Denex A/S

Tuenvej 120, 9900 Frederikshavn

CVR no. 31 34 69 59

Annual report 2018/19

The annual report was presented and approved at the Company's annual general meeting

on _____ 20 19

_____

chairman of the annual general meeting

Contents

Statement by the Board of Directors and the Executive Board 2

Independent auditor's report 3

Management's review 6
Company details 6
Financial highlights 7
Operating review 8

Financial statements 1 April – 31 March 9
Income statement 9
Balance sheet 10
Statement of changes in equity 12
Notes 13

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Denex A/S for the financial year 1 April 2018 – 31 March 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 March 2019 and of the results of the Company's operations for the financial year 1 April 2018 – 31 March 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Madrid, 08 July 2019
Executive Board:

Pedro Sallent Acebo
Executive Officer

Board of Directors:

Francisco Jose Torrente Sanchez
Chairman

Blanca Manzano Lopez

Pedro Sallent Acebo

Independent auditor's report

To the shareholders of Denex A/S

Opinion

We have audited the financial statements of Denex A/S for the financial year 1 April 2018 – 31 March 2019 comprising income statement, balance sheet, statement of changes in equity and notes, including 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 Company's assets, liabilities and financial position at 31 March 2019 and of the results of the Company's operations for the financial year 1 April 2018 – 31 March 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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' 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 that 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.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 company 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.

— 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.

Independent auditor's report

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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

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

Aalborg, 08 July 2019
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant
MNE no. 32737

Management's review

Company details

Denex A/S
Tuenvej 120
DK-9900 Frederikshavn

Telephone:	+45 96 21 34 00
CVR no.	31 34 69 59
Established:	27 March 2008
Registered office:	Frederikshavn
Financial year:	1 April – 31 March

Board of Directors

Francisco Jose Torrente Sanchez, chairman
Blanca Manzano Lopez
Pedro Sallent Acebo

Executive Board

Pedro Sallent Acebo

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Østre Havnegade 18
DK-9000 Aalborg

Annual general meeting

The annual general meeting will be held on 08 July 2019.

Management's review

Financial highlights

DKK'000	2018/19	2017/18	2016/17	2015/16	2014/15
Gross profit	22,521	8,099	28,757	22,209	50,623
Operating profit/loss	-20,461	-30,397	-20,836	-27,875	-5,962
Profit/loss from financial income and expenses	-3,693	-3,063	-3,361	-2,179	-198
Profit/loss for the year	-24,154	-33,299	-23,197	-26,544	-4,537
Total assets	118,230	92,187	100,057	114,967	155,267
Investments in property, plant and equipment	623	540	1,411	3,692	5,809
Equity	-43,410	-19,256	14,043	37,239	63,783
Solvency ratio	-36.7%	-21.9%	14.0%	32.4%	41.1%

Financial ratios are calculated in accordance with the guidelines "Recommendations & Ratios" issued by the Danish Society of Financial Analysts. The financial ratios have been calculated as follows:

Solvency ratio $\frac{\text{Equity ex. non-controlling interests at year end x 100}}{\text{Total equity and liabilities at year end}}$

Management's review

Operating review

Principal activities

The Company's objective is to develop, produce, research as well as trade in and repair ammunition, arms, war materials, vehicles, military and civil explosives, hunting and sports cartridges and similar materials and components as well as to engage in activities and services related thereto, including demilitarisation.

Development in activities and financial position

The Company reported a loss before tax of DKK 24,0 million as against a loss of DKK 33,3 million last year.

The activity during 2018/19 is increased, which is the reason for the improvement of results, but activity still too low to generate profit.

As per 31 March 2019 the equity is negative with DKK -43,237,468, why Denex A/S is subject to the loss of capital rules. After balance date the equity is expected to be re-established through capital increase. Intercompany loan is not to be repaid and based hereon management has considered the capital ressources sufficient.

Outlook

The Company expects to report an increase in revenue and earnings, however, with negative net results.

Financial statements 1 April – 31 March

Income statement

DKK	Note	2018/19	2017/18
Gross profit		22,520,984	8,099,133
Staff costs	2	-33,400,719	-28,806,322
Depreciation and amortisation of and impairment losses on intangible assets and property, plant and equipment		-9,581,401	-9,689,522
Operating profit/loss		-20,461,136	-30,396,711
Other financial income	3	89,084	43,466
Other financial expenses	4	-3,781,956	-3,106,000
Profit/loss before tax		-24,154,008	-33,459,245
Tax on profit/loss for the year	5	173,000	160,000
Profit/loss for the year	6	-23,981,008	-33,299,245

Financial statements 1 April – 31 March

Balance sheet

DKK	Note	2019	2018
ASSETS			
Fixed assets			
Intangible assets	7		
Development projects		2,277,391	2,486,698
Goodwill		0	0
		2,277,391	2,486,698
Property, plant and equipment	8		
Land and buildings		17,373,793	17,772,488
Plant and machinery		28,471,115	36,034,913
		45,844,908	53,807,401
Total fixed assets		48,122,299	56,294,099
Current assets			
Inventories			
Raw materials and consumables		8,646,023	9,821,624
Work in progress		3,107,236	3,300,412
Prepaid Goods		128,278	479,000
Finished goods and goods for resale		244,116	192,642
		12,125,653	13,793,678
Receivables			
Trade receivables		1,003,318	789,271
Receivables from group entities		59,166,555	17,737,563
Tax receivables		876,936	864,345
Prepayments		0	278,000
Other receivables		0	637,205
		61,046,809	20,306,384
Cash at bank and in hand		766,855	1,793,319
Total current assets		73,939,317	35,893,381
TOTAL ASSETS		122,061,616	92,187,480

Financial statements 1 April – 31 March

Balance sheet

DKK	Note	2019	2018
EQUITY AND LIABILITIES			
Equity			
Share capital	9	22,878,950	22,878,950
Retained earnings		-66,116,418	-42,135,410
Total equity		-43,237,468	-19,256,460
Liabilities			
Non-current liabilities	10		
Subordinate loan capital		6,000,000	8,000,000
		6,000,000	8,000,000
Current liabilities			
Trade payables		5,411,560	3,893,925
Payables to group entities	10	137,178,417	87,533,957
Subordinate loan capital	10	2,000,000	2,000,000
Other payables		14,709,107	10,011,058
		159,299,084	103,443,930
Total liabilities		165,299,084	111,443,930
TOTAL EQUITY AND LIABILITIES		122,061,616	92,187,480

Financial statements 1 April – 31 March

Statement of changes in equity

DKK	Share capital	Share premium	Retained earnings	Proposed dividends	Total equity
Equity at 1 April 2018	22,878,950	0	-42,135,410	0	-19,256,460
Transferred over the profit appropriation/distribution of loss	0	0	-23,981,008	0	-23,981,008
Equity at 31 March 2019	22,878,950	0	-66,116,418	0	-43,237,468

Financial statements 1 April – 31 March

Notes

1 Accounting policies

The annual report of Denex A/S for 2018/19 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of cash flow statement

As set out in section 86 (4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are incorporated into the cash flow statement contained in the consolidated financial statements of MaxamCorp Holding S.L.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Financial statements 1 April – 31 March

Notes

1 **Accounting policies (continued)**

Income statement

Gross profit

With reference to section 32 of Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Income from the sale of goods is recognised in revenue when delivery of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received.

Revenue from the sale of goods where delivery has been postponed upon the buyer's request is recognised as revenue when ownership of the goods has been transferred to the buyer.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are deducted from revenue.

Other external costs

Other external costs comprise indirect production overheads and expenses for premises, sales and distribution as well as office expenses, etc.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Financial statements 1 April – 31 March

Notes

1 **Accounting policies (continued)**

Balance sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is a assessed at 5 years.

Expenditure relating to development projects comprises payroll costs and cost of goods sold directly attributable to the Company´s development activities.

Capitalised development costs are amortised on a straight-line basis from the time of completion and for the period in which the development works is expected to generate economic benefits to the Company. The amortisation period will not, however, exceed five years.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Production buildings	30 years
Administration buildings	30 years
Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	5-10 years

The useful life and residual value are reassessed annually. Changes are accounted for as accounting estimates, and the effect on depreciation is recognised prospectively.

Land is not depreciated.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Financial statements 1 April – 31 March

Notes

1 Accounting policies (continued)

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as indirect production costs. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Equity

Dividends

The expected dividend payment for the year is disclosed as a separate item under equity.

Financial statements 1 April – 31 March

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities measured on the planned use of the asset or settlement of the liability, respectively. However, deferred tax is not recognised on temporary differences relating to office buildings non-deductible for tax purposes and other items where temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

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

Financial statements 1 April – 31 March

Notes

2 Staff costs

DKK	2018/19	2017/18
Wages and salaries	29,309,828	25,371,983
Pensions	2,630,352	2,290,335
Other social security costs	1,460,539	1,144,004
	33,400,719	28,806,322
Average number of full-time employees	72	58

Referring to section 98b(3) of the Danish Financial Statements Act, remuneration of the Executive Board and Management has not been disclosed.

DKK	2018/19	2017/18
3 Financial income		
Foreign exchange gains	89,084	43,466
	89,084	43,466
4 Financial expenses		
Interest expense to group entities	3,444,606	2,703,549
Foreign exchange losses	323,271	392,149
Other interest expense	14,079	10,302
	3,781,956	3,106,000
5 Tax on profit/loss for the year		
Current tax for the year	173,000	160,000
Deferred tax adjustment for the year	0	0
	173,000	160,000
6 Profit appropriation/distribution of loss		
Proposed dividends for the financial year	0	0
Retained earnings	-23,981,008	-33,299,245
	-23,981,008	-33,299,245

Financial statements 1 April – 31 March

Notes

7 Intangible assets

DKK	Development projects	Goodwill
Cost at 1 April 2018	5,046,414	19,390,683
Additions	786,738	0
Cost at 31 March 2019	5,833,152	19,390,683
Amortisation and impairment losses at 1 April 2018	2,559,716	19,390,683
Impairment losses	0	0
Amortisation	996,045	0
Amortisation and impairment losses at 31 March 2019	3,555,761	19,390,683
Carrying amount at 31 March 2019	2,277,391	0

Development projects

Development projects relate to the development of new products, further development of existing products and development of new processes. The projects are amortised over five years.

Financial statements 1 April – 31 March

Notes

8 Property, plant and equipment

DKK	Land and buildings	Plant and machinery	Total
Cost at 1 April 2018	20,016,892	83,627,564	103,644,456
Additions	0	622,863	622,863
Cost at 31 march 2019	20,016,892	84,250,427	104,267,319
Depreciation and impairment losses at 1 April 2018	2,244,404	47,592,651	49,837,055
Depreciation	398,695	8,186,661	8,585,356
Depreciation and impairment losses at 31 March 2019	2,643,099	55,779,312	58,422,411
Carrying amount at 31 March 2019	17,373,793	28,471,115	45,844,908

Financial statements 1 April – 31 March

Notes

9 Share capital

The share capital consists of:

3,070,000 shares of nom. DKK 22,878,950

10 Non-current liabilities

Non-current liabilities are specified as follows:

DKK	2018/19	2017/18
Subordinate loan capital:		
0-1 years	2,000,000	2,000,000
1-5 years	6,000,000	8,000,000
>5 years	0	0
Total non-current liabilities other than provisions	8,000,000	10,000,000

Collateral is disclosed in note 12.

The Parent Company has confirmed that they will provide financing support to Denex A/S to meet its financial obligations for 2019/20.

11 Deferred tax

Deferred tax amounting to DKK 20,0 millions has been written down.

12 Contractual obligations, contingencies, etc.

Contingent liabilities

The Company has provided a guarantee for the parent company, MaxamCorp Holding, S.L.' bank loans.

There is a registered mortgage bond of 32.5 mDKK to credit institution, but there is no debt to credit institution.

Operating lease obligations

The Company has entered into leases totalling DKK 291 thousand that fall due within 1-36 months.

Financial statements 1 April – 31 March

Notes

13 Related party disclosures

Denex A/S' related parties comprise the following:

Control

Denex A/S, Tuenvej 120, 9900 Frederikshavn.

Expal System S.A. holds the majority of the share capital in the Company

Denex A/S is part of the consolidated financial statements of Expal Systems S.A., registered office, which is the smallest group in which the Company is included as a subsidiary.

The consolidated financial statements of Expal Systems S.A. can be obtained by contacting the Company.

MaxamCorp Holding S.L. controls the majority of the share capital in Denex A/S through Expal Systems S.A.

Related party transactions

DKK	2018/19
Sale of goods to related parties	99,987,898
Purchase of goods from related parties	9.764.876
Interest expenses to related parties	3,444,606
	113.197.380

14 Events after the balance sheet date

No events have occurred after the balance sheet date to this date that would influence the assessment and evaluation of this annual report in any substantial way.i