
Bawat A/S

Agern Alle 5A, 1., DK-Hørsholm

Annual Report for 1 January - 31 December 2021

CVR No 34 05 34 99

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
/ 2022

Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Bawat A/S for the financial year 1 January - 31 December 2021.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2021 of the Company and of the results of the Company operations for 2021.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hørsholm, 1 March 2022

Executive Board

Marcus Peter Hummer
CEO

Board of Directors

Klaus Nyborg
Chairman

Charlotte Vad
Deputy Chairman

Peter Valdemar Stokbro

Thomas Synnøstvedt Knudsen

Independent Auditor's Report

To the Shareholders of Bawat A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Bawat A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Hellerup, 1 March 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Steffen Kaj Pedersen

statsautoriseret revisor

mne34357

Company Information

The Company

Bawat A/S
Agern Alle 5A, 1.
DK-Hørsholm

Telephone: + 45 88708803
Website: www.bawat.com

CVR No: 34 05 34 99
Financial period: 1 January - 31 December
Municipality of reg. office: Hørsholm

Board of Directors

Klaus Nyborg, Chairman
Charlotte Vad
Peter Valdemar Stokbro
Thomas Synnestvedt Knudsen

Executive Board

Marcus Peter Hummer

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Key activities

The business scope of the Company comprises research, development and sales of systems for ship ballast water treatment - both onboard ships or in ports, terminals, yards or other relevant locations. Last but not least, the Company has in 2021 added a distinct service leg to its business portfolio where treatment of ballast water is sold as service.

Development in the year

The income statement of the Company for 2021 shows a loss of DKK 23,089,169, and at 31 December 2021 the balance sheet of the Company shows negative equity of DKK 7,575,997.

The management considers the net loss for the year to be as expected.

2021 has continued the organizational developing of selling, delivering and installing BWMS equipment onboard ships. More reference segments in vessels have been added to the increasingly large reference list and the request for quotations grew stronger over the year with an increase in the commercial development of the company. The company has made agreement with a large European shipyard that actively will promote the Bawat technology for its customers both in new building and the retrofit market.

The year also included the first commercially sold and delivered mobile BWMS to customer in Belgium. This project is a first of many as the commercial pipeline for this type of customers is growing bigger and stronger as the market surely is understanding that the treatment of ballast water is not only solved directly on the vessels but also take place from land in ports, yards and terminals. With the unique one-pass filter-less Bawat technology, this market is also developing in a positive direction. Late in the year, the company was awarded a large US based grant to build and operate a 300m³/hr system in the Great Lakes region in the US for a test period of 12 months. This was achieved after having tested the Bawat technology in the late summer in Lake Superior with results showing full compliance of the Bawat technology relative to the current USCG discharge standards.

The Treatment as service is also well underway. Material steps towards supplying the service has been taken during H2 of 2021 where a joint venture has been made with US based Ballast Water reception technology company Monstrant Viam LLC. In January 2022 the JV agreement has been signed and the joint company Freedom Ballast LLC established. The focus for Freedom Ballast is the US market where a large commercial interest in the service has spurred the action towards Freedom Ballast.

Management's Review

Capital resources

The existing shareholders contributed in June 2021 with a capital contribution of DKK 11.8 mio. in order to further grow the company. As a follow-up, the company started in late September the process of public listing of the Swedish Holding Company in Q1 2022 at Nasdaq First North Premier in Stockholm, Sweden. The listing will finalize the equity raise for the company in its transition towards growth and profitability. The listing is targeting a raise of up to 47 mill DKK. Reference is made to note 1 for further description of Bawat A/S dependency on financing in 2022.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2021 DKK	2020 DKK
Gross profit/loss		-375.672	-760.531
Staff expenses	2	-11.522.621	-10.019.932
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-8.468.026	-6.891.437
Other operating expenses		0	-14.950
Profit/loss before financial income and expenses		-20.366.319	-17.686.850
Income from investments in subsidiaries		-112.943	41.474
Financial income		11.233	7.737
Financial expenses	3	-2.868.772	-2.718.193
Profit/loss before tax		-23.336.801	-20.355.832
Tax on profit/loss for the year	4	247.632	4.806.871
Net profit/loss for the year		-23.089.169	-15.548.961

Distribution of profit

Proposed distribution of profit

Reserve for net revaluation under the equity method	-112.943	41.474
Transfer for the year to other reserves	-2.914.963	0
Retained earnings	-20.061.263	-15.590.435
	-23.089.169	-15.548.961

Balance Sheet 31 December

Assets

	Note	2021 DKK	2020 DKK
Completed development projects		46.673.144	53.697.081
Acquired patents		1.514.456	1.510.100
Intangible assets	5	48.187.600	55.207.181
Other fixtures and fittings, tools and equipment		54.937	155.109
Property, plant and equipment		54.937	155.109
Investments in subsidiaries	6	23.814	134.680
Investments in joint ventures		20.000	0
Deposits		180.670	201.000
Fixed asset investments		224.484	335.680
Fixed assets		48.467.021	55.697.970
Trade receivables		754.353	1.339.074
Contract work in progress	7	1.525.720	467.492
Other receivables		721.171	1.096.717
Corporation tax		247.632	1.068.671
Prepayments		50.905	110.409
Receivables		3.299.781	4.082.363
Cash at bank and in hand		3.441.744	5.578.092
Currents assets		6.741.525	9.660.455
Assets		55.208.546	65.358.425

Balance Sheet 31 December

Liabilities and equity

	Note	2021 DKK	2020 DKK
Share capital	8	10.273.071	9.088.952
Reserve for net revaluation under the equity method		17.650	128.516
Reserve for development costs		28.780.676	31.695.639
Retained earnings		-46.647.394	-37.243.202
Equity		-7.575.997	3.669.905
Mortgage loans		30.043.037	30.243.457
Other payables		2.992.001	3.905.529
Deferred income		15.686.694	18.187.560
Long-term debt	9	48.721.732	52.336.546
Mortgage loans	9	2.624.287	0
Credit institutions		0	39.959
Trade payables		1.789.288	2.064.921
Contract work in progress, liabilities	7	1.406.638	1.858.899
Payables to group enterprises		0	70.622
Other payables	9	5.668.442	2.743.417
Deferred income	9	2.574.156	2.574.156
Short-term debt		14.062.811	9.351.974
Debt		62.784.543	61.688.520
Liabilities and equity		55.208.546	65.358.425
Going concern	1		
Contingent assets, liabilities and other financial obligations	10		
Accounting Policies	11		

Statement of Changes in Equity

	Share capital	Share premium account	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	9.088.952	0	128.516	31.695.639	-31.322.162	9.590.945
Net effect of correction of material misstatements	0	0	0	0	-5.921.040	-5.921.040
Adjusted equity at 1 January	9.088.952	0	128.516	31.695.639	-37.243.202	3.669.905
Exchange adjustments	0	0	2.077	0	0	2.077
Cash capital increase	1.184.119	10.657.071	0	0	0	11.841.190
Development costs for the year	0	0	0	877.967	0	877.967
Depreciation, amortisation and impairment for the year	0	0	0	-3.792.930	0	-3.792.930
Net profit/loss for the year	0	0	-112.943	0	-20.061.263	-20.174.206
Transfer from share premium account	0	-10.657.071	0	0	10.657.071	0
Equity at 31 December	10.273.071	0	17.650	28.780.676	-46.647.394	-7.575.997

Notes to the Financial Statements

1 Going concern

As described in Management Report, Bawat A/S is planning a public listing of a Swedish Holding Company "Bawat Water Technologies AB". The target of the listing is to raise up to 47 mDKK for further growth and profitability in Bawat A/S. The listing process is well supported by existing and new shareholders with minimum 8.3 mDKK.

Bawat is depending on financial support to secure continued operation. In order to grow fast and to capitalize on the large market potential in the near future, Bawat will follow the path of IPO. When the IPO has been successfully concluded, Bawat see no obstacles for going concern.

In light of the dependency of financing within 2022, Bawat has established an alternative plan for continued going concern. Execution on that plan in combination with confirmed financial support from existing shareholders will also secure continued going concern.

Based on above the annual report for 2021 has been prepared based on going concern.

	<u>2021</u> DKK	<u>2020</u> DKK
2 Staff expenses		
Wages and salaries	10.080.210	9.091.873
Pensions	1.027.520	489.149
Other social security expenses	134.229	99.530
Other staff expenses	<u>280.662</u>	<u>339.380</u>
	<u>11.522.621</u>	<u>10.019.932</u>
Average number of employees	<u>15</u>	<u>13</u>
3 Financial expenses		
Other financial expenses	2.820.894	2.690.818
Exchange adjustments, expenses	<u>47.878</u>	<u>27.375</u>
	<u>2.868.772</u>	<u>2.718.193</u>

Notes to the Financial Statements

	2021 <u>DKK</u>	2020 <u>DKK</u>
4 Tax on profit/loss for the year		
Current tax for the year	-247.632	-1.068.671
Deferred tax for the year	0	-3.679.850
Adjustment of tax concerning previous years	0	-58.350
	<u>-247.632</u>	<u>-4.806.871</u>
 5 Intangible assets		
	Completed development projects <u>DKK</u>	Acquired pa- tents <u>DKK</u>
Cost at 1 January	78.827.927	3.351.292
Additions for the year	<u>1.125.599</u>	<u>207.498</u>
Cost at 31 December	<u>79.953.526</u>	<u>3.558.790</u>
Impairment losses and amortisation at 1 January	25.130.846	1.841.192
Amortisation for the year	<u>8.149.536</u>	<u>203.142</u>
Impairment losses and amortisation at 31 December	<u>33.280.382</u>	<u>2.044.334</u>
 Carrying amount at 31 December	<u>46.673.144</u>	<u>1.514.456</u>
 Amortised over	<u>5-10 years</u>	<u>10 years</u>

Development projects concerns development of ballast water management systems based on pasteurization for the maritime industry. Market researches shows a great future demand for such systems because of implementation of the ballast water convention by the IMO. The development was finalised in 2020.

Notes to the Financial Statements

	2021 DKK	2020 DKK
6 Investments in subsidiaries		
Cost at 1 January	6.164	6.164
Cost at 31 December	6.164	6.164
Value adjustments at 1 January	128.516	87.914
Exchange adjustment	2.077	-872
Net profit/loss for the year	-112.943	41.474
Value adjustments at 31 December	17.650	128.516
Carrying amount at 31 December	23.814	134.680

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
BAWAT SINGAPORE PTE. LTD.	Singapore	5	100%

Notes to the Financial Statements

	2021 <u>DKK</u>	2020 <u>DKK</u>
7 Contract work in progress		
Selling price of work in progress	15.237.068	6.865.253
Payments received on account	<u>-15.117.986</u>	<u>-8.256.660</u>
	<u>119.082</u>	<u>-1.391.407</u>
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	1.525.720	467.492
Prepayments received recognised in debt	<u>-1.406.638</u>	<u>-1.858.899</u>
	<u>119.082</u>	<u>-1.391.407</u>

8 Share capital

The share capital consists of 10,273,071 shares of a nominal value of DKK 1. No shares carry any special rights.

The share capital has developed as follows:

	2021 <u>DKK</u>	2020 <u>DKK</u>	2019 <u>DKK</u>	2018 <u>DKK</u>	2017 <u>DKK</u>
Share capital at 1 January	9.088.952	9.088.952	5.588.951	4.258.243	4.258.243
Capital increase	1.184.119	0	3.500.001	1.330.708	0
Capital decrease	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Share capital at 31 December	<u>10.273.071</u>	<u>9.088.952</u>	<u>9.088.952</u>	<u>5.588.951</u>	<u>4.258.243</u>

Notes to the Financial Statements

9 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	<u>2021</u> DKK	<u>2020</u> DKK
Mortgage loans		
Between 1 and 5 years	30.043.037	30.243.457
Long-term part	<u>30.043.037</u>	<u>30.243.457</u>
Within 1 year	2.624.287	0
	<u>32.667.324</u>	<u>30.243.457</u>
Other payables		
Between 1 and 5 years	2.992.001	3.905.529
Long-term part	<u>2.992.001</u>	<u>3.905.529</u>
Other short-term payables	5.668.442	2.743.417
	<u>8.660.443</u>	<u>6.648.946</u>
Deferred income		
Between 1 and 5 years	15.686.694	18.187.560
Long-term part	<u>15.686.694</u>	<u>18.187.560</u>
	<u>18.260.850</u>	<u>20.761.716</u>

Notes to the Financial Statements

	<u>2021</u> DKK	<u>2020</u> DKK
10 Contingent assets, liabilities and other financial obligations		
Charges and security		
As collateral for debt to credit institutions a company pledge of t.DKK 20.300 has been provided comprising goodwill, intellectual property rights, other plant, fixtures and fittings, tools and equipment, inventories as well as trade receivables.		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	546.308	546.308
Between 1 and 5 years	<u>953.904</u>	<u>1.597.692</u>
	<u>1.500.212</u>	<u>2.144.000</u>

Notes to the Financial Statements

11 Accounting Policies

The Annual Report of Bawat A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021 are presented in DKK.

Correction of material misstatements

In the 2020 financial statements, a deferred tax assets of DKK 5,921k was recognized.

In 2021, Management has identified/assessed that the preconditions for the recognition of the deferred tax asset per. 31 December 2020 was not present. The deferred tax should not have been recognized. Management has corrected the material error in the annual report and adapted the comparative figures.

The equity as of 31 December 2020 were thus negatively affected by DKK 5,921k.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

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

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Notes to the Financial Statements

11 Accounting Policies (continued)

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Revenue

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

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

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

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Notes to the Financial Statements

11 Accounting Policies (continued)

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, work on own account recognised in assets, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Notes to the Financial Statements

11 Accounting Policies (continued)

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 10 years.

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

Development projects in progress are transferred to completed development projects when the asset is ready for use.

Development projects are subsequently measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Completed development projects are amortised using the straight-line method based on useful lives, which are 5-10 years.

An amount corresponding the capitalized development costs in the balance sheet is recognized in the "reserve for development costs" under equity. The reserve decreases in value as a result of depreciation and tax.

Notes to the Financial Statements

11 Accounting Policies (continued)

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

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

Other fixtures and fittings, tools and equipment	3	years
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The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

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

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition.

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

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

Notes to the Financial Statements

11 Accounting Policies (continued)

Other fixed asset investments

Other fixed asset investments consist of deposits and investments in joint ventures measured at cost.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Contract work in progress

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

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

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

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

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred tax assets and liabilities

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

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

Notes to the Financial Statements

11 Accounting Policies (continued)

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

Current tax receivables and liabilities

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

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.