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Falck Schmidt Defence Systems A/S
Central Business Registration No 28490259

Annual report 2014

The Annual General Meeting adopted the annual report on 04.06.2015

Chairman of the General Meeting

Name: Richard Riel

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Entity details

Entity

Falck Schmidt Defence Systems A/S
Oslogade 1
5000 Odense C

Central Business Registration No: 28490259
Registered in: Odense
Financial year: 01.01.2014 - 31.12.2014

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Board of Directors

Henrik Bornebusch, formand
Ove Høegh-Guldberg Hoff
Jan Falck-Schmidt

Executive Board

Jan Falck-Schmidt, administrerende direktør

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Tværkajen 5
5100 Odense C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Falck Schmidt Defence Systems A/S for the financial year 01.01.2014 - 31.12.2014.

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 31.12.2014 and of the results of its operations and cash flows for the financial year 01.01.2014 - 31.12.2014.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Odense, 04.06.2015

Executive Board

Jan Falck-Schmidt
administrerende direktør

Board of Directors

Henrik Bornebusch formand	Ove Høegh-Guldberg Hoff	Jan Falck-Schmidt

Independent auditor's reports

To the owners of Falck Schmidt Defence Systems A/S

Report on the financial statements

We have audited the financial statements of Falck Schmidt Defence Systems A/S for the financial year 01.01.2014 - 31.12.2014, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company’s financial position at 31.12.2014 and of the results of its operations and cash flows for the financial year 01.01.2014 - 31.12.2014 in accordance with the Danish Financial Statements Act.

Emphasis of matter affecting the financial statements

Without this having affected our opinion we refer to note 1 to the financial statements, which states the reasons for presenting the financial statements on a going concern basis. We did not find any reason to take a different view in this respect.

Independent auditor's reports

Statement on the management commentary

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

Odense, 04.06.2015

Deloitte

Statsautoriseret Revisionspartnerselskab

Lars Knage Nielsen
State Authorised Public Accountant

Management commentary

	2014 DKK'000	2013 DKK'000	2012 DKK'000	2011 DKK'000	2010 DKK'000
Financial highlights					
Key figures					
Gross profit	14,003	47,150	74,362	18,895	11,233
Operating profit/loss	(14,316)	19,974	33,123	8,499	2,800
Net financials	(217)	274	356	(39)	617
Profit/loss for the year	(11,159)	15,166	25,091	6,322	2,544
Total assets	58,992	78,430	93,056	70,188	22,165
Investments in property, plant and equipment	0	0	1,338	931	193
Equity	20,594	36,753	31,591	11,500	5,928
Ratios					
Return on equity (%)	(38.9)	44.4	116.5	72.5	42.9
Solvency ratio (%)	34.9	46.9	33.9	16.4	26.7

Management commentary

Primary activities

The activities of the company include research and development, manufacture, trade and logistic services of any kind and with products and systems of defence-, aerospace- and space-nature.

The corporation has sister companies in several countries;

- FALCK SCHMIDT Advanced Composites Engineering (Fredericia, DK)
- FALCK SCHMIDT Defense Systems Corp. (USA)
- FALCK SCHMIDT Defence Systems Ltd. (UK)

The company has expanded ist salesnetwork to the former eastblock countries, middle east and Turkey.

Development in activities and finances

The overall growth in activities from 2008 to 2012 has not been achieveable into 2013 and 2014. The financial crisis has especially on the western hemisphere with a few years delay resulted in reduced defence spending and programs are reduced or cancelled.
The resulting reorganization of national defence also means further delays and reprioritizing of the national defence forces.

In this period significant investments have also been made in the portfolio of products, solutions and new technologies which has not only continue in 2013 but also been increased in 2014. Development costs to secure future growth was increased significantly in 2014. The company´s equity is positively affected by a fundamental error in 2013, where these development costs by mistake were not capitalized. The correction of the error in 2014, has increased the equity by DKK 4.253.527,- and capitalized projects by DKK 5.671.369,- while deferred tax has been increased by DKK 1.417.842,-. The profit of the year 2013 has been increased by DKK 4.253.527,-.
It has been the company´s policy that development is based on IRAD funds apart from 2007 and 2014 (2013) where very extraordinary large funds have been invested on development programs.

Export share of total turnover in 2014 was app. 95%.

The Result for 2014 is negative and naturally not acceptable but equals the expectations as programs showed to be delayed into 2015 and following years.

The continued development of new technologies gives a broad span of technology based possibilities for the company in its portfolio of solutions and competencies which individually and collectively as a basis shall provide superior ability and survivability for the soldier.

Management commentary

- Carbon composite based structures (with/without armour capability) for defence, aerospace and space applications.
- Integrated electromechanical solutions (no hydraulic)
- Integrated software and controls
- Masts and platforms with a stability that can enable targeting, launch and guidance of missiles from larger heights as well as mobility with vehicle based sensors and weapons elevated.
- Auxiliary Power Units (APU´s) – power supply for mobile platforms based on diesel technology – today on conventional diesel engines but with future solutions based on fuel cell technology.
- Application of UAS/UAV to a broad spectrum of tasks.
- Further engagement into Space business.

These capabilities are today unique on the world market and are expected to contribute significantly to the future growth.

Furthermore in 2014 the company initiated to work the defence market in 3 new areas:

- Research and development activities for speciel Composit structures for airframes (Out-of-Autoclave technology) – i.e. space exploration and satellite structures.
    - An intensified effort of programs and products for spaceapplications in a combination of R&D activities and manufacturing /delivery of products for Space vehicles.
    - Research and development activities for speciel Composit structures for airframes (Out-of-Autoclave

- Significant investment in state of the art technology on the masted systems providing a world class capability for mobile reconnaissance.

These technologies will also secure continued growth and a broader market access.

Based on the intensive development and sales/demo activities the booked contracts level for 2015 grew in first half of 2015 to a significantly higher level as in the previous years reaching more than 100 mio DKK. and further commitment to multiplying this backlog within 2015. These contracts has put the company back in a growth mode and will create a stable base for more than 5 years to come.

The development in activities has resulted in expectations for 2015 of a reasonable profit level and increased profit levels I the years to follow.

Management commentary

Information on non-financial issues

As a result of the above mentioned development and expectations for 2014 is that the company has a stable work force that will start to grow again in 2015.

The company participates in several international exhibitions on several continents as part of the marketing and networking. In 2014 the company attended the following exhibitions:

- IDEX, Abu Dhabi, UAE
- IDEF, Turkey
- AUSA - Winter - Ft. Lauderdale - USA
- DSEi – London, UK
- Cansec, Canada
- AUSA Fall - Washington DC – USA
- A number of smaller exhibiths

In 2014 audits have been carried out based on EN/ISO 9001 and NATO AQAP 2110 by BVQI resulting in renewed QA-certificates.

Uncertainties on calculations and estimates

The company only manufactures to order. Conservative principles are used for calculating profits etc.

Business risks

The market for defence equipment is contrary to the commercial market and industrial market not dependent on the normal business cycles. The development in this market is driven by political initiatives as result of security political development.

Risks are thus especially related to changes in procurements that can be changed short-term based on the political decisions and developments.

This also means that expectations to the coming development are subject to the same political security/insecurity where projects can be moved in time and extent - not only as a result of requirement assessments but as a result of political compromises.

Being an order based company this means that the result of each year is under significant influence from the political process on procurements.

Due to the large share of revenue exports also currency is a risk factor. The risk associated with currecy are secured to the extent possible.

Management commentary

Financial risks

The financial risks are considered low. The cash flow is based on government funds providing a relatively high security of payment.

Cashflow and capital resources

The large development costs in 2007 resulted in less available cash in 2007-2009 but the development in result, order backlog and cash flow through 2009-13 and has resulted in the company was more or less selffinancing in 2013, but will again in 2014 use its credits. The negative result and very big investments in 2014 has increased to need for further credit and the granted credits are big enough to accomplish the estimated activities for 2015 and coming years.

Management has a running focus on cash flow to secure the continued growth.

Knowledge resources

The strategic goals are based on a know-how heavy organization and thus to have a quite large number of engineers as well as an ongoing relation to knowledge institutions i.e. RISOE, DTU, SDU etc.

The co-operation with knowledge institutions had continued in 2014.

Environmental issues

The company complies with environmental regulations.

Within the defence area the environmental consciousness is growing including decommissioning of equipment as part of development activities and the avoidance of hazardous materials. Water based coatings are used where possible.

Development activities

Research and development activities are based on several areas and fora, including NATO/NIAG, WEAG. EUROPA MOU as well as between the company and the national defence procurement agencies respectively international defence contractors.

These activities are collectively focused on survivability/safety of the soldier. Development of technologies and products shall provide the optimum of protection in the role in which the equipment is used.

Objectively survivability can best be achieved by keeping the soldier out of harms way respectively providing best possible protection.

Management commentary

The company thus focuses on:

- Elevated mobile solutions where sensors or weapons are elevated and potentially remotely controlled keeping the operator in defilade and under protection.
    - Army ground equipment and vehicle
    - Forcus on future programs for the NAVY.
- Composite structures including protection with low weight to strength and protection ratio.
- Development of electronics and systems incl. Power supply solutions – over time to include the application of fuel cells.
- Development and supply of components for Space applications.

Several patents have been applied for as well as been issued in 2014.
The big investments in 2014 has especially concentrated on two focus areas;

1. Development of elevated solutions for mobile reconnaissance proving the user ability to carry out reconnaissance while on the move and under protection. The system developed provides unmatched stability and weight to performance ratio by use of high performance materials (Carbon fiber etc.) and patented drive systems and manufacturing methods. First sale that was expected in 2014 was concluded in 2015.
2. Further development of the Standardized elevated platforms that provides a range of solutions with capability of up to 400kg/900lbs payload (Sensors,Weapons etc.) and elevated heights of up to 16m/55 ft. 3 standard ranges are developed from Light weight Masts (LWM) to High Mobility Masts (HMM) and Elevated Mast Platform (EMP)

This technology provides the following products and applications:

Masts (EMP – Elevated Mast Platform)
Masts are primarily developed to increase protection for the operator on vehicles maintaining situational awareness while staying under protection.
Use of masts further provides the capability, also under defilade and during mobility to observe and engage in combat.
Resources are used to continuously develop the capability also reducing weight by use of composites.
The significant increase in request for information and proposals has shown a big need for these products.
Increase in sales in coming years is expected.

MSLP = Missile Stand Lifting Platform
MSLP is a new product developed in co-operation with a national defense command. This product and technologies developed are expected to contribute significantly to the future sales and revenue.

This mast elevates to approx. 20 meters.

Management commentary

This gives unique possibilities for an optimal position for an air-defence-system. (Stealth design and the possibility to get cover from the forest). This maintains the possibility to detect, target and track incoming aircraft.

With this mast system it is for the first time in history proven possible to fire guided surface to air missiles from an 18-20 m mast. The system completed live missile firing trials in May 2008and in 2014 with Radar with a result by far exceeding the contractual as well as the expected performace.

Based on the already established interest management expects production of this product type within the next 12-18 months.

REMS = Radar Elevated Mast System.
A modified MSLP to elevates sensors (Radar)

Structural composite solutions
The company has in the prior period moved activities which since 2009 have moved from research and development to product solutions. Furthermore the company has taken the first steps to also use these technologies on airframes and products related to the aircraft industry. Developments are all based on methods based on – out of autoclave – technology while applying nano technology.

Focus is on lightweight structural components with integrated protection/armour with the goal to improve the protection and structural integrity relative to weight throughout the product line. In the EMP and MSLP structural parts are in carbon composites as well as vehicle components and structures with integrated protection.

European Space Agency has contracted with the company to develop umique composite structure capabilities. (Pure carbon)

The company does use and see strategic alliances as a means to further develop this area and will also in the future continue this effort.

VETRONICS and APU´s
The elctronics area has grown with a good rate in 2013. In the same period the company has further enganged in power system solutions for mobile systems (APU´s Auxiliary Power Units) which currently are based on diesel engine applications but future solutions are expected to comprise fuel cell technology. The fuel cell technology is expected to enhance the "silent Watch" features as well as the operational and logistical advantage and a better environment.
Simple VETRONICS solutions and products are expected to get under increased costs pressure.

Management commentary

SPACE-activities

In 2014 the corporation e.g. has delivered products and satellite structures and contracted deliveries for the ESA Solar Orbiter. “014 has resulted in new contracts for research and development as well as deliveries for the European Mars Rover (ESA)

Research and Development

Funds are continuously used out of the overhead of sales to further develop products, technologies and programs. In 2014 a larger number of millions have been spent as IR&D funds.

The company further participates in national and international research- and developmet programs – typically the company finances 50% of the overall costs.

In 2014 the company has continued as a participant in programs under NATO (NIAG – NATO Industrial Advisory Group) where expectations and solutions for future equipment needs are defined. The company is financing the majority of the costs internally.

Representation abroad

Based on agencies and agreements representation is established in a number of locations.

Outlook

The company expects a positive result for 2015.

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.

Accounting policies

Reporting class

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

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

Fundamental errors in previous years

The company's equity is positive affected by a fundamental error from the financial year 2013, were developement costs by mistake not have been capitalised. The correction of the error in 2014, har increased the equity by 4,253,527 dkr. and capitalised developement projects by 5,671,369 dkr while defferd tax has been increased by 1,417,842 dkr. The profit of the year 2013 has been increased by 4,253,527 dkr. It has since 2007 been the company's accounting policy to capitalise development project.

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 one 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.

Accounting policies

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

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.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Cost of sales

Cost of sales comprises costs of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

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 write-downs of receivables recognised in current assets.

Staff costs

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

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital 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.

Accounting policies

Other financial expenses

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

Income taxes

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

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

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress.

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.

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 the estimated useful lives of the assets. The amortisation period is 5 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. Development projects are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

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-manufactured assets, cost comprises di-

Accounting policies

rect and indirect costs of materials, components, subsuppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Indirect production costs in the form of indirect attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each asset.

Interest expenses on loans for the financing of the manufacture of property, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

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:

Plant and machinery	3 years
Other fixtures and fittings, tools and equipment	3 years

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

Other investment assets

On initial recognition, other investment assets that comprise listed securities are measured at cost consisting of the acquisition price of the securities plus any directly related acquisition costs.

After initial recognition, investment assets are measured at fair value, equal to the market price at the balance sheet date. Fair value adjustments for the financial year are recognised in the income statement.

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 on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing 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.

Accounting policies

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

Contract work in progress
Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

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

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

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. The proposed dividend for the financial year is disclosed as a separate item in equity.

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

Accounting policies

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.

If goods are sold on approval, a provision is made for the mark-up on the goods estimated to be returned as well as any expenses related to the returns.

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

On acquisition of enterprises and investments in group enterprises, provisions are made for costs relating to restructurings in the acquired enterprise that were decided and published at the takeover date at the latest.

Once it is likely 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.

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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

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

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as 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 as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Accounting policies

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on 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 debt.

Financial highlights

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2010" issued by the Danish Society of Financial Analysts.

Ratios	**Calculation formula**	**Ratios reflect**
Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The Entity's return on capital invested in the Entity by the owners.
Soliditetsgrad (%)	$\frac{\textit{Equity x 100}}{\textit{Total assets}}$	The financial strength of the Entity.

Income statement for 2014

	Notes	2014 DKK	2013 DKK'000
Gross profit	2	**14,003,246**	**47,150**
Staff costs	3	(27,947,637)	(26,797)
Depreciation, amortisation and impairment losses	4	(371,521)	(379)
Operating profit/loss		**(14,315,912)**	**19,974**
Other financial income	5	793,406	681
Other financial expenses	6	(1,010,707)	(407)
Profit/loss from ordinary activities before tax		**(14,533,213)**	**20,248**
Tax on profit/loss from ordinary activities	7	3,374,458	(5,082)
Profit/loss for the year		**(11,158,755)**	**15,166**
Proposed distribution of profit/loss			
Dividend for the financial year		0	5,000
Retained earnings		(11,158,755)	10,166
		(11,158,755)	**15,166**

Balance sheet at 31.12.2014

	Notes	2014 DKK	2013 DKK'000
Development projects in progress		9,622,857	5,671
Intangible assets	8	**9,622,857**	**5,671**
Other investment assets		489,968	490
Plant and machinery		694,918	1,035
Other fixtures and fittings, tools and equipment		179,996	212
Property, plant and equipment	9	**1,364,882**	**1,737**
Fixed assets		**10,987,739**	**7,408**
Manufactured goods and goods for resale		16,753	17
Inventories		**16,753**	**17**
Trade receivables		12,094,174	48,192
Contract work in progress	10	9,318,317	10,597
Receivables from group enterprises		20,683,155	9,910
Deferred tax assets		1,751,500	0
Other short-term receivables	11	1,189,817	1,217
Prepayments	12	1,035,840	1,040
Receivables		**46,072,803**	**70,956**
Cash		**1,914,365**	**49**
Current assets		**48,003,921**	**71,022**
Assets		**58,991,660**	**78,430**

Balance sheet at 31.12.2014

	Notes	2014 DKK	2013 DKK'000
Contributed capital	13	575,000	575
Retained earnings		20,019,089	31,178
Proposed dividend		0	5,000
Equity		**20,594,089**	**36,753**
Provisions for deferred tax		0	1,623
Other provisions	14	0	3,000
Provisions		**0**	**4,623**
Bank loans		28,672,659	14,767
Trade payables		4,926,841	3,003
Income tax payable		0	8,030
Other payables	15	4,798,071	11,254
Current liabilities other than provisions		**38,397,571**	**37,054**
Liabilities other than provisions		**38,397,571**	**37,054**
Equity and liabilities		**58,991,660**	**78,430**

Going concern	1
Assets charged and collateral	18
Related parties with control	19
Ownership	20

Statement of changes in equity for 2014

	Contributed capital DKK	Retained earnings DKK	Proposed dividend DKK	Total DKK
Equity beginning of year	575,000	26,924,317	5,000,000	32,499,317
Increase (decrease) of equity through corrections of errors	0	4,253,527	0	4,253,527
Ordinary dividend paid	0	0	(5,000,000)	(5,000,000)
Profit/loss for the year	0	(11,158,755)	0	(11,158,755)
Equity end of year	**575,000**	**20,019,089**	**0**	**20,594,089**

Cash flow statement 2014

	Notes	2014 DKK	2013 DKK'000
Operating profit/loss		(14,162,949)	19,969
Amortisation, depreciation and impairment losses		371,521	379
Other provisions		(3,000,000)	3,000
Working capital changes	16	22,875,229	(71,433)
Cash flow from ordinary operating activities		**6,083,801**	**(48,085)**
Financial income received		793,406	682
Financial income paid		(1,010,707)	(407)
Income taxes refunded/(paid)		(8,955,294)	(6,273)
Cash flows from operating activities		**(3,088,794)**	**(54,083)**
Acquisition etc of intangible assets		(3,951,488)	(5,671)
Other cash flows from investing activities	17	0	59,510
Cash flows from investing activities		**(3,951,488)**	**53,839**
Dividend paid		(5,000,000)	(10,000)
Cash flows from financing activities		**(5,000,000)**	**(10,000)**
Increase/decrease in cash and cash equivalents		**(12,040,282)**	**(10,244)**
Cash and cash equivalents beginning of year		(14,718,018)	(4,474)
Cash and cash equivalents end of year		**(26,758,300)**	**(14,718)**
Cash and cash equivalents at year-end are composed of:			
Cash		1,914,365	49
Short-term debt to banks		(28,672,659)	(14,767)
Cash and cash equivalents end of year		**(26,758,294)**	**(14,718)**

Notes

1. Going concern

The Entity's and the Group's bank states that the existing credit facilities will remain available for 2015. The Group has a satisfactory volume of orders and budgets for a profit of DKK 2m even though the first six months will see a loss. The Board of Directors considers the existing credit facilities to be sufficient for the Entity to continue as a going concern, and so the financial statements have been presented on a going concern basis. A considerable profit is expected for 2016 for the entity.

2. Gross profit

Danish Financial Statement Act § 32 is used.

	2014 DKK	2013 DKK'000
3. Staff costs		
Wages and salaries	22,315,492	21,207
Pension costs	3,725,085	3,316
Other social security costs	1,765,059	2,162
Other staff costs	142,001	112
	27,947,637	**26,797**
Average number of employees	**51**	**53**

	2014 DKK	2013 DKK'000
4. Depreciation, amortisation and impairment losses		
Depreciation of property, plant and equipment	371,521	379
	371,521	**379**

	2014 DKK	2013 DKK'000
5. Other financial income		
Financial income arising from group enterprises	793,406	481
Interest income	0	200
	793,406	**681**

Notes

	2014 DKK	2013 DKK'000
6. Other financial expenses		
Interest expenses	427,345	131
Exchange rate adjustments	583,362	276
	1,010,707	**407**

	2014 DKK	2013 DKK'000
7. Tax on ordinary profit/loss for the year		
Current tax	0	8,030
Change in deferred tax for the year	(3,557,856)	(2,948)
Effect of changed tax rates	183,398	0
	(3,374,458)	**5,082**

	Development projects in progress DKK
8. Intangible assets	
Cost beginning of year	5,671,369
Additions	3,951,488
Cost end of year	**9,622,857**
Carrying amount end of year	**9,622,857**

	Other investment assets DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK
9. Property, plant and equipment			
Cost beginning of year	489,968	3,766,657	603,000
Cost end of year	**489,968**	**3,766,657**	**603,000**
Depreciation and impairment losses beginning of the year	0	(2,732,218)	(391,004)
Depreciation for the year	0	(339,521)	(32,000)
Depreciation and impairment losses end of the year	**0**	**(3,071,739)**	**(423,004)**
Carrying amount end of year	**489,968**	**694,918**	**179,996**

Notes

10. Contract work in progress

	2014 DKK	2013 DKK'000
Sales value	10.564.322	10.596
Amount invoiced	(1.246.005)	0
	9.318.317	**10.596**

	2014 DKK	2013 DKK'000
11. Other short-term receivables		
Other receivables	1,189,817	1,217
	1,189,817	**1,217**

12. Prepayments

Prepayments consists of prepaid expenses.

	Number	Par value DKK	Nominal value DKK
13. Contributed capital			
Ordinary shares	575	100.00	575,000
	575		**575,000**

No changes in share capital in the past 5 financial years.

14. Other provisions

Other provisions consists of guarantees for claims.

	2014 DKK	2013 DKK'000
15. Other short-term payables		
VAT and duties	(38,241)	0
Wages and salaries, personal income taxes, social security costs, etc. payable	3,278,722	3,513
Other costs payable	1,557,590	7,741
	4,798,071	**11,254**

Notes

	2014 DKK	2013 DKK'000
16. Change in working capital		
Increase/decrease in inventories	0	0
Increase/decrease in receivables	26,088,186	(30,490)
Increase/decrease in trade payables etc	(4,491,182)	2,663
Other changes	1,278,225	(43,606)
	22,875,229	**(71,433)**

17. Other cash flows from investing activities

Other changes consists og changes in contract work in process.

18. Assets charged and collateral

Bank debt is secured by way of a deposited mortgage deed registered to the mortgagor on plant of DKK 10 mio. nominal.

Bank debt is secured by way of a lifeinsurance in PFA pension, of DKK 2 mio.

Solidary guarantee has been given from the following companies:
Falck-Schmidt A/S
Falck Schmidt Defence Systems A/S
Falck Schmidt Ejendomsselskab
Guarantee for all payments.

Guarantee for all payments is secured by security deposit belonging to Falck-Schmidt A/S.

19. Related parties with control

Related parties with a controlling influence in Falck Schmidt Defence Systems A/S:
Majority shareholder Falck-Schmidt A/S, Central Business Registration No 29 61 39 15

Supervisory Board and executive Board

Transactions between related parties and Falck Schmidt Defence Systems A/S in 2014:
Continuous Intercompany account including interest
Terms and conditions of employment
Lawyer’s fee

Notes

Other related parties:
Falck Schmidt Ejendomsselskab ApS, Central Business Registration No 29 38 78 85
Falck Schmidt ACE A/S, Central Business Registration No 33 04 19 34

Transactions between other related parties and Falck Schmidt Defence Systems A/S in 2014:
Continuous Intercompany account including interest
Administrative agreement

20. Ownership

The company has registered the following shareholders to more than 5% of the voting share capital or of the nominal value of the shares capital:
Falck-Schmidt A/S, Central Business Registration No 29 61 39 15
Odense