

# Reno A/S

Nymarksvej 2, 7323 Give

Company reg. no. 75 16 45 13

## Annual report

1 October - 31 December 2019

The annual report was submitted and approved by the general meeting on the



Kenneth Lagerborg  
Chairman of the meeting

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Notes:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points have not been used in the usual English way. This means that for instance DKK 146.940 means the amount of DKK 146,940, and that 23,5 % means 23.5 %.

## Statement by management of the annual report

The board of directors and the managing director have today considered and approved the annual report of Reno A/S for the financial year 1 October to 31 December 2019.

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

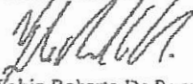
In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.10.2019-31.12.2019.

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.

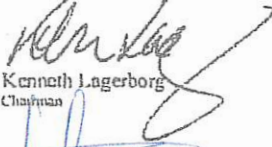
Egaa, 1 April 2020

Executive Board



Fabio Roberto Do Rego


Board of directors



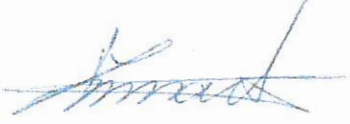
Kenneth Lagerborg  
Chairman



Joeri Ooms



Mats Thomas Dahlgren



Peter Hugo M. Kinnart

## **Independent auditor's report**

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**To the shareholders of Reno A/S**

### **Opinion**

We have audited the financial statements of Reno A/S for the financial year 01.10.2019-31.12.2019, 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 31.12.2019 and of the results of its operations for the financial year 01.10.2019-31.12.2019 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.

### **The management's responsibilities for the annual accounts**

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 annual accounts**

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

## **Independent auditor's report**

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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 statement, whether due to fraud or error, design and perform audit procedures in response 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 the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the 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 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 the internal control that we identify during our audit.

### **Statement on the management's review**

The management is responsible for the management's review.

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

## Independent auditor's report

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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.

DK-8000 Aarhus C, 1 April 2020

### **Deloitte Statsautoriseret Revisionspartnerselskab**

Deloitte, State Authorized Public Accountants

Company reg. no. 33 96 35 56



Michael Bach  
State Authorized Public Accountant  
mne19691



Torben Rohde Pedersen  
State Authorized Public Accountant  
mne33801

## Company data

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<b>The company</b>	Reno A/S Nymarksvej 2 7323 Give
	Company reg. no. 75 16 45 13 Financial year: 1 October - 31 December
<b>Board of directors</b>	Kenneth Lagerborg, Chairman Mats Thomas Dahlgren Peter Hugo M. Kinnart Joeri Ooms
<b>Managing Director</b>	Fabio Roberto Do Rego
<b>Auditors</b>	Deloitte, State Authorized Public Accountants
<b>Parent company</b>	Atlas Copco Airpower

## Financial highlights

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DKK in thousands.	1/10/19 - 31/12/19	2018/19	2017/18	2016/17	2015/16
<b>Profit and loss account:</b>					
Gross profit	7.890	26.829	33.941	35.977	35.376
Results from operating activities	702	-867	10.000	11.013	9.943
Net financials	-74	-373	-326	-356	-425
Results for the year	475	-967	7.578	8.304	7.412
<b>Balance sheet:</b>					
Balance sheet sum	45.020	40.188	49.370	51.058	52.411
Equity	20.833	20.358	21.324	22.746	21.442
<b>Employees:</b>					
Average number of full time employees	60	61	59	58	57
<b>Key figures in %:</b>					
Solvency ratio	46,3	50,7	43,2	44,5	40,9
Return on equity	2,3	-4,6	34,4	37,6	34,9

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2018" issued by the Danish Society of Financial Analysts.

**Solvency ratio** 
$$\frac{\text{Equity} \times 100}{\text{Total assets}}$$

Calculations formula reffects: The financial strength of the entity.

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

Calculations formula reffects The entity's return on capital invested in the entity by the owners.



## Management's review

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### Primary activities

Reno A/S through its 3 divisions, provides professional and industrial compressors, gas and air treatment equipment, air management systems and high-pressure cleaners to a wide range of customers in Scandinavia. The company has also a strong regional service network with its own service technicians and dealers to support its products throughout the region.

The Professional Division develops and manufactures high-pressure cleaners, piston compressors and markets them together with small oil injected screw compressors and air treatment equipment to many customers and dealers, especially the professional and craftsman segments, under the Reno brand.

The Industrial Division offers oil-injected and oil-free air compressors, on-site nitrogen and oxygen generators, air treatment solutions, compressor controls and monitoring under the brands of Alup, Chicago Pneumatic, Pneumatech and Mark to a wide range of industrial customers.

The Service Division provides a complete range of aftermarket services with the aim of maximizing customers' productivity. The division focuses on spare parts supply, professional service, air monitoring, connectivity solutions and piping solutions for compressed air, vacuum, high pressure water and other inert gas applications.

The Company has 4 locations in Denmark and is divided as follows:

- Thyregod – is the production and distribution site, hosting purchasing, engineering, manufacturing, service, logistic and sales departments.
- Egaa – is the main office and hosts general management, finance, human resources, service and sales departments.
- Nørresundby and Viby Zealand - are service centers, dedicated to local customers.

### Development in activities and financial matters

The income statement for 01.10.2019-31.12.2019 shows a profit DKK 475 thousand against a loss of DKK 967 thousand last year, and balance sheet at 31 December 2019 shows equity of DKK 20.833 thousand. The management considers the results of the year satisfactory.

The income statement for 01.10.2019-31.12.2019 is a three-month restructuring year.

The 3 divisions are in leading positions in their respective markets and as they are very diverse, this contributes to a stable foundation of the company.

## **Management's review**

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### **Particular risks**

#### *Operating risks*

In terms of products, customers and geography the Company is well diversified in particular compared to the rest of the industry, which historically has contributed to stable revenue as well as earning.

Considering its leading role in the industry and the diversification above, the Company is not independent of individual customers and specific industries.

However, the Company is dependent on production and central stock in Thyregod as the professional business model demands deliveries from day to day. This risk is limited in the service division due to its long-term contracts, 4 storage locations, 15 mobile (service vans) and the possibility to reach an emergency stock within a relatively short period of time.

The Company uses XAL and an ERP system, which is no longer supported by the supplier and it is exposed to a higher risk until this has been replaced.

All in all, the Company is assessed as representing a low risk compared to the rest of the industry.

#### *Currency risks*

The Company is primarily exposed to cash flows in Danish kroner and Euro and a small amount of invoicing is in Norwegian or Swedish kroner. The Company has chosen not to use hedging for its currency exposures.

### **Environmental performance**

The Company is environmentally responsible and is making efforts to reduce the environmental impact of the business operations.

Over the years, the Company have continuously widened the range of energy efficient products, heat recovery and energy optimization, etc., which has a positive effect on our customer's environmental impact.

### **Knowledge resources**

The Company operates on a market where specialized knowledge is necessary in order to meet customer's demands. The employees are therefore important in order to meet the Company's long-term targets, and it is crucial to employ, train and maintain the best employees in the industry.

In 2019, the average number of employees was 60 fulltime employees.

### **Outlook**

Next year, the Company looks forward to further expand its market position, although the general market growth in Scandinavia is expected to remain relatively limited.

Based on measures taken compared with the general market development, a modest growth is expected in the 3 divisions. Management expects a profit for the coming years somewhat better than in 2019.

## **Management's review**

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### **Events after the balance sheet date**

The Company follows the development of the Covid-19 and evaluates the extent to which this may affect the company's operations in the short and long term. At present, it is not possible to make an assessment of the extent to which this could possibly affect the business.

## Profit and loss account

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All amounts in DKK.

<u>Note</u>	1/10 2019 - 31/12 2019	1/10 2018 - 30/9 2019
<b>Gross profit</b>	<b>7.890.400</b>	<b>26.829.266</b>
Distribution costs	-3.299.151	-13.712.323
Administration costs	-3.889.615	-13.983.600
<b>Operating profit</b>	<b>701.634</b>	<b>-866.657</b>
Other financial income	7.107	3.590
2 Other financial costs	-81.418	-376.355
Financing, net	-74.311	-372.765
<b>Results before tax</b>	<b>627.323</b>	<b>-1.239.422</b>
3 Tax on ordinary results	-152.353	272.673
<b>4 Results for the year</b>	<b>474.970</b>	<b>-966.749</b>

## Balance sheet

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All amounts in DKK.

<u>Note</u>	<u>31/12 2019</u>	<u>30/9 2019</u>
<b>Assets</b>		
<b>Fixed assets</b>		
5 Plant and machinery	574.406	591.449
6 Other fixtures and fittings, tools and equipment	127.416	158.199
Tangible fixed assets in total	<u>701.822</u>	<u>749.648</u>
7 Other securities and investments	0	0
8 Other receivables	194.000	321.455
Financial fixed assets in total	<u>194.000</u>	<u>321.455</u>
<b>Fixed assets in total</b>	<b><u>895.822</u></b>	<b><u>1.071.103</u></b>
<b>Current assets</b>		
Raw materials and consumables	7.981.366	7.310.062
Work in progress	1.806.033	1.678.047
Manufactured goods and goods for resale	11.479.862	12.860.681
Inventories in total	<u>21.267.261</u>	<u>21.848.790</u>
Trade receivables	19.154.633	15.319.696
9 Deferred tax assets	156.339	60.142
Other receivables	301.436	415.487
10 Prepayments	357.369	240.944
Receivables	<u>19.969.777</u>	<u>16.036.269</u>
Cash	2.886.760	1.231.732
<b>Current assets in total</b>	<b><u>44.123.798</u></b>	<b><u>39.116.791</u></b>
<b>Assets in total</b>	<b><u>45.019.620</u></b>	<b><u>40.187.894</u></b>

## Balance sheet

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All amounts in DKK.

<b>Equity and liabilities</b>		
Note	31/12 2019	30/9 2019
<b>Equity</b>		
Contributed capital	2.100.000	2.100.000
Retained earnings	16.732.705	18.257.735
Proposed dividend for the financial year	2.000.000	0
<b>Equity in total</b>	<b>20.832.705</b>	<b>20.357.735</b>
<b>Liabilities</b>		
11 Payables to group enterprises	5.002.778	0
12 Other debts	948.590	225.259
Long-term liabilities in total	5.951.368	225.259
Bank loans	3.661.170	8.559
Trade payables	5.839.917	7.445.995
Payables to group enterprises	2.563.530	5.003.889
Corporate tax	1.596.482	1.807.827
Other payables	4.574.448	5.338.630
Short-term liabilities in total	18.235.547	19.604.900
<b>Liabilities in total</b>	<b>24.186.915</b>	<b>19.830.159</b>
<b>Equity and liabilities in total</b>	<b>45.019.620</b>	<b>40.187.894</b>

**1 Staff matters**

**13 Contingencies**

**14 Related parties**

## Statement of changes in equity

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All amounts in DKK.

	<u>Contributed capital</u>	<u>Results brought forward</u>	<u>Proposed dividend for the financial year</u>	<u>In total</u>
Equity 1 October 2019	2.100.000	18.257.735	0	20.357.735
Profit or loss for the year retained earnings	<u>0</u>	<u>-1.525.030</u>	<u>2.000.000</u>	<u>474.970</u>
	<b><u>2.100.000</u></b>	<b><u>16.732.705</u></b>	<b><u>2.000.000</u></b>	<b><u>20.832.705</u></b>

## Cash flow statement

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All amounts in DKK.

	1/10 2019 - 31/12 2019	1/10 2018 - 30/9 2019
Results for the year	474.970	-966.749
15 Adjustments	304.480	527.823
16 Change in working capital	-5.626.042	5.524.174
Cash flow from operating activities before net financials	-4.846.592	5.085.248
Interest received and similar amounts	7.107	3.590
Interest paid and similar amounts	-81.418	-376.355
Cash flow from ordinary activities	-4.920.903	4.712.483
Corporate tax paid	-459.895	-1.233.067
<b>Cash flow from operating activities</b>	<b>-5.380.798</b>	<b>3.479.416</b>
Purchase of tangible fixed assets	-33.550	-278.079
Sale of tangible fixed assets	3.560	0
Purchase of financial fixed assets	0	-94.994
Sale of financial fixed assets	127.455	0
Other cash flows from (spent in) investment activities	0	5.977
<b>Cash flow from investment activities</b>	<b>97.465</b>	<b>-367.096</b>
Raising of long-term debts	723.331	225.259
Repayments of loan, group enterprises	0	-3.044.621
Raising of loan, group enterprises	2.562.419	0
<b>Cash flow from financing activities</b>	<b>3.285.750</b>	<b>-2.819.362</b>
<b>Changes in available funds</b>	<b>-1.997.583</b>	<b>292.958</b>
Available funds 1 October 2019	1.223.173	930.215
<b>Available funds 31 December 2019</b>	<b>-774.410</b>	<b>1.223.173</b>
<b>Available funds</b>		
Cash	2.886.760	1.231.732
Short-term bank loans	-3.661.170	-8.559
<b>Available funds 31 December 2019</b>	<b>-774.410</b>	<b>1.223.173</b>



## Notes

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All amounts in DKK.

	1/10 2019 - 31/12 2019	1/10 2018 - 30/9 2019
<b>1. Staff matters</b>		
Salaries and wages	7.805.384	32.536.972
Pension costs	1.213.055	4.046.584
Other costs for social security	129.276	336.000
Other staff costs	324.895	889.073
	<u>9.472.610</u>	<u>37.808.629</u>
Average number of employees	<u>60</u>	<u>61</u>
<p>With reference to section 98b of the Danish Financial Statements Act. 3, no. 2, no information has been given about remuneration to the management.</p>		
<b>2. Other financial costs</b>		
Financial costs, group enterprises	49.167	254.388
Other financial costs	32.251	121.967
	<u>81.418</u>	<u>376.355</u>
<b>3. Tax on ordinary results</b>		
Tax of the results for the year, parent company	248.550	-396.598
Adjustment for the year of deferred tax	-96.197	123.925
	<u>152.353</u>	<u>-272.673</u>
<b>4. Proposed distribution of the results</b>		
Dividend for the financial year	2.000.000	0
Allocated from results brought forward	-1.525.030	-966.749
<b>Distribution in total</b>	<u>474.970</u>	<u>-966.749</u>

## Notes

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All amounts in DKK.

	<u>31/12 2019</u>	<u>30/9 2019</u>
<b>5. Plant and machinery</b>		
Cost 1 October 2019	11.524.961	11.335.223
Additions during the year	<u>33.550</u>	<u>189.738</u>
<b>Cost 31 December 2019</b>	<b><u>11.558.511</u></b>	<b><u>11.524.961</u></b>
Depreciation and writedown 1 October 2019	-10.933.512	-10.703.179
Depreciation for the year	<u>-50.593</u>	<u>-230.333</u>
<b>Depreciation and writedown 31 December 2019</b>	<b><u>-10.984.105</u></b>	<b><u>-10.933.512</u></b>
<b>Book value 31 December 2019</b>	<b><u>574.406</u></b>	<b><u>591.449</u></b>
<b>6. Other fixtures and fittings, tools and equipment</b>		
Cost 1 October 2019	3.816.292	3.727.951
Additions during the year	0	88.341
Disposals during the year	<u>-102.528</u>	<u>0</u>
<b>Cost 31 December 2019</b>	<b><u>3.713.764</u></b>	<b><u>3.816.292</u></b>
Amortisation and writedown 1 October 2019	-3.658.093	-3.460.695
Depreciation for the year	<u>-27.223</u>	<u>-197.398</u>
Depreciation, amortisation and writedown for the year, assets disposed of	<u>98.968</u>	<u>0</u>
<b>Amortisation and writedown 31 December 2019</b>	<b><u>-3.586.348</u></b>	<b><u>-3.658.093</u></b>
<b>Book value 31 December 2019</b>	<b><u>127.416</u></b>	<b><u>158.199</u></b>
<b>7. Other securities and investments</b>		
Cost 1 October 2019	0	6.222
Disposals during the year	<u>0</u>	<u>-6.222</u>
<b>Cost 31 December 2019</b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Book value 31 December 2019</b>	<b><u>0</u></b>	<b><u>0</u></b>

## Notes

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All amounts in DKK.

	<u>31/12 2019</u>	<u>30/9 2019</u>
<b>8. Other receivables</b>		
Cost 1 October 2019	321.455	226.461
Additions during the year	<u>-127.455</u>	<u>94.994</u>
<b>Cost 31 December 2019</b>	<b><u>194.000</u></b>	<b><u>321.455</u></b>
 <b>Book value 31 December 2019</b>	 <b><u>194.000</u></b>	 <b><u>321.455</u></b>
 <b>9. Deferred tax assets</b>		
Deferred tax assets 1 October 2019	60.142	184.067
Deferred tax of the results for the year	<u>96.197</u>	<u>-123.925</u>
	<b><u>156.339</u></b>	<b><u>60.142</u></b>
 <b>10. Prepayments</b>		
Prepayments consist of deferred expenses.		
 <b>11. Payables to group enterprises</b>		
Share of amount due after 1 year	<u>5.002.778</u>	<u>0</u>
	<b><u>5.002.778</u></b>	<b><u>0</u></b>
 Share of liabilities due after 5 years	<u>0</u>	<u>0</u>
 <b>12. Other debts</b>		
Holiday pay obligation, salaried staff	<u>948.590</u>	<u>225.259</u>
	<b><u>948.590</u></b>	<b><u>225.259</u></b>

Of the total other debt, DKK 949 thousand falls due within 5 years.

## Notes

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All amounts in DKK.

### 13. Contingencies

#### Contingent liabilities

	31/12 2019 DKK in thousands
Leasing liabilities	<u>4.891</u>
<b>Contingent liabilities in total</b>	<b><u>4.891</u></b>

Rent and lease liabilities include a rent obligation in interminable rent agreements with remaining contracts term of 0-5 years. Furthermore, the Company has liabilities under operating leases for cars and IT equipment. Of total liabilities DKK 3.257 thousands fall due within one years.

The Entity participates in a Danish joint taxation arrangement where Atlas Copco Kompressorteknik A/S 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. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

### 14. Related parties

#### Controlling interest

Atlas Copco Airpower, Antwerpen, Belgium	Majority shareholder
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#### Transactions

Transactions with related parties are only disclosed in the annual report if they are not on arm's length terms. No such transactions have been conducted in the financial year.

#### Consolidated annual accounts

Atlas Copco AB, Stockholm, Sweden prepares group consolidated financial statements.

## Notes

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All amounts in DKK.

	1/10 2019 - 31/12 2019	1/10 2018 - 30/9 2019
<b>15. Adjustments</b>		
Depreciation and amortisation	77.816	427.731
Other financial income	-7.107	-3.590
Other financial costs	81.418	376.355
Tax on ordinary results	248.550	-396.598
Deferred tax	-96.197	123.925
	<u>304.480</u>	<u>527.823</u>
<b>16. Change in working capital</b>		
Change in inventories	581.529	6.560.952
Change in debtors	-3.837.311	2.738.075
Change in trade creditors and other liabilities	-2.370.260	-3.774.853
	<u>-5.626.042</u>	<u>5.524.174</u>

## **Accounting policies used**

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The annual report for Reno A/S is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class C enterprises (medium sized enterprises).

The accounting period has been restated in the current financial year and covers the period 01.10.19-31.12.19. The comparative figures in the income statement include the period 01.10.18-30.09.19.

The accounting policies applied to these financial statements are consistent with those applied last year, however with a few reclassifications.

### **Reporting currency**

The financial statements are presented in Danish kroner (DKK'000).

### **Translation of foreign currency**

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.

## **The profit and loss account**

### **Gross profit**

The gross profit comprises the net turnover, production costs and other operating income.

The net turnover is recognised in the profit and loss account if delivery and risk transfer to the buyer have taken place before the end of the year, and if the income can be determined reliably and is expected to be received. The net turnover is recognised exclusive of VAT and taxes and with the deduction of any discounts granted in connection with the sale.

The production costs comprise costs, including salaries, wages and depreciation, which are incurred in order to achieve the net turnover of the year. Trade enterprises recognise cost of sales, and manufacturing enterprises recognise production costs corresponding to the turnover of the year. These costs include direct and indirect costs for raw materials and consumables, salaries and wages, rent and leasing, and depreciation on the production plant.

Furthermore, the production costs comprise research costs, development costs which do not meet the criteria for capitalisation, and amortisation of capitalised development costs.

Additionally, writedown in connection with expected losses on contracts are recognised.

## **Accounting policies used**

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Costs concerning investment property comprise operation costs, repair and maintenance costs, taxes, charges and other costs. Costs concerning the heating account are recognised in the balance sheet as a balance among the lessees.

### **Distribution costs**

The distribution costs comprise costs which have been incurred for distribution of goods sold during the year and for sales campaigns carried out during the year. Additionally, costs for sales staff, costs for advertising and exhibitions, and depreciation are recognised in the profit and loss account.

### **Administration costs**

Administration costs comprise costs which have been incurred during the year for management and administration, including costs for the administrative staff, the executive board, offices, stationery and office supplies, and depreciation.

Costs of sales includes costs for the purchase of raw materials and consumables less discounts and changes in inventories.

### **Net financials**

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

Interest and other costs concerning loans for financing the production of intangible and tangible fixed assets and concerning the production period are not recognised in the cost of the fixed asset.

### **Tax of the results for the year**

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

## **The balance sheet**

### **Tangible fixed assets**

Other tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

The basis of depreciation is cost with deduction of any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the book value, the amortisation discontinues.

If the amortisation period or the residual value is changed, the effect on amortisation will in the future be recognised as a change in the accounting estimates.

## Accounting policies used

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The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use.

The cost of a total asset is divided into separate components. These components are depreciated separately, the useful lives of each individual components differing.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life and the residual value of the individual assets:

	<i>Useful life</i>	<i>Residual value</i>
<i>Technical plants and machinery</i>	<i>5-12 years</i>	<i>0-20 %</i>
<i>Other plants, operating assets, fixtures and furniture</i>	<i>3-5 years</i>	<i>0-20 %</i>

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or losses are recognised in the profit and loss account as other operating income or other operating expenses.

As regards assets of own production, the cost comprises direct costs for materials, components, deliveries from sub-suppliers, payroll costs, and borrowing costs form specific and general borrowing concerning the construction of each individual asset.

### Leases

Leases are regarded as operating leases. Payments in connection with operating leases and other rental agreements are recognised in the profit and loss account over the term of the contract. The company's total liabilities concerning operating leases and rental agreements are recognised under contingencies etc.

### Writedown of fixed assets

The book values of both intangible and tangible fixed assets as well as equity investments in subsidiaries and associated enterprises are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets respectively. Writedown takes place to the recoverable amount, if this value is lower than the book value.

The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net cash flow deriving from the use of the asset or the group of assets.



## **Accounting policies used**

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Previously recognised writedown is reversed when the condition for the writedown no longer exist. Writedown relating to goodwill is not reversed.

### **Financial fixed assets**

#### **Other securities and investments**

Securities and equity investments recognised under fixed assets comprise listed bonds and shares which are measured at fair value on the balance sheet date. Listed securities are measured at market price.

Other unlisted securities are measured at cost. Writedown takes place to the recoverable amount, if this value is lower than the book value.

#### **Deposits**

Deposits are measured at amortised cost and represent rent deposits, etc.

#### **Inventories**

Inventories are measured at cost on basis of the FIFO method. In case the net realisable value of the inventories is lower than the cost, writedown takes place to this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

The cost for manufactured goods and works in progress comprises the cost for raw materials, consumables, direct wages, and indirect production costs. Indirect production costs comprise indirect materials and wages, maintenance of and depreciation on machinery, factory buildings and equipment applied during the production process, and costs for factory administration and factory management. Borrowing costs are not recognised in cost.

The net realisable value for inventories is recognised as the market price with deduction of completion costs and selling costs. The net realisable value is determined taking into consideration the negotiability, obsolescence, and development of the expected market price.

#### **Trade receivables**

Trade receivables are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

#### **Accrued income and deferred expenses**

Accrued income and deferred expenses recognised under assets comprise incurred costs concerning the next financial year.

#### **Available funds**

Available funds comprise cash at bank and in hand.

## Accounting policies used

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### Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax assets, including the tax value of tax losses eligible for carry-over, are recognised at the value at which they are expected to be realisable, either by settlement against tax of future earnings or by set-off in deferred tax liabilities within the same legal tax unit.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

### Liabilities

Financial liabilities related to borrowings are recognised at the received proceeds with the deduction of transaction costs incurred. In following periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value by use of the effective interest. The difference between the proceeds and the nominal value is recognised in the profit and loss account during the term of the loan.

Mortgage debt and bank debt are for instance measured at amortised cost. As to cash loans, this corresponds to the outstanding debt of the loan. For bond loans, the amortised cost corresponds to an outstanding debt calculated as the underlying cash value at the date of borrowing adjusted by amortisation of the market value adjustment on the date of the borrowing carried out over the repayment period.

Also capitalised residual leasing liabilities in connection with financial leasing contracts are recognised in the financial liabilities.

Liabilities relating to investment properties are measured at amortised cost.

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

### The cash flow statement

The cash flow statement shows the cash flow of the company for the year, divided in cash flows deriving from operating activities, investment activities, and financing activities, respectively, the changes in the liabilities, and the available funds at the beginning and the end of the year respectively.

## **Accounting policies used**

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The effect of cash flow deriving from purchase and sale of enterprises appears separately under cash flow from investment activities. In the cash flow statement, cash flow deriving from purchased enterprises is recognised as of the date of acquisition, and cash flow deriving from sold enterprises is recognised until the sales date.

### **Cash flow from operating activities**

Cash flow from operating activities are calculated as the results for the year adjusted for non-cash operating items, the change in the working capital, and corporate tax paid.

### **Cash flow from investment activities**

Cash flow from investment activities comprises payments in connection with the acquisition and sale of enterprises and activities as well as the acquisition and sale of intangible and tangible fixed assets and fixed asset investments respectively.

### **Cash flow from financing activities**

Cash flow from financing activities comprises changes in the size or the composition of the share capital and the costs in this connection. Furthermore, these activities comprise borrowings, instalments on interestbearing debt, and payment of dividend to the shareholders.

### **Available funds**

Available funds comprise cash funds with deduction of short-term bank debt and short-term securities with a term of less than 3 months which can easily be converted into cash funds and on which only an insignificant risk of value changes exists.

## **Definitions**

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### **Amortised cost**

Amortised cost is the value at which fixed asset investments or financial liabilities are measured in connection with the first recognition with

1. deduction of instalments,
2. addition or deduction of the total amortisation of the difference between the originally recognised amount and the amount due on the expiration date, and
3. deduction of writedown.

### **Fair value**

The fair value is the amount at which an asset may be traded or a liability may be settled in connection with transactions between unrelated parties.

### **Replacement value**

The replacement value of an asset is the price payable when acquiring a similar asset on the balance sheet date.

### **Recoverable value**

The recoverable value of an asset is either the capital value or the sales value, whichever is the highest, with deduction of the expected selling costs.

### **Value in use**

The value in use of an asset is the present value of the future net payments which the asset is expected to produce by continued use in its present function. The value in use of a liability is the present value of the future net payments to be made during the life of the liability.

### **Cost**

The cost of an asset is the amount paid for the asset, irrespective of the asset being acquired from an external party or manufactured internally. The cost of a liability is the amount received as payment for the liability.

### **Net realisable value**

The net realisable value of an asset is the sum of the future net payments which the asset on the balance sheet date is expected to produce as a feature of usual activities. The net realisable value of a liability is the sum of the future net payments to be made during the life of the liability.

### **Market value**

The market value of an asset is the price at which the asset may be sold on the balance sheet date. The market value of a liability is the price to be paid in order to settle the liability on the balance sheet date.