

Flonidan A/S

Islandsvej 29
8700 Horsens
CVR No. 89919916

Annual report 01.10.2020 - 30.09.2021

The Annual General Meeting adopted the
annual report on 14.01.2022

Lars Kudsk

Chairman of the General Meeting

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Entity details

Entity

Flonidan A/S
Islandsvej 29
8700 Horsens

Business Registration No.: 89919916
Registered office: Horsens
Financial year: 01.10.2020 - 30.09.2021

Board of Directors

Hans Ottosen, formand
Sven Ruder
Lars Kudsk

Executive Board

Karsten Omann, direktør

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 Flonidan A/S for the financial year 01.10.2020 - 30.09.2021.

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 30.09.2021 and of the results of its operations and cash flows for the financial year 01.10.2020 - 30.09.2021.

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.

Horsens, 02.12.2021

Executive Board

Karsten Omann
direktør

Board of Directors

Hans Ottosen
formand

Sven Ruder

Lars Kudsk

Independent auditor's report

To the shareholder of Flonidan A/S

Opinion

We have audited the financial statements of Flonidan A/S for the financial year 01.10.2020 - 30.09.2021, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement 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 30.09.2021 and of the results of its operations and cash flows for the financial year 01.10.2020 - 30.09.2021 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, 02.12.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Henrik Vedel

State Authorised Public Accountant
Identification No (MNE) mne10052

Management commentary

Financial highlights

	2020/21	2019/20	2018/19	2017/18	2016/17
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	323,943	499,298	458,792	394,488	415,738
Gross profit/loss	69,952	99,723	64,226	75,396	70,763
Operating profit/loss	21,960	44,051	8,338	30,475	30,498
Net financials	(730)	406	(947)	(535)	(991)
Profit/loss for the year	15,870	34,677	6,241	24,484	23,927
Total assets	162,851	175,504	182,996	180,393	166,475
Investments in property, plant and equipment	11,286	14,506	15,957	9,932	4,373
Equity	81,583	100,586	70,411	85,138	60,653
Cash flows from (used in) operating activities	36,431	91,856	17,017	26,380	(3,744)
Cash flows from (used in) investing activities	(10,264)	(6,693)	(16,835)	(12,768)	(6,786)
Cash flows from (used in) financing activities	(35,448)	(5,453)	(20,451)	2,745	10
Average number of employees	56	61	62	57	53
Ratios					
Return on equity (%)	17.4	40.5	8.0	49.1	(10.8)
Equity ratio (%)	50.10	57.31	38.48	47.20	36.43

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

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

FLONIDAN is a supplier of smart electronic gas meters. Meters are sold to the gas sector internationally and are used for billing and analysis of gas consumption, primarily in private homes.

The company's head office is located in Horsens (Denmark) and houses R&D, purchasing, sales and administration. Production is outsourced.

Development in activities and finances

At the start of the 2020/21 financial year, the world market for smart gas meters was severely affected by the Covid-19 pandemic. There was a global decline in unit shipments of meters. In Europe, all major meter rollouts were affected negatively; particularly in the UK, where installation was paused completely during the first lockdown. During Q2 2021, markets began to normalise gradually after Covid 19, and installation picked up, only to be met by global component shortages, which are also expected to affect market growth negatively in 2022.

The Covid-19 pandemic also had a significant impact on our sales during the year, primarily due to the slowdown in the installation of gas meters in private homes and inventory stockpiling by our customers. Primarily in the first half-year, this resulted in a declining order intake and a shorter order horizon. During the second half-year we saw a gradual improvement in the market situation.

During 2020/21, the new SciFlo ultrasonic smart gas meter was launched successfully in the markets and deliveries for the UK market were initiated.

Particular risks

The overall market for smart gas meters is considered to be stable in the short term, but with significant geographical variations. The extent and timing of the implementation of smart gas meters is greatly influenced by government policies and regulations in the individual markets.

It is crucial for FLONIDAN to have a flexible business model whereby production can be scaled up and down according to varying demand in the different regions.

The company's currency risks are managed on the basis of a foreign exchange policy adopted by the Board of Directors. Orders denominated in foreign currency (excluding EUR) are hedged by forward foreign exchange contracts.

In the long term, we see growth potential in Europe and also in new markets outside Europe with different market structures and requirements. Through continued investments, FLONIDAN will remain at the forefront of the technological advancements and thereby maintain our competitiveness in both new and existing markets.

Profit/loss for the year in relation to expected developments

Due to the Covid-19 situation, a reduction in net revenue was expected for the financial year. Net revenue of DKK 323.9 million was achieved, which is 35 per cent below the previous year.

FLONIDAN achieved a profit before tax of DKK 20.5 million in 2020/21, compared to DKK 44.4 million for the previous year. Despite the impact of Covid-19, the result is in line with expectations and is considered to be satisfactory.

Outlook

In line with the expected gradual normalisation of the markets following Covid-19, we expect revenue to increase in the coming year, although due to changes in the product and market mix we expect a lower profit. The potential impact of the global component supply chain disruption constitutes an unpredictable factor that could influence both revenue and profit.

FLONIDAN plans to continue to invest in product development and market adaptations in the coming years.

Statutory report on corporate social responsibility

Reference is made to the consolidated and parental financial statements of AVK Holding A/S, Central Business Registration No 44782510, which include a report on AVK Group's corporate social responsibility.

Statutory report on the underrepresented gender

Reference is made to the consolidated and parent-company financial statements of AVK Holding A/S, Danish Central Business Registration no. 44782510, which include a report on the AVK Group's target figures and policies for the underrepresented gender.

Concerning the Board of Directors, FLONIDAN has a target to increase the proportion of the underrepresented gender on the Board of Directors to 20% by 2022. At present, there are no women on the Board of Directors. This target was not achieved in the financial year, as no new Board members were appointed during the year.

Events after the balance sheet date

To this date no events have occurred after the balance sheet date that will influence the evaluation of this annual report.

Income statement for 2020/21

	Notes	2020/21 DKK	2019/20 DKK
Revenue	2	323,942,525	499,298,210
Other operating income	3	2,103,146	0
Cost of sales		(237,182,568)	(379,033,790)
Other external expenses	4	(18,910,615)	(20,541,125)
Gross profit/loss		69,952,488	99,723,295
Staff costs	5	(38,324,488)	(44,578,786)
Depreciation, amortisation and impairment losses	6	(9,667,527)	(11,093,805)
Operating profit/loss		21,960,473	44,050,704
Income from investments in joint ventures		(730,329)	(63,017)
Other financial income	7	162,917	858,102
Other financial expenses	8	(893,325)	(451,831)
Profit/loss before tax		20,499,736	44,393,958
Tax on profit/loss for the year	9	(4,630,064)	(9,717,158)
Profit/loss for the year	10	15,869,672	34,676,800

Balance sheet at 30.09.2021

Assets

	Notes	2020/21 DKK	2019/20 DKK
Completed development projects	12	3,596,428	6,240,342
Intangible assets	11	3,596,428	6,240,342
Land and buildings		15,450,353	13,742,455
Plant and machinery		16,982,878	13,952,349
Other fixtures and fittings, tools and equipment		340,872	543,646
Property, plant and equipment in progress		527,595	801,310
Property, plant and equipment	13	33,301,698	29,039,760
Investments in joint ventures		1,399,254	2,129,582
Deferred tax	15	620,000	0
Financial assets	14	2,019,254	2,129,582
Fixed assets		38,917,380	37,409,684
Manufactured goods and goods for resale		25,993,176	35,320,548
Prepayments for goods		2,327,945	3,035
Inventories		28,321,121	35,323,583
Trade receivables		61,163,597	44,695,390
Receivables from group enterprises		32,803,342	42,041,874
Receivables from associates		0	14,595,511
Other receivables		5,065	10,923
Prepayments	16	873,526	617,678
Receivables		94,845,530	101,961,376
Cash		766,846	809,219
Current assets		123,933,497	138,094,178
Assets		162,850,877	175,503,862

Equity and liabilities

	Notes	2020/21 DKK	2019/20 DKK
Contributed capital		4,000,000	4,000,000
Reserve for fair value adjustments of hedging instruments		127,503	0
Reserve for net revaluation according to the equity method		1,399,253	2,129,582
Reserve for development expenditure		2,805,213	4,631,755
Retained earnings		48,250,725	54,824,182
Proposed dividend		25,000,000	35,000,000
Equity		81,582,694	100,585,519
Deferred tax	15	0	511,195
Other provisions	17	2,872,509	1,620,000
Provisions		2,872,509	2,131,195
Mortgage debt		7,028,828	7,473,007
Other payables	18	242,870	602,414
Non-current liabilities other than provisions	19	7,271,698	8,075,421
Current portion of non-current liabilities other than provisions	19	447,952	451,955
Trade payables		48,721,393	32,102,377
Payables to group enterprises		1,254,039	1,193,150
Payables to associates		1,546,660	0
Joint taxation contribution payable		5,757,496	10,734,660
Other payables	20	13,396,436	17,528,006
Deferred income	21	0	2,701,579
Current liabilities other than provisions		71,123,976	64,711,727
Liabilities other than provisions		78,395,674	72,787,148
Equity and liabilities		162,850,877	175,503,862
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Statement of changes in equity for 2020/21

	Contributed capital DKK	Reserve for fair value adjustments of hedging instruments DKK	Reserve for net revaluation according to the equity method DKK	Reserve for development expenditure DKK	Retained earnings DKK
Equity beginning of year	4,000,000	0	2,129,582	4,631,755	54,824,182
Ordinary dividend paid	0	0	0	0	0
Value adjustments	0	163,468	0	0	0
Tax of entries on equity	0	(35,965)	0	0	0
Transfer to reserves	0	0	0	(1,826,542)	1,826,542
Profit/loss for the year	0	0	(730,329)	0	(8,399,999)
Equity end of year	4,000,000	127,503	1,399,253	2,805,213	48,250,725

	Proposed dividend DKK	Total DKK
Equity beginning of year	35,000,000	100,585,519
Ordinary dividend paid	(35,000,000)	(35,000,000)
Value adjustments	0	163,468
Tax of entries on equity	0	(35,965)
Transfer to reserves	0	0
Profit/loss for the year	25,000,000	15,869,672
Equity end of year	25,000,000	81,582,694

Cash flow statement for 2020/21

	Notes	2020/21 DKK	2019/20 DKK
Operating profit/loss		21,960,473	44,050,704
Amortisation, depreciation and impairment losses		9,667,527	11,093,805
Other provisions		1,252,509	(958,906)
Working capital changes	22	13,493,378	40,129,379
Cash flow from ordinary operating activities		46,373,887	94,314,982
Financial income received		162,916	990,105
Financial expenses paid		911,593	(583,832)
Taxes refunded/(paid)		(11,017,233)	(2,864,777)
Cash flows from operating activities		36,431,163	91,856,478
Acquisition etc of property, plant and equipment		(10,263,886)	(6,693,206)
Cash flows from investing activities		(10,263,886)	(6,693,206)
Free cash flows generated from operations and investments before financing		26,167,277	85,163,272
Repayments of loans etc		(448,182)	(453,393)
Dividend paid		(35,000,000)	(5,000,000)
Cash flows from financing activities		(35,448,182)	(5,453,393)
Increase/decrease in cash and cash equivalents		(9,280,905)	79,709,879
Cash and cash equivalents beginning of year		40,824,843	(38,885,036)
Cash and cash equivalents end of year		31,543,938	40,824,843
Cash and cash equivalents at year-end are composed of:			
Cash		766,846	809,219
Short-term debt to banks/amount on group cash pool		32,777,092	42,015,624
Cash and cash equivalents end of year		33,543,938	42,824,843

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

	2020/21 DKK	2019/20 DKK
Denmark	4,643,190	3,847,325
Other European countries	319,299,335	495,450,885
Total revenue by geographical market	323,942,525	499,298,210
G4 meters	269,586,058	448,725,142
G6 meters	33,287,727	21,552,629
G10 meters	1,758,618	868,248
G16 meters	1,910,223	1,617,973
G25 meters	35,366	363,058
OEM produkter	17,364,533	26,171,160
Total revenue by activity	323,942,525	499,298,210

3 Other operating income

Gross profit includes recognition of 2,103,146 DKK, which is income from an insurance case from previous years.

4 Fees to the auditor appointed by the Annual General Meeting

Fees to the auditor appointed by the Annual General Meeting are not disclosed pursuant to S. 96(3) of the Danish Financial Statements Act.

5 Staff costs

	2020/21 DKK	2019/20 DKK
Wages and salaries	34,455,944	40,537,644
Pension costs	2,748,641	2,570,692
Other social security costs	191,542	208,841
Other staff costs	928,361	1,261,609
	38,324,488	44,578,786
Average number of full-time employees	56	61

	Remuneration of management 2020/21 DKK	Remuneration of management 2019/20 DKK
Total amount for management categories	4,405,250	4,678,665
	4,405,250	4,678,665

Management remuneration is shown collectively for management categories pursuant to S. 98b(3) of the Danish Financial Statements Act.

6 Depreciation, amortisation and impairment losses

	2020/21 DKK	2019/20 DKK
Amortisation of intangible assets	2,643,914	4,079,600
Depreciation of property, plant and equipment	7,023,613	7,014,205
	9,667,527	11,093,805

7 Other financial income

	2020/21 DKK	2019/20 DKK
Financial income from group enterprises	49,248	0
Other interest income	113,669	1,902
Exchange rate adjustments	0	545,267
Other financial income	0	310,933
	162,917	858,102

8 Other financial expenses

	2020/21 DKK	2019/20 DKK
Financial expenses from group enterprises	0	219,373
Other interest expenses	134,348	232,458
Exchange rate adjustments	758,977	0
	893,325	451,831

9 Tax on profit/loss for the year

	2020/21 DKK	2019/20 DKK
Current tax	5,761,259	10,837,173
Change in deferred tax	(1,091,000)	(1,222,527)
Adjustment concerning previous years	(40,195)	102,512
	4,630,064	9,717,158

10 Proposed distribution of profit and loss

	2020/21 DKK	2019/20 DKK
Ordinary dividend for the financial year	25,000,000	35,000,000
Retained earnings	(9,130,328)	(323,200)
	15,869,672	34,676,800

11 Intangible assets

	Completed development projects DKK
Cost beginning of year	24,574,814
Cost end of year	24,574,814
Amortisation and impairment losses beginning of year	(18,334,472)
Amortisation for the year	(2,643,914)
Amortisation and impairment losses end of year	(20,978,386)
Carrying amount end of year	3,596,428

12 Development projects

Development projects comprise internal and external expenses relating to development of products for new and existing markets. The Company's development projects in progress proceed according to the Company's project plan and expectations. The recognised value of completed development projects as well as development projects in progress corresponds to the expected future earnings. No indications of impairment of the carrying amount of development projects are deemed to exist at the balance sheet date.

13 Property, plant and equipment

	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK	Property, plant and equipment in progress DKK
Cost beginning of year	24,693,430	37,195,846	2,384,821	801,310
Transfers	0	2,912,939	0	(2,912,939)
Additions	2,914,636	5,702,667	29,024	2,639,224
Cost end of year	27,608,066	45,811,452	2,413,845	527,595
Depreciation and impairment losses beginning of year	(10,950,975)	(23,243,497)	(1,841,175)	0
Depreciation for the year	(1,206,738)	(5,585,077)	(231,798)	0
Depreciation and impairment losses end of year	(12,157,713)	(28,828,574)	(2,072,973)	0
Carrying amount end of year	15,450,353	16,982,878	340,872	527,595

14 Financial assets

	Investments in joint ventures DKK	Deferred tax DKK
Additions	0	620,000
Cost end of year	0	620,000
Revaluations beginning of year	2,129,582	0
Share of profit/loss for the year	(730,328)	0
Revaluations end of year	1,399,254	0
Carrying amount end of year	1,399,254	620,000

Investments in joint ventures	Registered in	Corporate form	Equity interest %
Floniskra V.O.F	Roosendaal, Netherlands	V.O.F	50%

15 Deferred tax

	2020/21 DKK	2019/20 DKK
Intangible assets	(791,214)	(1,372,875)
Property, plant and equipment	280,752	227,024
Provisions	631,952	356,400
Liabilities other than provisions	498,510	278,256
Deferred tax	620,000	(511,195)

Changes during the year	2020/21 DKK	2019/20 DKK
Beginning of year	(511,195)	(1,631,210)
Recognised in the income statement	1,091,000	1,222,527
Regulations related to previous years	40,195	(102,512)
End of year	620,000	(511,195)

16 Prepayments

Prepayments consist of prepaid expenses.

17 Other provisions

Other provisions consist of expected costs relating to warranty claims.

18 Other payables

	2020/21	2019/20
	DKK	DKK
Derivative financial instruments	242,870	602,414
	242,870	602,414

Other payables consist of the negative fair value of an interest rate swap of DKK 243k. The interest rate swap was made to hedge the Company's floating-rate bond loan against currency fluctuations. The interest rate swap has a principal amount of DKK 7,466k and secures a fixed rate of 0.873% in the remaining term to maturity of 9 months. The bond loan agreement and the interest rate swap have been concluded with the same counterparty.

19 Non-current liabilities other than provisions

	Due within 12	Due within 12	Due after	Outstanding
	months	months	more than 12	after 5 years
	2020/21	2019/20	months	2020/21
	DKK	DKK	2020/21	DKK
Mortgage debt	447,952	451,955	7,028,828	5,247,290
Other payables	0	0	242,870	0
	447,952	451,955	7,271,698	5,247,290

20 Other payables

	2020/21	2019/20
	DKK	DKK
VAT and duties	848,151	442,458
Wages and salaries, personal income taxes, social security costs, etc payable	2,728,907	6,495,698
Holiday pay obligation	5,375,134	4,723,021
Derivative financial instruments	196,076	0
Other costs payable	4,248,168	5,866,829
	13,396,436	17,528,006

Other payables include a negative fair value of forward exchange contracts of DKK 196k. The forward exchange contracts have been concluded to hedge the foreign currency risk on trade receivables and confirmed purchase orders from customers denominated in GBP totalling GBP 4,700k. The forward exchange contracts have a term of 1-5 months. The forward exchange contracts have been entered into with the Company's usual bank.

21 Deferred income

Deferred income consist of prepayments from customers.

22 Changes in working capital

	2020/21 DKK	2019/20 DKK
Increase/decrease in inventories	9,327,370	7,233,562
Increase/decrease in receivables	(5,137,273)	35,089,573
Increase/decrease in trade payables etc	9,303,281	(2,193,756)
	13,493,378	40,129,379

23 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where Anpartsselskabet ASX af 28. August 2014 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, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend 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.

24 Assets charged and collateral

Land and buildings of a carrying amount of 15.450k at the balance sheet date have been put up as security for debt to mortgage credit institutions.

The Company has provided a bank/performance guarantee to customers of 2,205k.

25 Related parties with controlling interest

AVK Holding A/S, Galten wholly owns the shares of the Entity and thus has control over the Entity.

26 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.

27 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
ANPARTSSELSKABET ASX AF 28. AUGUST 2014, Silkeborg

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
AVK Holding A/S, Galten

Accounting policies

Reporting class

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

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.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

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

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

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 and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in joint ventures

Income from investments in joint ventures comprises dividend etc received from the individual joint ventures in the financial year.

Other financial income

Other financial income comprises interest income, including net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on payables and transactions in foreign currencies, amortisation of financial liabilities as well as 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.

Balance sheet

Intellectual property rights etc

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

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred less deferred tax is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

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

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 5-20 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

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	25 years
Plant and machinery	3-5 years
Other fixtures and fittings, tools and equipment	3-5 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.

Investments in joint ventures

Investments in joint ventures are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the joint ventures' equity value.

Joint ventures with negative equity value are measured at DKK 0. Any receivables from these joint ventures are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant joint venture, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in joint ventures is transferred to reserve for net revaluation according to the equity method in equity.

Investments in joint ventures 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. However, no deferred tax is recognised for amortisation of goodwill disallowed for tax purposes and temporary differences arising at the date of acquisition that do not result from a business combination and that do not have any effect on profit or loss or on taxable income.

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.

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

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.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Mortgage debt

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

Other financial liabilities

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

Joint taxation contributions payable or receivable

Current joint taxation contributions receivable or joint taxation contributions payable are recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Deferred income

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

Cash flow statement

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

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

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

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

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