting on 23 May 2017.

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Jens Jakob Skaadstrup Andersen, Chairman

Contents

Management's Statement

The Supervisory Board and the Executive Board have today considered and approved the Annual Report for Thrane & Thrane A/S for the financial year 1 January - 31 December 2016.

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

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of its' operations for the financial year 1 January – 31 December 2016.

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 to be adopted at the Annual General Meeting.

Kongens Lyngby, 23 May 2017

Executive Management

Casper Jensen, Managing Director

Morten Schøtt Knudsen, Director

Supervisory Board

Michael Georges Marcel Emelianoff, Chairman

Simon Peter Campbell Morgan, Deputy Chairman

Stephen Charles Beeching

Christian Schreiner Mørup-Petersen

Kristjan Sonne Nørgaard

Independent Auditors' Report

To the Shareholders of Thrane & Thrane A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Thrane & Thrane A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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.

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.

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.

Independent Auditors' Report

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.

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.

Independent Auditors' Report

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

Copenhagen, 23 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Erik Stener Jørgensen	René Otto Poulsen
State Authorised Pubilc Accountant	State Authorised Pubilc Accountant

Company Information

The Company	Thrane & Thrane A/S Lundtoftegårdsvej 93 D DK-2800 Kongens Lyngby www.cobham.com/satcom Telephone: +45 3955 8800 Facsimile: +45 3955 8888 Central Business Registration No: 65 72 46 18 Financial period: 1 January - 31 December Municipality of reg. office: Lyngby-Taarbæk
Supervisory Board	Michel Georges Marcel Emelianfoff, Chariman Simon Peter Campbell Morgan, Deputy Chairman Stephen Charles Beeching Christian Schreiner Mørup-Petersen Kristjan Sonne Nørgaard
Executive Board	Casper Jensen, Managing Director Morten Schøtt Knudsen, Director
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	2016 MDKK	2015 MDKK	2014 MDKK	2013 MDKK	2012* MDKK
Key figures					
Income Statement					
Revenue	1,343	1,308	1,183	953	674
Gross profit	196	281	284	140	50
Operating profit/(loss)	(94)	80	54	(57)	(104)
Net finance income/(expense)	(41)	(45)	(42)	(20)	116
Net profit/(loss) for the year	(112)	22	10	(66)	36
Balance Sheet					
Total assets	1,375	1,360	1,107	1,116	1,367
Equity	295	406	487	767	1,009
Investment in property, plant and equipment	18	16	27	15	13
Average number of employees	541	561	534	532	598
Ratios (in %)					
Gross margin	14.6	21.5	24.0	14.7	7.4
Profit margin	(7.0)	6.1	4.6	(6.0)	(15.4)
Return on assets	(6.8)	5.9	4.9	(5.1)	(7.6)
Return on equity	(32.0)	4.9	1.6	(7.4)	3.8

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. Definitions are disclosed in the note for accounting policies.

*Figures cover period 1 May – 31 December 2012.

Management's Review

The Financial Statements of Thrane & Thrane A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Main activity

The Company's primary activities are development, manufacturing and marketing of professional radio and satellite communication equipment.

Development in the year

The Company's income statement for the financial year 1 January – 31 December 2016 shows a loss of TDKK 112,187 and at 31 December 2016 the Company's balance sheet shows an equity of TDKK 295,311.

Capital resources

Based on the budget for 2017, the Company is expected to have adequate capital resources.

Strategy and objectives

Targets and expectations for the year ahead

The Company expects to be profitable in 2017.

Basis of earnings

Research and development

Costs for research and development are incurred on a continuing basis. During the year the Company has acquired an extensive knowledge and expertise. The Company's aim is to maintain its expertise and to use its competences in relation to the development of new products.

Statutory statement of corporate social responsibility

A high level of corporate social responsibility has always been an integral part of Thrane & Thrane's mission, corporate structure, strategy and daily operations, in relation to the Company's markets and customers as well as within the Company's organisation. The Management believes that the corporate responsibility is a prerequisite for value creation and long-term performance, and that the Company's values are in line with the principles of the UN Global Compact.

Follow-up on and organisation of the Company's ongoing social responsibility efforts are an integral part of the daily management tasks. Overall responsibility for these efforts is thus anchored with the Company's management and the heads of the individual units. The Company's efforts are coordinated and supported by a cross-organizational steering committee.

Statutory statement of underrepresented gender in accordance with section 99b of the Danish Financial Statements Act / Diversity

While Thrane & Thrane A/S considers diversity as a strength in itself, when recruiting employees, the Company prioritises professional and personal competences in order to employ right candidates for the positions.

It is Thrane & Thrane A/S's objective that the Supervisory Board and the Executive Board represent different educational backgrounds, as well as both genders. Once a year, the Supervisory Board will - as part of the organisational review -

assess Thrane & Thrane A/S's specific targets for diversity at the organisation's management levels and follow up on these targets.

The company is cognisant of the need for diversity when considering the composition of the Supervisory Board. In recruiting for board roles, targets are generally set around ensuring a proportion of female and ethnically diverse applicants are included in the candidate pool for non-executive director positions. The representation of women on the Executive Board and the Supervisory Board is currently 0%.

The Company has a goal to have at least one women at the Supervisory Board elected at the Annual General Meeting in 2021 in order to reflect the proportion of women workforce at the Company, which currently is 20%.

Uncertainty relating to recognition and measurement

The Company operates an active risk management policy, which includes identification of key risks and development of action plans to mitigate those risks.

Furthermore, the preparation of the financial statements requires management to make certain judgements regarding the existence and probability of realisation of certain risks and opportunities inherent in the operation of the business. Management has exercised its professional judgement in the preparation of the financial statements in order to present a true and fair view of the financial position of the Company as at 31 December 2016.

Unusual events

The financial position at 31 December 2016 of the Company and the results of its activities for the financial year for 2016 have not been affected by any unusual events.

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	2016	2015
		TDKK	TDKK
Revenue	1	1,342,926	1,308,107
Cost of sales	2	(1,147,230)	(1,027,324)
Gross profit		**195,696**	**280,783**
Distribution expenses	2	(121,246)	(97,800)
Administrative expenses	2	(168,548)	(103,313)
Operating profit/(loss)		**(94,098)**	**79,670**
Income from investments in subsidiaries	3	(10,350)	(18,318)
Income from investments in associates		1,076	(265)
Finance income	4	50,820	74,226
Finance costs	5	(82,395)	(100,389)
Profit/(loss) before tax		**(134,947)**	**34,924**
Income tax	6	22,760	(12,885)
Net profit/(loss) for the year		**(112,187)**	**22,039**

Balance Sheet at 31 December

	Note	2016	2015
		TDKK	TDKK
Assets			
Development projects		-	-
Software		11,954	11,840
Goodwill, customer files and IP rights		392,921	440,037
Intangible assets	7	**404,875**	**451,877**
Plant and machinery		32,291	30,235
Other fixtures and fittings, tools and equipment		2,419	3,662
Leasehold improvements		7,826	10,170
Property, plant and equipment in progress		6,217	2,150
Property, plant and equipment	8	**48,753**	**46,217**
Investments in subsidiaries	9	230,443	240,497
Investments in associates		3,185	2,109
Fixed asset investments		**233,628**	**242,606**
Non-current assets		**687,256**	**740,700**
Inventories	10	**186,283**	**253,959**
Trade receivables		189,925	238,383
Contract work in progress	11	11,434	3,821
Receivables from group enterprises		73,874	50,927
Other receivables		8,629	8,181
Deferred tax asset		49,079	13,084
Corporation tax		17,102	17,618
Prepayments	12	8,845	16,115
Receivables		**358,888**	**348,129**
Cash at bank and in hand		**142,893**	**17,276**
Current assets		**688,064**	**619,364**
Total assets		**1,375,320**	**1,360,064**

Balance Sheet at 31 December

	Note	2016	2015
		TDKK	TDKK
Equity and liabilities			
Share capital	13	118,885	118,885
Retained earnings		176,426	287,346
Equity		**295,311**	**406,231**
Provision for deferred tax		44,501	36,150
Other provisions	14	67,206	24,425
Provisions		**111,707**	**60,575**
Prepayments received from customers		43,449	44,206
Trade payables		168,950	122,661
Payables to group enterprises		633,429	629,396
Other payables		118,664	96,331
Deferred income		3,810	664
Current liabilities		**968,302**	**893,258**
Total liabilities other than provisions		**968,302**	**893,258**
Total equity and liabilities		**1,375,320**	**1,360,064**

Distribution of profit / (loss) for the year	15
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Statement of Changes in Equity 1 January – 31 December

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January 2016	118,885	287,346	406,231
Exchange rate adjustments relating to foreign entities	-	323	323
Fair value adjustments for hedging instruments	-	1,312	1,312
Tax on fair value adjustments for hedging instruments	-	(368)	(368)
Net profit/(loss) for the year	-	(112,187)	(112,187)
Equity at 31 December 2016	**118,885**	**176,426**	**295,311**

Notes to the Financial Statements

		2016	2015
		TDKK	TDKK
1	**Revenue**		
	Geographical segments		
	Denmark	49,920	55,138
	Exports	1,293,006	1,252,969
		1,342,926	**1,308,107**
	Business segments		
	Terminals	1,222,902	1,190,653
	Systems	120,024	117,454
		1,342,926	**1,308,107**
2	**Staff costs**		
	Wages and salaries	337,350	311,109
	Pensions	11,256	8,858
	Other social security expenses	6,079	5,830
	Other staff expenses	19,699	15,598
		374,384	**341,395**
	In the Income Statement staff costs are recognised as follows:		
	Cost of sales	225,954	230,574
	Distributions expenses	74,900	58,361
	Administrative expenses	73,530	52,460
		374,384	**341,395**
	Staff costs include management remuneration as follows:		
	Executive Board	8,584	7,277
	Supervisory Board	100	125
		8,684	**7,402**
	Average number of employees	**541**	**561**

Notes to the Financial Statements

		2016	2015
		TDKK	TDKK
3	**Income from investments in subsidiaries**		
	Share of profit in subsidiaries	10,299	5,263
	Amortisation of goodwill	(23,506)	(23,506)
	Change in intercompany profit on inventories within the Group	2,857	(75)
		(10,350)	**(18,318)**

		2016	2015
4	**Finance income**		
	Interest income from Group entities	-	95
	Other finance income	3,885	3,562
	Foreign exchange rate gains	46,935	70,569
		50,820	**74,226**

		2016	2015
5	**Finance costs**		
	Interest costs to Group entities	16,777	5,605
	Other finance costs	3,002	2,488
	Foreign exchange rate losses	62,615	92,296
		82,395	**100,389**

		2016	2015
6	**Income tax**		
	Tax on current year taxable income	-	2,819
	Change in deferred tax for the year	(27,378)	1,946
	Previous year adjustment	4,618	8,120
	Income tax expense/(income)	**(22,760)**	**12,885**

Notes to the Financial Statements

7 Intangible assets

	Development projects	Software	Goodwill, customer files and IP rights
	TDKK	TDKK	TDKK
Cost at 1 January 2016	445,731	46,887	543,021
Additions in the year	-	5,859	-
Disposals in the year	-	(5,365)	-
Cost at 31 December 2016	**445,731**	**47,381**	**543,021**
Accumulated amortisation and impairment at 1 January 2016	445,731	35,047	102,984
Amortisation charge for the year	-	5,745	47,116
Reversed amortisation on disposals	-	(5,365)	-
Accumulated amortisation and impairment at 31 December 2016	**445,731**	**35,427**	**150,100**
Carrying amount at 31 December 2016	**-**	**11,954**	**392,921**

Notes to the Financial Statements

8 Property, plant and equipment

	Plant and machinery	Other fixture, fittings, tools and equipment	Leasehold improvements	Plant, property and equipment in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January 2016	115,785	26,503	14,339	2,150
Additions in the year	11,840	324	650	5,625
Transfers in the year	1,552	6	-	(1,558)
Disposals in the year	(1,910)	(873)	-	-
Cost at 31 December 2016	**127,267**	**25,960**	**14,989**	**6,217**
Accumulated depreciation and impairment at 1 January 2016	85,550	22,840	4,168	-
Depreciation charge for the year	11,336	1,574	2,995	-
Reversed depreciation on disposals	(1,910)	(873)	-	-
Accumulated depreciation and impairment at 31 December 2016	**94,976**	**23,541**	**7,163**	**-**
Carrying amount at 31 December 2016	**32,291**	**2,419**	**7,826**	**6,217**

Notes to the Financial Statements

	2016	2015
	TDKK	TDKK
9 Investments in subsidiaries		
Cost at 1 January	836,056	836,056
Cost at 31 December	**836,056**	**836,056**
Accumulated value adjustments at 1 January	(595,559)	(544,673)
Exchange rate adjustment	318	(284)
Net profit/(loss) for the year inclusive amortisation of goodwill	(10,291)	(18,284)
Dividend	(81)	(32,318)
Accumulated value adjustments at 31 December	**(605,613)**	**(595,559)**
Carrying amount at 31 December	**230,443**	**240,497**
Hereof remaining positive difference at 31 December	**205,675**	**229,181**

Details of investments in subsidiaries are as follows:

Name	Registered office	Share capital	Vote and ownership	Equity	Net profit
Thrane & Thrane Aalborg A/S *)	Aalborg, Denmark	-	100%	TDKK 46,648	TDKK 4,606
Thrane & Thrane Norge AS	Billingstad, Norway	TNOK 2,360	100%	TNOK 13,639	TNOK 3,737

*) At 31 December 2016, Thrane & Thrane Aalborg A/S is under voluntary liquidation. The share capital of this subsidiary has been transferred to liquidation account under equity.

Notes to the Financial Statements

	2016	2015
	TDKK	TDKK
10 Inventories		
Raw materials and consumables	56,410	69,382
Work in progress	63,461	77,818
Finished goods and goods for resale	66,412	106,759
	186,283	**253,959**
11 Contract work in progress		
Selling price of work in progress	103,970	34,368
Payments received on account	(92,536)	(30,547)
Contract work in progress, receivable	**11,434**	**3,821**

12 Prepayments

Prepayments comprise prepaid rent expenses, insurance premiums, subscriptions, etc.

13 Share capital

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
At 1 January	118,885	118,885	118,885	118,885	113,625
Increase	-	-	-	-	5,260
Decrease	-	-	-	-	-
At 31 December	**118,885**	**118,885**	**118,885**	**118,885**	**118,885**

14 Other provisions

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace products that are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of TDKK 8,256 (2015: TDKK 10,097) have been recognised for warranty claims. Furthermore, other provisions comprise expected warranty repairs of TDKK 42,935 (2015: TDKK 14,328) as well as other provisions of TDKK 16,015 (2015: DKK 0).

Notes to the Financial Statements

		2016	2015
		TDKK	TDKK
15	**Distribution of profit/(loss)**		
	Retained earnings	(112,187)	22,039
		(112,187)	**22,039**

		2016	2015
16	**Fee to the auditors appointed at Annual General Meeting**		
	Audit fee	650	640
	Other assurance engagements	15	8
	Tax advisory services	67	196
	Other services	82	95
		814	**939**

		2016	2015
17	**Unrecognised rental and lease commitments**		
	Rental and lease commitments mature as follows:		
	Within 1 year	23,878	19,183
	Between 1 and 5 years	96,836	76,883
		120,714	**96,066**

18 Contingent liabilities

Warranty provision amount to TDKK 783 at 31 December 2016.

The Company has purchase commitments with suppliers as a part of normal operations.

The Danish group of companies are jointly and severally liable for tax on the Group's jointly tax income.

19 Related parties with controlling interest

Controlling interest	**Basis**
Lockman Electronic Holdings Ltd Brook Road, Wimborne Dorset, UK	Majority shareholder

Notes to the Financial Statements

19 Related parties with controlling interest (continued)

Transactions

Related party transaction comprise transactions with the Executive Board and the Supervisory Board, as well as with other companies within the Thrane & Thrane Group and Cobham Group.

Transactions with related parties comprise ordinary business transactions and miscellaneous administration services.

Transactions with the related parties are based on the OECD's arm's length principle.

Ownership

The following shareholders are recorded in the Company's shareholder register as holding at least 5% of the voting rights and/or holding at least 5% of the share capital:

Lockman Electronic Holdings Ltd
Brook Road, Wimborne Dorset,
UK

20 Group relations

The Company's financial statements are included in the consolidated financial statements of Cobham plc, Brook Road, Wimborne Dorset, UK. The Group Annual Report for Cobham plc can be obtained from the following website: www.cobham.com

21 Accounting policies

Basis of preparation

The Annual Report of Thrane & Thrane A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Cobham plc, the Company has not prepared consolidated financial statements.

Notes to the Financial Statements

21 Accounting policies (continued)

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 Cobham plc, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenue is recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to generate earnings for the year are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the assets will flow to the Company and the value of the assets 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.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

DKK is used as the measurement currency. All other currencies are regarded as foreign currencies.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments based on the interest rate implicit in the lease or an approximated value as the discount rate. Assets acquired under finance leases are depreciated and impaired under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under liabilities and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

DKK is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Foreign exchange gains and/or losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in finance income and/or costs in the income statement. Where foreign exchange transactions are considered as hedging of future cash flows, the value adjustments are recognised directly in equity.

21 Accounting policies (continued)

Receivables, payables and other monetary items in foreign currencies that are unsettled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any foreign exchange gains and/or losses arising on the translation of the receivables, payables and other monetary items at the exchange rates at the balance sheet date are recognised in finance income and/or cost in the income statement.

Fixed assets and other non-monetary items acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently re-measured at their fair values. Positive and negative fair values of derivative financial instruments are classified as 'Other receivables' and 'Other payables' respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify for hedge accounting.

Segment reporting

Segment information is presented in respect of business segments and geographical segments based on the Company's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments. In compliance with the Danish Executive Order on exemptions from the Danish Financial Statements Act reporting on geographical segments comprises revenue only.

The items included in profit before finance income and costs are allocated to the extent that they are directly or indirectly attributable to the segments. Items allocated as either directly or indirectly attributable comprise 'Cost of sales', 'Distribution expenses', 'Administrative expenses', 'Expenses for raw materials and consumables', 'Other external expenses', 'Staff expenses' and 'Depreciation, amortisation and impairment'. Some of these items are not attributable directly or indirectly to a segment and are therefore not allocated. The items allocated as indirectly attributable to the segments are allocated by means of sharing keys determined on the basis of segment drain on key resources.

Segment fixed assets comprise all fixed assets used directly for segment operations, including intangible assets, property, plant and equipment and investments in associates.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser. the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Notes to the Financial Statements

21 Accounting policies (continued)

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract and the stage of completion at the balance sheet date can be measured reliably and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the contract.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables. direct labour costs and indirect production costs such as maintenance and depreciation, as well as operation and administration.

Cost of sales also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs. Finally, provisions for losses on contract work are recognised.

Distribution expenses

Distribution expenses comprise costs of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for management, administrative staff, office expenses, depreciation, amortisation, etc.

Income from investments in subsidiaries and associates

Items 'Income from investments in subsidiaries' and 'Income from investments in associates' in the income statement include the proportionate share of the profit for the year.

Finance income and costs

Finance income and costs are recognised in the income statements at the amounts relating to the financial year.

Income tax

Income tax 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 Company is jointly taxed with wholly owned Danish subsidiaries and a Danish related company controlled by the same ultimate Parent Company. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

21 Accounting policies (continued)

Balance Sheet

Intangible assets

Goodwill and customer files acquired is measured at cost less accumulated amortisation. The assets are amortised on a straight-line basis over their useful lives determined at 20 years for goodwill and 10-20 years for customer files.

Development projects that are clearly defined and identifiable, where there is a functional prototype and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if cost can be measured reliably and sufficient certainty exists that the future earnings can cover cost of sales, distribution and administrative expenses involved as well as investments in development.

Borrowing costs from both specific and general borrowing directly or indirectly related to projects with a long-term manufacturing period are attributed to the cost of development projects over the development period.

Contributions received to cover product development costs are offset against development costs incurred on the individual project. Contributions in excess of project development costs incurred are recognised in prepayments.

Software is measured at cost less accumulated amortisation. Software is amortised on a straight-line basis over the expected useful life determined at 3-5 years.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition until the time when the asset is ready for use. In the case of assets of own construction, the cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

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

Land and buildings	20 – 30 years
Plant and machinery	3 – 7 years
Other fixtures and fittings. tools and equipment	3 – 7 years
Leasehold improvements	3 – 13 years

Depreciation period and residual values are reassessed annually. Assets costing less than DKK 12,900 are expensed in the income statement.

Notes to the Financial Statements

21 Accounting policies (continued)

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on annual basis to determine whether there is any indication of impairment other than charged amortisation and depreciation. If so, the asset is written down to its lower of its carrying amount or recoverable amount.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method.

The items 'Investments in subsidiaries' and 'Investments in associates' in the balance sheet include the proportionate ownership share of the net asset value of the enterprises, based on the fair values of identifiable net assets at the time of acquisition with deduction and/or addition of any unrealised intercompany profits or losses, and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

The total net revaluation of investments in subsidiaries and associates is transferred upon distribution of profit to 'Reserve for net revaluation under the equity method' under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries and associates.

Subsidiaries and associates with negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

21 Accounting policies (continued)

Contract work in progress

Contract work in progress is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Equity

Dividend

Dividend distribution proposed by the Management for the year is disclosed as a separate equity item.

Treasury shares

Purchase and sales prices for treasury shares are recognised directly in equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares and increases retained earnings. Dividend on treasury shares is recognised directly in equity under retained earnings.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work. Provisions with an expected maturity exceeding 1 year from the balance sheet date are discounted at the average bond yield.

Deferred tax assets and liabilities

Deferred tax is measured using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Notes to the Financial Statements

21 Accounting policies (continued)

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivable and liability

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial liabilities

Financial liabilities are measured at amortised cost, substantially corresponding to nominal value.

Financial highlights

Financial ratios are based on following formulae:

Gross margin: $\frac{\text{Gross profit x 100}}{\text{Revenue}}$

Profit margin: $\frac{\text{Operating profit x 100}}{\text{Revenue}}$

Return on assets: $\frac{\text{Operating profit x 100}}{\text{Total assets}}$

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