

ITW GSE ApS

Smedebakken 31-33
5270 Odense N
CVR No. 74218814

Annual report 2020

The Annual General Meeting adopted the
annual report on 10.03.2021

Birgit Andersen

Chairman of the annual General Meeting

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Entity details

Entity

ITW GSE ApS
Smedebakken 31-33
5270 Odense N

CVR No.: 74218814
Registered office: Odense
Financial year: 01.01.2020 - 31.12.2020

Board of Directors

Birgit Andersen, Chairman
Manoela Pereira Fry
Henrik Olsson
Lars Storm
Rasmus Bøgh Jørgensen

Executive Board

Henrik Olsson, Chief Executive Officer

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of ITW GSE ApS for the financial year 01.01.2020 - 31.12.2020

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 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020.

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.


Odense, 10.03.2021

Executive Board



Henrik Olsson
Chief Executive Officer

Board of Directors



Birgit Andersen
Chairman



Manoela Pereira Fry



Henrik Olsson



Lars Storm



Rasmus Bøgh Jørgensen

Independent auditor's report

To the shareholder of ITW GSE ApS

Opinion

We have audited the financial statements of ITW GSE ApS for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2020 and of the results of its operations for the financial year 01.01.2020 - 31.12.2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Aarhus, 10.03.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556



Henrik Vedel

State Authorised Public Accountant
Identification No (MNE) mne10052

Management commentary

Financial highlights

	2020 DKK'000	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000
Key figures					
Revenue	304,598	480,657	434,139	414,689	368,761
Gross profit/loss	92,160	150,412	133,393	126,356	113,548
Operating profit/loss	41,965	90,592	75,652	77,798	63,914
Net financials	(1,141)	(305)	(74)	(2,340)	(3,472)
Profit/loss for the year	32,330	69,823	58,794	58,637	46,311
Total assets	171,915	188,543	205,772	216,996	354,104
Investments in property, plant and equipment	75	140	246	1,001	2,841
Equity	138,793	151,463	171,640	162,846	314,212
Ratios					
Gross margin (%)	30.26	31.29	30.73	30.47	30.79
EBIT margin (%)	13.78	18.85	17.43	18.76	17.33
Return on equity (%)	22.28	43.22	35.15	24.58	15.91
Equity ratio (%)	80.73	80.33	83.41	75.05	88.73

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin (%):

$\frac{\text{Gross profit/loss} * 100}{\text{Revenue}}$

Revenue

EBIT margin (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Revenue}}$

Revenue

Return on equity (%):

$\frac{\text{Profit/loss for the year} * 100}{\text{Average equity}}$

Average equity

Equity ratio (%):

$\frac{\text{Equity} * 100}{\text{Total assets}}$

Total assets

Primary activities

The Company's primary activities consisted of production and sale of electro-mechanical products to Denmark and as well as other countries.

Development in activities and finances

Management considers profit/loss for the year satisfactory in view of the special circumstances.

This year's financial performance is negatively affected by the effects of the Corona pandemic, which has resulted in a significant slowdown in the airline industry, which is the Company's primary segment. 2020 ended up with 60% fewer passengers and generally lower activity in the aviation industry, resulting in reluctance in making new investments and less need for maintenance of existing installations.

Outlook

Management expects to see a positive development in the sale of the Company's core products GPU, eGPU and PCA, which is supported by a good order book.

2021 is expected to be a year with 25% fewer passengers than in 2019 – i.e. a significant improvement on 2020. This is supported by the ongoing roll-out of vaccines and the resulting gradual reopening of society.

On this background, the management expects an improvement in profit of approx.. DKK 20-30 million. DKK.

Particular risks

Business Risks

As the Company's products are primarily sold to the airline industry, the development naturally depends on the general development within this industry.

Financial exposure

There are no significant financial risks, despite sales on credit terms to customers.

Intellectual capital resources

ITW GSE's vision is to be regarded, on all markets, as a reliable and professional supplier of optimised GPU and PCA equipment with a unique design, which ensures 100% customer satisfaction in all applications.

ITW GSE's vision is to be regarded on our domestic market, the European market, as a market leader within supply of Ground Support Equipment (GSE).

ITW GSE will supply the most environmentally friendly, most reliable and most costefficient GSE systems available to the aviation industry.

To live up to the above visions, it is necessary to retain employees with high educational skills within effect electronics and to strengthen the Company's marketing resources.

Foreign branches

The Company has a branch office in Dubai and a Sales Office in Singapore.

Statutory report on corporate social responsibility

ITW GSE wants to do business in a responsible and sustainable way. The CSR policy is based on the areas that the Danish Financial Statements Act prescribes in relation to the Company's statutory report on corporate social responsibility. The CSR policy sets a common standard and guideline for employees in their daily work within the most relevant business areas: Social Responsibility, Business Ethics, Work Environment and Human Rights.

ITW GSE is part of the Illinois Tool Work Inc.
The policy can be read in full length at www.itw-csr.com.

Corporate social responsibility

ITW GSE's primary activities is as described on page 3, production and sale of electro-mechanical products to Denmark and as well as other countries.

The business model is comprised of three elements, 80/20 business processes, customer-focused innovation as well as a decentralized entrepreneurial culture. The three tools help us keep focus on our core processes. When using these three elements on our CSR, our 80/20 allows us to focus on areas where we have the most impact. It is our clear objective to develop products that solve our customers' problems with focus on sustainable and environmentally friendly solutions.

Our decentralized entrepreneurial culture is driven with the purpose of maximizing the positive influence on humans and environment and the local community of which we are a part.

Social conditions and employee relations

ITW GSE strives to comply with laws and regulations concerning employee safety and health and often surpass the rules to ensure 'Living well at ITW'. 'Living well' means a life with a work-life balance.

A more physically active day

ITW GSE offers their employees the opportunity to go exercising for 30 minutes during working hours and thus meets the Danish Health Authority's recommendations.

ITW GSE would like to take good care of its employees. Therefore, we have bicycle helmets for all company bikes. The bicycle helmets are placed on a bicycle shelf for all ITW GSE's company bikes, so they are ready when employees need a bike.

Moreover, ITW GSE lends sea kayaks and the necessary equipment to its employees.

It is our assessment that also in 2021, we will continue to maintain a high level in this area.

Talent development and diversity

It is ITW GSE's objective to attract and retain talents and to ensure that the labor force, as a rule, reflects society in terms of gender, race and religion. We have observed, however, that the educations and competencies required by our products and industry are educations that primarily appeal to men. Therefore, the number of men versus women at ITW GSE differs significantly from the societal distribution. ITW GSE has focus on diversity, and whenever new employees are hired, we consider whether we can improve the present gender composition as we believe that an equal gender distribution will have a positive impact on our work environment.

Top management

ITW GSE has set a target of a minimum of 30% female board members, excluding the board members elected by the employees. Today, the Board of Directors consists of 1 man and 2 women, and the share of women is thus 67%, and the target has been met.

Other management positions

The Company's present management consists of 8 men and 1 woman, and female representation thus amounts to 11%. It is the Company's target over time that women should account for at least 30% of management positions.

In 2020, we have focused on supporting gender equality and diversity in the labor market through the Company's employee composition.

For future recruitments, we will ensure that among the last candidates, both women and men are represented. We will ensure equal treatment of all employees without the distinction of gender, age, ethnicity, religion, disability and sexual orientation.

Risk

ITW GSE assesses that the primary risks related to social responsibility are that the employees act in violation of the Company's values and policies in the area. This is prevented for example through communication of the Group's values in internal communication and training activities for employees.

Anti-corruption and bribery

ITW GSE strives to demonstrate ethical behavior and always appear fair and honest when doing business and always within the framework of the law, in whichever country business is performed. This is set out in ITW's Principles of Conduct which includes the group policies. The ITW Group organizes a learning session for their employees on morality and ethics every year, and also in 2020. On this background, executives as well as employees of ITW GSE have a strong basis for meeting the Group's ethical guidelines.

We have not found any violations regarding anti-corruption and bribery in 2020.

Also in this area is ITW GSE continually updating its guidelines to match the development, and ITW GSE will therefore always meet the latest international provisions in this area.

Supply chain

ITW GSE ApS' quality system is certified according to the ISO 9001:2015 standard. ITW examines its supply chain and enters into agreements with suppliers who ensure that their employees have a good and safe work environment.

Furthermore, ITW GSE meets the Dodd-Frank Act.

Risk

ITW GSE assesses the primary risks related to any use of suppliers that do not comply with national and internationally recognized standards and legislation. ITW has prepared a formal Principles of Conduct, which contains the Group's policy in this area.

Environment and sustainability

ITW GSE is working in the daily production as well as through product development to improve our products with a view to improving environmental and climate sustainability.

Each day, the aviation industry is met with increasing requirements to become cleaner and greener. True to our culture, ITW GSE naturally takes on the responsibility by developing and supplying cleaner, more reliable and more cost-efficient systems which meet our customers' needs. Therefore, we have developed the ITW GSE 7400, a battery-driven power supply (GPU), which has resulted in a very low emission of harmful pollutants, but also considerable environmental savings compared to conventional diesel-driven power supplies.

The production of ITW GSE 7400 has been successfully launched. The ITW GSE 7400 GPU is definitely a step towards a cleaner and greener future.

ITW GSE 7400 reduces CO₂, NO_x, has zero noise, and decreases electrical infrastructure reliance. Replacing just one diesel GPU with one battery driven GPU would correspond to emission savings of approx. 190,000 lbs. of CO₂, which again corresponds to 80 households or 50 cars or 100 acres of forest.

In the coming years, ITW GSE's product development will also focus on the development of products aimed at reducing fossil fuels and a general reduction of the environmental impact.

At the same time, from 2019 to 2020, ITW GSE saw a 22% decrease in electricity, heat and water consumption.

Risk

ITW GSE believes that the primary risks related to the environment and climate relate to the Company's energy consumption and use of materials. ITW GSE focuses on energy optimization initiatives and choice of materials and follows up on focus area. At the same time, the Company's vision is to supply the most environmentally friendly, reliable and cost-efficient GSE systems available to the aviation industry.

Socially responsible investments

ITW GSE recognizes the UN Global Compact and the UN's six principles of responsible investment. The purpose of ITW GSE's investments is to ensure the highest possible return in the long term, taking into account the risk and a number of environmental, social and management issues.

Human rights

ITW GSE ApS recognizes the United Nation's (UN) convention on human rights and the abolition of child labor.

Risk

ITW GSE does not believe that the Company has significant risks in relation to human rights violations. At present, the Company has no separate written policy in the area, but respect for human rights is an integrated part of the policies as described above, including ethics and supply chain. The Company operates in Denmark and follows the Danish law in this area. No infringements have been detected in this area.

Events after the balance sheet date

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

Income statement for 2020

	Notes	2020 DKK	2019 DKK
Revenue	2	304,598,479	480,656,802
Other operating income	3	814,648	0
Cost of sales		(164,216,608)	(240,820,817)
Other external expenses	4	(49,036,290)	(89,423,705)
Gross profit/loss		92,160,229	150,412,280
Staff costs	5	(49,384,112)	(58,782,972)
Depreciation, amortisation and impairment losses	6	(810,886)	(1,036,971)
Operating profit/loss		41,965,231	90,592,337
Other financial expenses		(1,141,060)	(304,704)
Profit/loss before tax		40,824,171	90,287,633
Tax on profit/loss for the year	7	(8,494,611)	(20,464,507)
Profit/loss for the year	8	32,329,560	69,823,126

Balance sheet at 31.12.2020

Assets

	Notes	2020 DKK	2019 DKK
Land and buildings		2,194,456	2,455,640
Other fixtures and fittings, tools and equipment		332,622	802,669
Property, plant and equipment	9	2,527,078	3,258,309
Deferred tax	11	1,979,293	1,488,268
Financial assets	10	1,979,293	1,488,268
Fixed assets		4,506,371	4,746,577
Raw materials and consumables		14,520,437	13,957,170
Work in progress		579,631	325,084
Manufactured goods and goods for resale		24,723,353	26,440,206
Inventories		39,823,421	40,722,460
Trade receivables		83,575,977	88,397,160
Receivables from group enterprises	12	39,877,172	47,653,885
Other receivables		2,483,726	2,754,281
Tax receivable		0	1,517,621
Prepayments	13	1,648,658	2,750,554
Receivables		127,585,533	143,073,501
Current assets		167,408,954	183,795,961
Assets		171,915,325	188,542,538

Equity and liabilities

	Notes	2020 DKK	2019 DKK
Contributed capital	14	8,000,000	8,000,000
Retained earnings		95,792,746	98,463,186
Proposed dividend		35,000,000	45,000,000
Equity		138,792,746	151,463,186
Other provisions	15	949,322	1,901,382
Provisions		949,322	1,901,382
Prepayments received from customers		0	2,297,939
Trade payables		16,381,285	17,015,988
Payables to group enterprises		219,430	2,985,104
Tax payable		1,985,636	0
Other payables		12,861,701	11,943,367
Deferred income	16	725,205	935,572
Current liabilities other than provisions		32,173,257	35,177,970
Liabilities other than provisions		32,173,257	35,177,970
Equity and liabilities		171,915,325	188,542,538
Events after the balance sheet date	1		
Unrecognised rental and lease commitments	17		
Contingent liabilities	18		
Assets charged and collateral	19		
Related parties with controlling interest	20		
Non-arm's length related party transactions	21		
Group relations	22		

Statement of changes in equity for 2020

	Contributed capital DKK	Retained earnings DKK	Proposed dividend DKK	Total DKK
Equity beginning of year	8,000,000	98,463,186	45,000,000	151,463,186
Ordinary dividend paid	0	0	(45,000,000)	(45,000,000)
Profit/loss for the year	0	(2,670,440)	35,000,000	32,329,560
Equity end of year	8,000,000	95,792,746	35,000,000	138,792,746

Notes

1 Events after the balance sheet date

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

2 Revenue

	2020 DKK	2019 DKK
Europe	103,742,459	144,439,857
Middle East and Africa	68,501,518	58,351,115
Asia	82,974,529	126,549,968
North and South America	49,379,973	151,315,862
Total revenue by geographical market	304,598,479	480,656,802
Line-powered	247,326,690	402,220,912
Engine-driven	16,152,064	36,676,955
Spare parts	41,119,725	41,758,935
Total revenue by activity	304,598,479	480,656,802

3 Other operating income

Other operating income consists of compensation for fixed costs.

4 Fees to the auditor appointed by the Annual General Meeting

	2020 DKK	2019 DKK
Statutory audit services	166,000	164,000
	166,000	164,000

5 Staff costs

	2020 DKK	2019 DKK
Wages and salaries	45,306,427	52,803,069
Pension costs	3,478,541	5,287,190
Other social security costs	599,144	692,713
	49,384,112	58,782,972
Average number of full-time employees	75	83

Special incentive programmes

The company's Executive Board participates in ITW's central incentive programme.

In pursuance of section 98B (3) of the Danish Financial Statements Act, remuneration to the Board Of Directors

and Executive Board is not divided.

This note includes expenses for temps and temporary assistane, but is not reflected in the number of employees.

6 Depreciation, amortisation and impairment losses

	2020 DKK	2019 DKK
Depreciation of property, plant and equipment	817,739	1,135,157
Profit/loss from sale of intangible assets and property, plant and equipment	(6,853)	(98,186)
	810,886	1,036,971

7 Tax on profit/loss for the year

	2020 DKK	2019 DKK
Current tax	8,985,636	20,265,360
Change in deferred tax	(491,025)	199,147
	8,494,611	20,464,507

8 Proposed distribution of profit and loss

	2020 DKK	2019 DKK
Ordinary dividend for the financial year	35,000,000	45,000,000
Retained earnings	(2,670,440)	24,823,126
	32,329,560	69,823,126

9 Property, plant and equipment

	Land and buildings DKK	Other fixtures and fittings, tools and equipment DKK
Cost beginning of year	15,026,953	7,171,192
Additions	74,554	0
Disposals	0	(1,984,625)
Cost end of year	15,101,507	5,186,567
Revaluations beginning of year	504,631	0
Revaluations end of year	504,631	0
Depreciation and impairment losses beginning of year	(13,075,944)	(6,368,523)
Reversal of impairment losses	0	1,958,306
Depreciation for the year	(335,737)	(443,727)
Depreciation and impairment losses end of year	(13,411,681)	(4,853,944)
Carrying amount end of year	2,194,457	332,623

10 Financial assets

	Deferred tax DKK
Cost beginning of year	1,488,268
Additions	491,025
Cost end of year	1,979,293
Carrying amount end of year	1,979,293

11 Deferred tax

	2020 DKK	2019 DKK
Financial assets	1,979,293	1,289,121
Deferred tax	1,979,293	1,289,121

	2020 DKK
Changes during the year	
Beginning of year	1,488,268
Recognised in the income statement	491,025
End of year	1,979,293

The deferred tax asset related to temporary differences between the carrying amount and tax-based value of fixed assets and inventories.

12 Receivables from group enterprises

The Company participates together with other Danish Group enterprises in a cash pool arrangement in which another company is liable as a sole contracting party towards the bank. Receivables and payables in relation to the cash pool arrangement are recognised as intercompany receivables and payables, respectively. At 31 December 2019, the item receivables from group enterprises includes an amount of DKK 39m.

13 Prepayments

Prepayments consist of prepaid rent, insurance, and other cost.

14 Share capital

The share capital consists of 5.000 shares at DKK 1,000 and 50 shares at DKK 60.000. The shares have not been divided into classes.

15 Other provisions

Other provision primarily comprise provision for claims.

16 Deferred income

Deferred income consists of accrued revenue.

17 Unrecognised rental and lease commitments

	2020	2019
	DKK	DKK
Liabilities under rental or lease agreements until maturity in total	1,029,643	1,128,357

18 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where ITW Denmark ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities.

19 Assets charged and collateral

The company has provided guarantees of DKK 31,734,199 m for tender work, work in progress and work performed.

20 Related parties with controlling interest

The following related parties have a controlling interest in ITW GSE ApS

ITW Denmark ApS, Silkeborg, Denmark, Principal shareholder.

Illinois Tool Works Inc., Chicago, USA, Ultimate Parent

21 Non-arm's length related party transactions

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

22 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Illinois Tool Works Inc., Chicago, USA

The foreign consolidated accounts can be obtained by contacting Illinois Tools Works Inc.

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 (large).

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

Recognition and measurement

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

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

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

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

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

Foreign currency translation

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

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 is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Other operating income

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

Cost of sales

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment of changes in inventories of these goods from the beginning to the end of the year. This item may include wastage and ordinary write-downs of the relevant inventories.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment comprise depreciation, amortisation and impairment losses for the financial year, and gains and losses from the sale of plant and equipment.

Other financial expenses

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

Tax on profit/loss for the year

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

The Company is jointly taxed with all Danish group companies. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with refund concerning tax losses).

Balance sheet**Property, plant and equipment**

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-constructed assets, cost comprises direct and indirect 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	33 years
Other fixtures and fittings, tools and equipment	5-10 years
Cars	5-10 years
Computer equipment	1-3 years

Estimated useful lives and residual values are reassessed annually.

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

Deferred tax

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

Inventories

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

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

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

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

Receivables

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

Tax payable or receivable

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

Prepayments

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

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly in equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

Other provisions

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

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

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

Cash flow statement

In pursuance of section 86 of the Danish Financial Statements Act, the preparation of cash flow statement is excluded, as it contained in the cash flow statement for the ultimate parent company Illinois Tool Works Inc., Illinois, USA.