Annual Report
2018/19

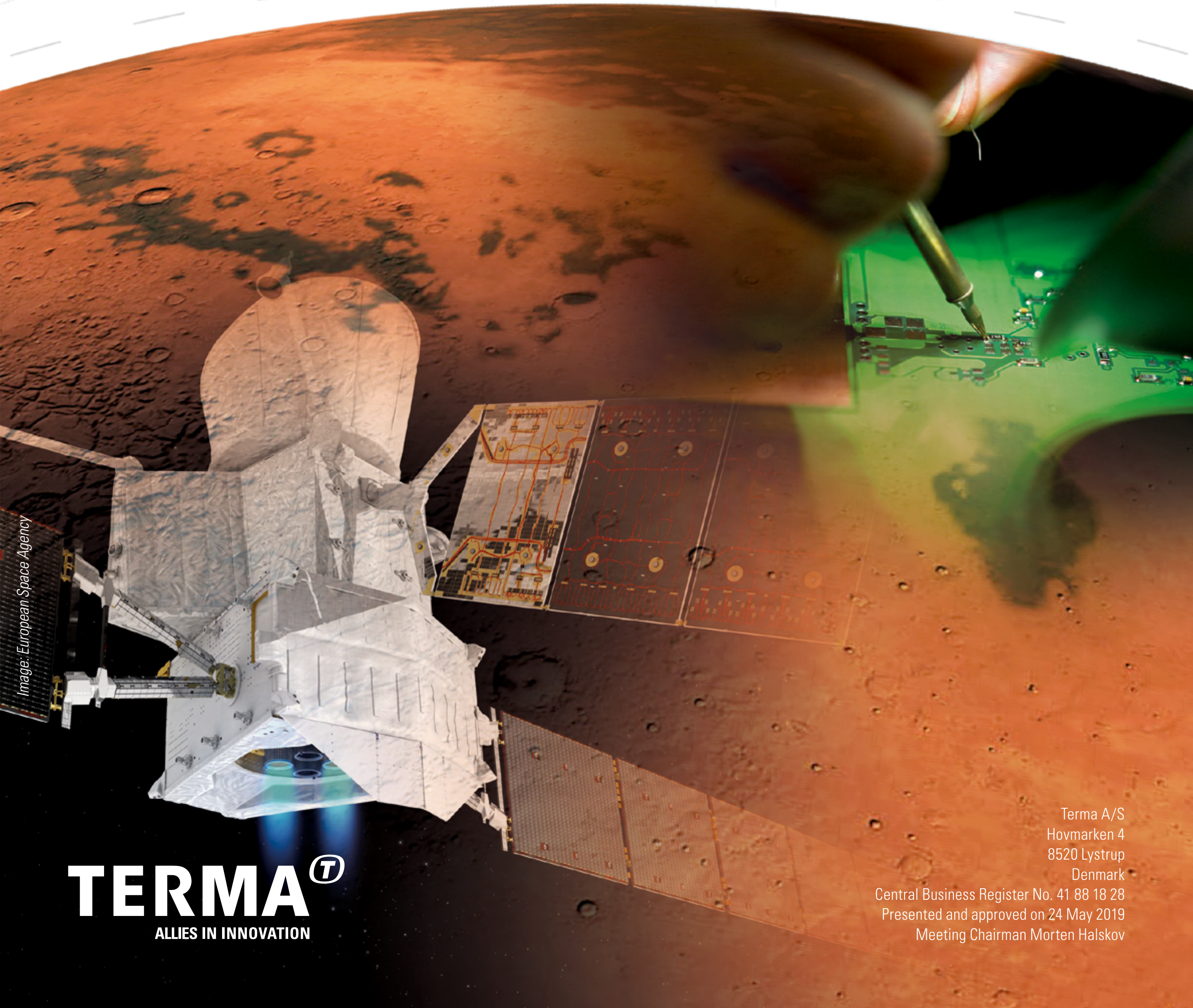

Image: European Space Agency

TERMA
ALLIES IN INNOVATION

Terma A/S
Hovmarken 4
8520 Lystrup
Denmark
Central Business Register No. 41 88 18 28
Presented and approved on 24 May 2019
Meeting Chairman Morten Halskov

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Central Business Register No. 41 88 18 28
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Board of Directors
Flemming H. Tomdrup (Chairman)
Jørgen Huno Rasmussen (Deputy Chairman)
Karen-Marie Katholm
Carsten Dilling
Christina Grumstrup Sørensen
Bo Laursen
Martin Anders Hedegaard
Benny Daugaard Laursen

Executive Management
Jens Maaløe, President & CEO
Per Thiesen, Executive Vice President & CFOO
Steen M. Lynenskjold, Executive Vice President & CCO

Auditors
ERNST & YOUNG
Godkendt Revisionspartnerselskab

Annual General Meeting
The annual general meeting is held at the Group's address in Lystrup on 24 May 2019.

Contents

Statement by the Board of Directors and Executive Management

From left: Per Thiesen, Jens Maaløe, Steen M. Lynenskjold

From left standing: Martin Anders Hedegaard, Jørgen Huno Rasmussen, Flemming H. Tomdrup, Bo Laursen, Christina Grumstrup Sørensen
From left sitting: Karen-Marie Katholm, Carsten Dilling, Benny Daugaard Laursen

The Board of Directors and Executive Management have today discussed and approved the Annual Report of Terma A/S for the 2018/19 fiscal year.

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

In our opinion, the Consolidated and Parent Company Financial Statements give a true and fair view of the Group's and Parent Company's financial position at 28 February 2019 and of the results of the Group's and the Parent Company's operations and the Group's cash flows for 2018/19.

Further, we consider the Management's Review to present a fair disclosure of the development in the Group's and Parent Company's operations and financial conditions, the results for the year, cash flows, and financial position as well as a description of the most significant risks and uncertainty factors that the Group and the Parent Company face.

We recommend that the Annual Report be approved at the annual general meeting.

Lystrup, 24 May 2019

Executive Management

Jens Maaløe
President & CEO

Per Thiesen
Executive Vice President & CFOO

Steen M. Lynenskjold
Executive Vice President & CCO

Board of Directors

Flemming H. Tomdrup
Chairman

Jørgen Huno Rasmussen
Deputy Chairman

Karen-Marie Katholm

Carsten Dilling

Christina Grumstrup Sørensen

Bo Laursen

Martin Anders Hedegaard

Benny Daugaard Laursen

Independent Auditor's Report

TO THE STOCKHOLDER OF TERMA A/S

Opinion
We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Terma A/S for the fiscal year 1 March 2018 – 28 February 2019, which comprise Income Statement, Balance Sheet, Statement of Changes in Equity, and Notes, including Accounting Policies, for the Group and the Parent Company, and a Consolidated Cash Flow Statement. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 28 February 2019 and of the results of the Group's and the Parent Company's operations as well as the Consolidated Cash Flows for the fiscal year 1 March 2018 – 28 February 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Consolidated Financial Statements and the Parent Company Financial Statements" (hereinafter collectively referred to as "the Financial Statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of the 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 Group's and the Parent 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 Group or the Parent 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 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 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 the Financial Statements.

As part of an audit conducted in accordance with ISAs and 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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and contents of the Financial Statements, including the note disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated Financial Statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 Statements Act. We did not identify any material misstatement of the Management's Review.

Aarhus, 24 May 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jes Lauritzen
State-Authorized Public Accountant
mne10121

Financial Highlights

CONSOLIDATED

DKK million	2018/19	2017/18	2016/17	2015/16	2014/15
Key Figures:					
Order intake	1,726	1,728	1,411	1,671	1,394
Order backlog, year-end	2,297*	2,374*	2,431*	2,739*	2,567*
Revenue	1,803	1,785	1,719	1,499	1,308
EBITDA before special items	277	298	288	220	174
Depreciation, amortization, and write-downs	(165)	(149)	(147)	(107)	(74)
Operating profit before special items	112	149	141	113	100
Financial income and costs	(17)	(25)	(21)	(28)	(29)
Earnings before special items and tax	95	124	120	85	71
Special items**	(164)	(31)	0	0	0
Profit for the year	**(66)**	**72**	**91**	**66**	**53**
Non-current assets	995	935	899	839	796
Current assets	1,192	1,084	892	862	763
Total assets	**2,186**	**2,019**	**1,791**	**1,701**	**1,559**
Total equity	**579**	**663**	**562**	**572**	**491**
Subordinated loans	125	125	125	0	0
Capital base* **	**704**	**788**	**687**	**572**	**491**
Provisions	290	165	146	149	127
NIBD (excl. subordinated loans)	357	489	306	418	389
Cash flows from operating activities	362	5	283	120	133
Cash flows for investing activities	(230)	(188)	(206)	(139)	(81)
hereof investments in property, plant, and equipment	(107)	(92)	(133)	(70)	(35)
Cash flows from financing activities	(36)	157	(36)	17	(67)
Total cash flows	**95**	**(26)**	**41**	**(2)**	**(15)**
Financial Ratios:					
EBITDA margin before special items	15.3	16.6	16.8	14.6	13.3
EBT margin before special items	5.2	7.0	7.0	5.7	5.4
Return on investments before special items	5.5	8.0	8.2	7.0	6.6
Liquidity ratio	149	161	135	135	139
Solvency ratio (capital base)	32.2	39.0	38.4	33.6	31.5
Return on equity	(10.7)	11.8	16.1	12.5	10.8
Leverage ratio	1.3	1.6	1.1	1.9	2.2
Average number of full-time employees	**1,495**	**1,398**	**1,257**	**1,174**	**1,117**

*   *Including framework agreements, e.g. the F-35 Joint Strike Fighter program.*
** *Accounting for the Polish court case influences Revenue, EBITDA, Operating profit, and Financial income and costs. Special items primarily relate to the Polish court case.*
*** *Capital base is defined as equity and subordinated loans.*

Definitions of Financial Ratios:

EBITDA margin before special items:	EBITDA before special items x 100 / Revenue	EBT margin before special items:	Earnings before special items and tax x 100 / Revenue
Return on investments before special items:	Operating profit before special items x 100 / Average operating assets	Operating assets:	Total assets less cash at bank and in hand, other interest-bearing assets, and equity interest in affiliated companies
Liquidity ratio:	Current assets x 100 / Current liabilities other than provisions	Solvency ratio: (Capital base)	Capital base x 100 / Total liabilities at year-end
Return on equity:	Profit for the year x 100 / Average equity	Leverage ratio:	NIBD (excl. subordinated loans) / EBITDA (before special items)

Terma at a Glance

2018/19 IN NUMBERS

MAIN CONCLUSIONS

Cash flows were as expected strong in 2018/19, resulting in a reduction in Net Interest Bearing Debt (NIBD). Whereas order intake and revenue improved over 2017/18, earnings were lower.

Order intake (DKK million)
1,726
Up from 1,575**

Revenue* (DKK million)
1,803
Up from 1,785

Earnings before tax (EBT)* (DKK million)
95
Down from 124

EBITDA* (DKK million)
277
Down from 298

Cash flows from operating activities (DKK million)
362
Up from 5

Return on investments (%)
5.5
Down from 8.0

Leverage ratio*
1.3
Down from 1.6

Net interest bearing debt (DKK million)
357
Down fom 489

* *Revenue, operating profit, EBT, and EBITDA before special items*
** *Adjusted for a project of 153 MDKK subsequently cancelled in 2018/19*

Management's Review 2018/19

Results for 2018/19
The order intake for the year was 1,726 MDKK, resulting in an order backlog at year-end of 2,297 MDKK, compared to an order intake of 1,728 MDKK in 2017/18. The order backlog provides for a comfortable business base in 2019/20 as well as in following years.

Revenue for the fiscal year was 1,803 MDKK compared to 1,785 MDKK in 2017/18. 94% of the revenue was generated outside Denmark. The defense market constitutes 67% of the revenue.

The Regional Court of Warsaw has delivered its judgment in the dispute which Terma filed in 2014 against the Polish Ministry of National Defence for breach of contract. Both parties have appealed to a higher court. The case confirmed that our Aircraft Survivability Equipment system lives up to expected performance, and both we and our legal advisers still view that we have a strong case against the Polish Ministry of National Defence. Nonetheless, due to the fact that the judgment did not fully turn out in our favor and due to the actual circumstances surrounding the Polish court system, we have accrued for the case.

EBITDA was 277 MDKK before special items in 2018/19 compared to 298 MDKK in 2017/18, with a 2018/19 EBITDA of 153 MDKK after special items. Special items comprise the Polish court case accrual as the major part.

Earnings before tax (EBT) were 95 MDKK before special items in 2018/19 compared to 124 MDKK in 2017/18. EBT was (69) MDKK after special items in 2018/19.

The net interest-bearing debt (NIBD) decreased markedly compared to 2017/18, from 489 MDKK to 357 MDKK.

At year-end, total staff was 1,571 Full-Time Employees (FTE).

The Board of Directors and Executive Management greatly appreciate the dedication, commitment, and efforts of our employees worldwide.

Jens Maaløe will retire at the end of May 2019 after 16 years as President & CEO of the Terma Group.

Jes Munk Hansen takes up the post as CEO of the Terma Group. He brings extensive experience within the establishment and development of global technology-based companies. Before joining Terma, he was CEO for Osram USA and Head of the Osram Global Sales Function. His previous career also includes 13 years at Grundfos.

Outlook for 2019/20
In 2019/20, Terma expects a consolidated organic growth >10% in revenue. EBT before special items is expected to increase accordingly whereas cash flows from operating and investing activities are expected to be on par with 2018/19.

Terma is predominantly a business-to-business supplier. The U.S. and Europe will continue to be important growth markets for Terma. From an end user perspective, Terma also foresees growth in the Middle East and Asia Pacific, including India.

Another significant growth driver for Terma will be the ongoing ramp-up in the F-35 program. Negotiations with Lockheed Martin Corporation and their major suppliers continue for future deliveries covering 2023-27. The expected agreements will cover up to 1,100 aircraft through 2027 and are likely to be some of the largest frame contracts in Terma's history.

The debt level for 2019/20 is expected to improve, primarily due to working capital improvements offsetting higher investments.

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Image: NASA

The overall strategy of Terma stands on three fundamental pillars:
1. Growing the top line
2. Breaking the cost curve
3. Developing the organization

The objective of all three strategic initiatives is to ensure a profitable and sustainable growth.

Business Activities
Terma provides mission-critical solutions for the aerospace, defense, and security industry. Terma is guided by one overall purpose: to deliver security for countries, alliances, and individuals. Security is a means to maintaining and developing prosperity and protecting human lives and sovereignty.

Terma consists of four Business Areas: Aeronautics, Surveillance & Mission Systems, Support & Services, and Space.

Aeronautics provides a full range of world-class complex composites and aerostructures, aircraft self-protection and audio management solutions, and Electronics Manufacturing Services (EMS).

Surveillance & Mission Systems provides radar systems for coastal surveillance and traffic control in sea ports and airports, radars for naval vessels, as well as radars for wind turbine interference mitigation and obstruction light control. The activities also cover command, control, and communications solutions for naval vessels and air defense systems, self-protection systems for naval vessels, as well as systems for security surveillance of critical infrastructures.

Support & Services provides maintenance, support, and update of Terma products and solutions as well as third-party OEM equipment.

Space develops and supplies electronics, software, and services for satellites, space control centers, and for test and validation tasks related to development of new satellites and spacecraft.

Terma's business is generated from customers and end users in more than 40 countries worldwide.

Within all business activities and programs, Terma broadly utilizes nationally as well as internationally based suppliers and partners. Our global supplier list for production and project execution encompasses well over 1,000 suppliers and partners.

Supplementary to Terma's AS9100 rev. D standard for Quality Management Systems and AQAP NATO quality standard certifications, Terma has achieved the National Aerospace and Defense Contractors Accreditation Program (NADCAP) special process approval related to composites manufacturing. Certification-wise, Terma is compliant with all applicable quality standards currently required in our markets and from customers. AS9100 comprises all ISO 9001 requirements and adds industry-specific requirements, and NADCAP further ensures fully documented control of selected special manufacturing and inspection processes.

Terma has enhanced the participation in knowledge sharing and joint auditing activities in the international F-35 Global Quality Council, led by Lockheed Martin Corporation. This Council supports zero defect planning, supply chain improvements, and sharing of best practices between industry partners. The Council represents the top major suppliers and co-producers attached to the design and manufacturing of the F-35 Joint Strike Fighter.

Terma continues its efforts on building strong modular technology and product platforms. The improved control suite and T-OPS software platform for airborne electronic warfare applications will be ready for use during the 2019/20 fiscal year. Furthermore, Terma has introduced its new innovative compact Digital Sequencer Switch (DSS) for the airborne market which provides increased flexibility and usability to our customers.

The development of the common command and control (C2) platform for naval vessels to ensure efficient reuse of key functionalities across C2 product families is a significant contributor to the new C-Flex Patrol product, featuring among others an enhanced user interface. C-Flex Patrol has proven its validity in the market with its first sales. In addition to the software platforms, the upcoming antenna mid-life update program will also be based on modular platform strategies.

BUSINESS AREAS

Aeronautics

Customers continue to appreciate and depend on the Aeronautics Business Area's timely delivery of complex composite aerostructures, aircraft self-protection and Electronic Warfare (EW) systems, 3D-Audio management solutions, and Electronics Manufacturing Services (EMS). Together, the Aeronautics team, from the U.S. and Lystrup and Grenaa in Denmark, remains close to our customers, focused on innovation, providing quality products that help ensure mission success.

Terma is a valued supplier to the world's largest defense program, the F-35 Joint Strike Fighter. Through multi-year agreements, Terma delivers composite structures to Lockheed Martin Corporation, BAE Systems, General Dynamics, United Technologies, and Northrop Grumman Corporation, and pylons to Marvin Engineering Company from our production facility in Grenaa, Denmark. From Lystrup, Denmark, Terma delivers sensitive electronics to Northrop Grumman Corporation.

The F-35 program delivered 91 aircraft in 2018, a doubling of the number from 2016, and is set to deliver 150 aircraft in 2020. As supplier to all aircraft in the program, Terma is able to meet the increased demand, with capacity to surge.

In pursuit of affordability, F-35 contracting is transitioning from lot-by-lot contracting towards multiple years agreements. Memorandum of Understandings covering production and delivery of composites until 2021 was signed with Lockheed Martin Corporation and with BAE Systems. Terma also received a contract award from Marvin Engineering Company for delivery of air-to-ground pylons through 2020 and an authorization to proceed from Northrop Grumman Corporation for delivery of fuselage composite parts. The F-35 program constitutes approximately 25% of Terma's revenue.

Our self-protection systems are increasingly becoming the standard for combat aircraft. Together with and for the U.S. Air Force, we are uniquely positioned to deliver a next-generation "Enterprise" system that meets new cyber security requirements and defends against new missile threats. Enterprise systems will be on frontline U.S. combat aircraft, exports from the U.S., and U.S. OEM aircraft upgrades around the world. Terma delivers tailored solutions to both U.S. and international customers.

Terma's 3D-Audio/Active Noise Reduction solutions are growing beyond Danish, Dutch, Belgian Air Forces, and U.S. Air National Guard F-16s. Terma was also selected (through a sole-source justification) to integrate 3D-Audio onto A-10 aircraft and will enter into a second multi-year agreement with the U.S. Air National Guard.

Electronics Manufacturing Services has grown and improved profitability, both as a supplier to Northrop Grumman Corporation on the F-35 and as an electronics provider to Raytheon Company for the Evolved Sea Sparrow Missile (ESSM) program. Terma was the first company outside the U.S. allowed to provide sensitive components for the F-35 Electro-Optical Distributed Aperture System (EO-DAS).

Surveillance & Mission Systems

Surveillance & Mission Systems (SMS) has continued the strong performance in the defense and security markets, expanding our global organization for a global market reach and more importantly meeting the customers locally for sales, project delivery, and service.

For our radar products, the focus continues to create high performance radars for selected market segments, embedding new functions, while increasing support for digital services and lower life cycle costs.

Critical infrastructure protection (CIP) continues to improve sales in the Middle East where Terma is now on contract to protect multiple facilities, including a VIP facility. The solution protects facilities from intruders on land and on water, using a combination of sensors (including radar) and the Terma T.react CIP C2 System.

For our naval command and control (C2) products, focus continues on making our superior technology available in the 'Patrol' segment as well as the 'Combat' segment. The C2 products will benefit from new advanced functions, based on Artificial Intelligence (AI), derived from our first successful AI implementation to the NATO Alliance Ground Surveillance program.

Recently, SMS closed a significant naval C2 contract in Indonesia, delivering the C-Flex Combat Management System, Combat System Integration, and several sub-systems for four Fast Patrol Boats. This program will enable Terma to become a major local supplier.

In the naval radar domain, Terma continues with significant wins, notably contracts with Australia and France which further establishes the SCANTER 2602 and 6002 radars as a global naval standard for surface surveillance and helicopter control. Key progress was made with the U.S. Navy deploying the first naval vessel with a Terma surface and air surveillance radar to a mission area.

As a world leader in coastal surveillance, Terma is well underway to deliver our largest programs to date for Middle East customers. The requirement for reliable long-range detection of small targets in difficult atmospheric conditions is the trademark of our radars. We continue to deliver upgrades and add-on radar systems to Vessel Traffic Systems (VTS) in the largest ports in the World, with 19 of the 20 largest ports as customers.

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Image: Lockheed Martin

Service support for 40 Terma Vessel Traffic Service radars located in major ports and waterways across the U.S. continued, and in Canada, the coast guard confirmed interest in a similar number of new radar systems.

Traditional airport radars may be disturbed by wind turbines, thus, building large wind turbine facilities close to airports is a challenge. Terma's SCANTER 4002 radar delivers surveillance over and around wind turbine farms in a range above 40 miles. The first radars are operating in UK airports, ensuring green energy production close to cities without impacting air traffic safety.

The obstruction lights on large wind turbines warn aircraft but also cause light pollution for neighbors. SCANTER radars make it possible to only turn on the lights when an aircraft is nearby, limiting the light pollution significantly. Terma is the only supplier authorized by both the U.S. Federal Aviation Administration (FAA) and European authorities and holds contracts in U.S. as well as European countries.

Support & Services
Terma Support & Services (TSS) is growing the service business in all defense and security product areas. Terma focuses on activities expanding the service content of our products, enabling further through-life value propositions to our customers as well as end users. Furthermore, Terma pursues business by means of service contracts for third-party OEMs and investigates possibilities of service business expansion through strategic partnerships.

The F-35 Joint Strike Fighter aircraft will be commissioned in Denmark during the coming years, and Terma is pursuing sustainment contracts on avionics and composites in this important program. Terma and Scandinavian Avionics teamed up and formed Avionics Test Center Denmark (ATCD), which was assigned as Product Support Provider for maintenance of F-35 avionics components and furthermore supporting the global F-35 fighter aircraft fleet. The components include electronic control units, power supplies, sensors, and electro-mechanical devices.

In the coming year, TSS will launch a new service concept, Terma Lifecare, adding further value to the usage of Terma's products. Lifecare will ensure investment protection through update and improvement services and will offer customers and end users a more predictable and lower total cost of ownership.

Space
The worldwide space market is developing positively, and our product development over the past years has placed Terma in a comfortable position for a number of new opportunities in Europe, the U.S., and in the Far East. This applies to electronics and software solutions as well as space engineering services.

During 2018/19, major space missions were pursued covering ESA missions for Earth observation as well as Plato, ExoMars 2020, the telecom platform Electra, European defense programs and commercial constellation programs. For all missions, significant successes were achieved, building on established long-term agreements in both our electronics area and our software area, thus paving the way for a promising 2019/20 and the years to come.

Terma is the prime contractor for the ASIM project – the Atmosphere-Space Interactions Monitor – with the objective of measuring high altitude lightning in the upper atmosphere. The observatory was delivered to ESA and Kennedy Space Center in early 2018 and was launched on a SpaceX Falcon 9 launcher on 2 April 2018. And after nearly a year in space, the observatory is performing excellently.

Contracts for the current generation of Star Trackers, as well as a new generation of test and control systems, continued in 2018/19 with customers both inside and outside Europe. The development of a new generation of Star Trackers is well underway, based on technology that reduces the size and weight of the system's camera and computer.

Building on the power electronics delivered for the ExoMars 2016 mission and the BepiColombo mission, new power electronics product series were successfully introduced and new contracts secured in the defense and the telecom markets.

Terma developed and delivered the software that controls the Solar Orbiter's positioning and orbit. The satellite will conduct observations close to the Sun. Terma's software is crucial for the satellite's correct positioning relative to the Sun. Building on that, a major software program is under development for the ExoMars 2020 mission as well as for ESA's Earth observation program JASON.

The Terma Electrical Ground Support Equipment (EGSE) products, used to test satellites during assembly, have developed positively, with significant contracts for ESA Science and Earth Observation programs as well as for commercial constellations such as OneWeb.

INTERNATIONAL ACTIVITIES AND REGIONS

Market Development
Market Development's overall aim is to manage the internationalization and market development for Terma globally. Long-term relationships and a strong focus on partnerships are crucial to the Group and a Market Development key deliverable.

On behalf of the four Business Areas, Market Development facilitates the global infrastructure with the establishment and operation of the regional offices. Our regional footprint gives Terma access to a wide network of customers, business partners, and new geographical markets.

Europe
High political attention on defense and security and rising budgets by European governments continued through 2018/19. The European Union took additional steps to creating instruments and programs to strengthen security and defense cooperation and capabilities among member states.

In Denmark, in recognition of a continued unstable security situation, last year's Defense Agreement spanning until 2023 was supplemented with additional funding aiming to reach 1.5% of GDP in 2023. The reinforcement of the Danish Defence carries business opportunities for Terma, for the national defense industry, as well as for international companies.

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In the Netherlands, Terma B.V., with facilities in Leiden and at the Woensdrecht Air Base, supports partners and customers within the airborne, naval, and space domains.

Terma GmbH in Darmstadt, Germany, keeps focusing on Space support and services. Meanwhile, execution on a "closer to the customer" initiative is ongoing with the opening of a Berlin office expected in 2019. This to increase probability of winning identified programs in a European growth market situation.

Terma is part of the first EU-defended research project, OCEAN2020, with official start in March 2018. Our Brussels office closely monitors the evolvement of future programs such as EDIDP and the European Defense Fund. We are looking forward to expanding our close cooperation with our partners to fulfill future capability needs of the European armed forces.

Industrial Cooperation and Partnerships is the function within Terma that supports our global business with industrial cooperation and offset obligations. This is becoming increasingly important in the international defense market as more countries demand suppliers to perform local activities in cooperation with national defense industry. Together with commercial proposals, plans for engaging with local companies have been prepared for several countries worldwide.

North and Central America

The U.S. remained the most important regional market for Terma due to large programs such as the F-35 Joint Strike Fighter and the presence of many of our key partners, including Lockheed Martin Corporation, Northrop Grumman Corporation, and Raytheon Company. U.S. Foreign Military Sales (FMS) continued to be a key sales channel for aircraft self-protection systems and coastal surveillance radar systems.

Terma North America Inc. with its U.S. special security agreement continued to enable closer cooperation with the customers in a trusted community. There was increased recognition of and demand for in-country engineering expertise, production, and local service and support. Recognition as a U.S. company was increased by acting locally and through a more U.S. focused branding effort.

At the same time, the roots in Denmark continued to be a driver for awareness of Terma as leading Danish defense and security company. The new Danish six-year Defense Agreement drew attention from our partners in the region and helped drive development of future business including industrial cooperation. The embassies in Washington DC, Ottawa, and Mexico City were important partners who helped facilitate engagement and advancing our value proposition to governments and industry.

Middle East and North Africa

The past year has again seen strong sales of our radars for coastal surveillance, Vessel Traffic Services, ground surveillance, airport surveillance, as well as the T.react. CIP wide area protection system across the Middle East and North Africa region.

With our latest sales and ongoing major projects, more than 13,500 km of coastline is set to be covered by our SCANTER radars.

Egyptian naval vessels are now operational with Terma's naval C-Flex command and control suite on board, and the upgrade program continues in the coming year. We see an increased interest for C-Flex across the Middle East and North Africa region with a number of navies actively considering it for both upgrade and newbuild platforms.

Additional sales personnel have been added to the local office, and we expect to further build on our substantial footprint in the region in the coming year.

Asia Pacific

Multiple factors are driving rapid industrial development across Asia Pacific within the defense and security area: protection of own economic interests, a desire for military self-sufficiency, and overlapping territorial claims combined with border tensions between countries are all drivers.

Asia Pacific nations are building up their own defense industries by increasingly encouraging domestic firms to manufacture hardware locally and mandating foreign companies to increase local content and transfer-of-technology (ToT). This trend is thus channeling increasing military budgets to develop local expertise and lower dependence on foreign suppliers.

The naval domain is continuing the upwards trajectory order intake in Asia Pacific. Terma expects the positive trend of our naval business to continue in the next fiscal year.

The economic growth in Asia Pacific is further driving infrastructure expansion and enhancements with investments in air- and seaports. The airport and Vessel Traffic Service (VTS) markets continue to be niches of interest. Last year, we yet again secured several Surface Movement Radar (SMR) projects and confirmed our leading position as VTS radar provider through several wins in the region.

During the 2018/19 fiscal year, the regional strategy focused on expansion of, restructuring, and gearing the regional organization to cater for the growing number of naval and security opportunities. This whilst also maturing and tapping into the after-sales market and further strengthening Terma's Aeronautics footprint.

Risks

Terma's leading risk is execution of large programs. Terma seeks to reduce this risk by increased focus on contract management and financial control.

Terma's business is within a highly regulated market with export regulations for dual-use and military equipment. The primary business model for Terma is as a supplier of technology in a business-to-business transaction where the end user in most cases is a government authority. Terma is increasingly developing into a trusted, sole-source technology supplier where our customers are relying on our ability to supply. If Denmark undertakes a different political standpoint on export regulation than our partner nations, this becomes a business challenge for Terma.

LEARN MORE »

Terma has the required credit lines available and the support of our financial partners to implement the planned short-term and long-term activities and investments.

Being the first corporate transaction in Denmark to be guaranteed under the European Fund for Strategic Investments, heart of the Investment Plan for Europe, the European Union supports Terma with a 28 MEUR loan from the European Investment Bank – a strategic partner to the European Commission. The loan entails research, development, and innovation investments for the development of radar technology and high-tech products for space applications.

Terma is minimally exposed to changes in interest rates. The interest risk is hedged via fixed-rate mortgage loans and interest swaps.

Terma primarily sells and buys in DKK, EUR, and USD currencies. Risks relative to USD are hedged by entering into forward exchange contracts in connection with the acceptance and conclusion of contracts.

In general, there is no significant credit risk relative to individual customers.

Terma A/S is a party, as the plaintiff, to a court dispute with the Polish Ministry of National Defence regarding Aircraft Survivability Equipment. The Regional Court of Warsaw has delivered its judgment with the result that both parties have appealed to the Court of Appeal. If the Court of Appeal rules in favor of our opponent, we could risk a further loss for liquidated damages.

CORPORATE SOCIAL RESPONSIBILITY AND EQUAL REPRESENTATIONS OF GENDERS

Corporate Social Responsibility

Terma actively works with Corporate Social Responsibility (CSR), as we believe it is important to have a positive impact on our surroundings as well as being responsible and accountable for the impacts of our business operations. All our CSR efforts are described in our separate Corporate Social Responsibility Report 2018/19, which lives up to the requirements for CSR reporting as stated in the Danish Financial Statements Act, section 99a.

The report also serves as our Communication on Progress to the UN Global Compact.

The report is available at:
https://www.terma.com/static/csr_report2018-19/index.html

Representation of Gender in Management

Terma's description of equal representation of gender pursuant to the Danish Financial Statements Act section 99b, can be found in our CSR Report at https://www.terma.com/static/csr_report2018-19/index.html

Income Statement

1 MARCH - 28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Revenue	3,4	**1,803,358**	**1,784,591**	**1,096,506**	**1,183,963**
Revenue concerning the Polish court case		*(77,945)*	-	*(77,945)*	-
Revenue, total		*1,725,413*	*1,784,591*	*1,018,561*	*1,183,963*
Production costs	2,5	(1,457,831)	(1,413,779)	(892,302)	(916,692)
Gross profit		**267,582**	**370,812**	**126,259**	**267,271**
Distribution costs	2,5	(154,932)	(146,346)	(124,760)	(113,715)
Administrative costs	2,5,6	(110,442)	(107,293)	(65,973)	(62,409)
Other operating income	7	1,494	1,577	43,783	43,025
Other operating costs	7	(312)	(259)	(7,319)	(6,510)
Other operating costs concerning the Polish court case	2	*(15,851)*	-	*(15,851)*	-
Other operating costs, total		*(16,163)*	*(259)*	*(23,170)*	*(6,510)*
Operating profit		**(12,461)**	**118,491**	**(43,861)**	**127,662**
Results in subsidiaries after tax	8	-	-	13,861	(7,444)
Financial income	9	16,311	9,837	16,209	3,665
Financial costs	9	(33,451)	(35,022)	(23,532)	(28,997)
Financial costs concerning the Polish court case	2	*(39,885)*	-	*(39,885)*	-
Financial costs, total		*(73,336)*	*(35,022)*	*(63,417)*	*(28,997)*
Earnings before tax (EBT)		**(69,486)**	**93,306**	**(77,208)**	**94,886**
Tax on profit	2, 10	3,091	(20,950)	10,923	(22,530)
Result for the year		**(66,395)**	**72,356**	**(66,285)**	**72,356**
The Group result is split as follows:					
Stockholder in Terma A/S		(66,285)	72,356		
Minority interest		(110)	0		
		(66,395)	72,356		
Proposed profit appropriation	26				

Balance Sheet

28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
ASSETS					
Non-current assets					
Intangibles					
Software		29,967	23,728	29,945	23,688
Software in process		12,602	2,229	10,051	2,229
Development projects completed		158,273	255,448	128,988	219,330
Development projects in process		276,456	153,213	234,278	130,457
	11	**477,298**	**434,618**	**403,262**	**375,704**
Property, plant, and equipment					
Land and buildings		274,383	273,127	274,383	273,127
Plant and machinery		171,464	177,214	30,721	27,228
Fixtures and fittings, tools and equipment		29,209	25,139	15,355	13,799
Property, plant, and equipment under construction		42,340	25,235	31,147	16,723
	12	**517,396**	**500,715**	**351,606**	**330,877**
Investments					
Investments in subsidiaries		-	-	289,147	299,364
Loan to subsidiary		-	-	52,311	48,751
	8	**-**	**-**	**341,458**	**348,115**
Total non-current assets		**994,694**	**935,333**	**1,096,326**	**1,054,696**
Current assets					
Inventories					
Raw materials and consumables		263,684	225,272	164,677	169,492
Work in process		120,680	93,052	89,581	74,254
Prepayments to suppliers		125	2,339	125	2,339
		384,489	**320,663**	**254,383**	**246,085**
Receivables					
Trade receivables		358,409	318,715	196,829	188,592
Construction contracts	13	302,523	380,739	124,595	189,508
Amounts owed by subsidiaries		-	-	65,017	131,224
Corporate tax receivables	14	362	3,268	0	0
Other receivables		20,748	32,520	9,895	12,151
Deferred tax asset	15	3,921	1,384	0	0
Prepayments	16	6,817	7,397	6,505	6,808
		692,780	**744,023**	**402,841**	**528,283**
Cash at bank and in hand		**114,377**	**19,049**	**105,739**	**415**
Total current assets		**1,191,646**	**1,083,735**	**762,963**	**774,783**
Total assets		**2,186,340**	**2,019,068**	**1,859,289**	**1,829,479**

DKK thousand	Note	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
EQUITY AND LIABILITIES					
Equity					
Capital stock	17	18,000	18,000	18,000	18,000
Net revaluation according to the equity method		-	-	19,618	30,097
Reserve for development costs		-	-	163,792	98,690
Translation adjustments and hedging instruments		(11,044)	7,072	(6,224)	(6,274)
Retained earnings		572,000	638,285	383,770	522,844
Proposed dividends		0	0	0	0
Terma A/S' stockholder part of equity		**578,956**	**663,357**	**578,956**	**663,357**
Minority interest		**165**	**0**	**0**	**0**
Total equity		**579,121**	**663,357**	**578,956**	**663,357**
Provisions					
Warranty provisions	18	11,866	11,772	11,866	11,772
Provisions regarding construction contracts		17,993	9,680	613	967
Provision for the Polish court case	19	133,681	0	133,681	0
Deferred tax	15	126,194	143,537	113,621	121,415
Total provisions		**289,734**	**164,989**	**259,781**	**134,154**
Liabilities other than provisions					
Non-current liabilities other than provisions					
Subordinated loans	20	125,000	125,000	125,000	125,000
Credit institutions		197,171	208,502	197,171	208,502
Mortgage credit institutions		195,037	182,983	195,037	182,983
	21	**517,208**	**516,485**	**517,208**	**516,485**
Current liabilities other than provisions					
Current portion of non-current liabilities	21	23,437	10,507	23,437	10,507
Credit institutions		0	51,624	0	51,624
Construction contracts	13	253,875	143,263	78,450	90,304
Prepayments received from customers		56,098	60,520	34,122	45,158
Trade payables		160,295	137,925	106,821	90,034
Amounts owed to Parent Company		54,743	72,164	54,743	72,164
Amounts owed to subsidiaries		-	-	49,909	34,157
Corporate tax	14	4,074	3,360	0	0
Other payables		247,755	194,874	155,862	121,535
		800,277	**674,237**	**503,344**	**515,483**
Total liabilities other than provisions		**1,317,485**	**1,190,722**	**1,020,552**	**1,031,968**
Total equity and liabilities		**2,186,340**	**2,019,068**	**1,859,289**	**1,829,479**

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Statement of Changes in Equity

1 MARCH – 28 FEBRUARY

CONSOLIDATED

DKK thousand	Note	Capital stock	Translation adjustments and hedging instruments	Retained earnings	Proposed dividends	Total	Minority interest	Total equity
Equity at 1 March 2017		**18,000**	**(21,739)**	**565,929**	**0**	**562,190**	**0**	**562,190**
Results for the year		-	-	72,356	-	72,356	0	72,356
Translation adjustment relating to foreign entity		-	(9,952)	-	-	(9,952)	0	(9,952)
Changes in value of hedging instruments, etc. (before tax)		-	49,696	-	-	49,696	0	49,696
Tax on changes in value of hedging instruments		-	(10,933)	-	-	(10,933)	0	(10,933)
Equity at 1 March 2018		**18,000**	**7,072**	**638,285**	**0**	**663,357**	**0**	**663,357**
Results for the year		-	-	(66,285)	-	(66,285)	(110)	(66,395)
Addition		-	0	-	-	-	275	275
Translation adjustment relating to foreign entity (before tax)		-	5,188	-	-	5,188	-	5,188
Tax on translation adjustments relating to foreign entity		-	(783)	-	-	(783)	-	(783)
Changes in value of hedging instruments, etc. (before tax)		-	(28,873)	-	-	(28,873)	-	(28,873)
Tax on changes in value of hedging instruments		-	6,352	-	-	6,352	-	6,352
Equity at 28 February 2019		**18,000**	**(11,044)**	**572,000**	**0**	**578,956**	**165**	**579,121**

PARENT COMPANY

DKK thousand	Note	Capital stock	Net revaluation according to the equity method	Reserve for development costs	Translation adjustments and hedging instruments	Retained earnings	Proposed dividends	Total
Equity at 1 March 2017		**18,000**	**31,085**	**43,009**	**(11,068)**	**481,164**	**0**	**562,190**
Dividends received from subsidiaries		-	(10,031)	-	-	10,031	-	0
Results for the year	26	-	(7,444)	55,681	-	24,119	-	72,356
Reclassification		-	(7,530)	-	-	7,530	-	0
Translation adjustment relating to foreign entity, net after tax		-	(4,297)	-	(5,655)	-	-	(9,952)
Changes in value of hedging instruments, etc. (before tax)		-	36,300	-	13,396	-	-	49,696
Tax on changes in value of hedging instruments		-	(7,986)	-	(2,947)	-	-	(10,933)
Equity at 1 March 2018		**18,000**	**30,097**	**98,690**	**(6,274)**	**522,844**	**0**	**663,357**
Dividends received from subsidiaries		-	(6,220)	-	-	6,220	-	0
Results for the year	26	-	13,861	65,102	-	(145,248)	-	(66,285)
Translation adjustment relating to foreign entity (before tax)		-	1,676	-	3,558	(46)	-	5,188
Tax on translation adjustments relating to foreign entity		-	-	-	(783)	-	-	(783)
Changes in value of hedging instruments, etc. (before tax)		-	(25,379)	-	(3,494)	-	-	(28,873)
Tax on changes in value of hedging instruments		-	5,583	-	769	-	-	6,352
Equity at 28 February 2019		**18,000**	**19,618**	**163,792**	**(6,224)**	**383,770**	**0**	**578,956**

Cash Flow Statement

1 MARCH – 28 FEBRUARY

CONSOLIDATED

DKK thousand	Note	2018/19	2017/18
Earnings before tax		**(69,486)**	**93,306**
Adjustments:			
Depreciation, amortization, and write-downs, etc.		165,357	150,909
Provisions		142,088	7,892
Net financial income and costs		17,140	25,185
		324,585	**183,986**
Changes in working capital	27	**150,304**	**(216,025)**
Cash flows generated from operations before financial items		**405,403**	**61,267**
Financial income, received		16,311	9,837
Financial costs, paid		(33,029)	(35,597)
Cash flows from operations before tax		**388,685**	**35,507**
Corporate tax paid	14	(27,149)	(30,796)
Cash flows from operating activities		**361,536**	**4,711**
Capitalized development costs	11	(123,665)	(96,216)
Acquisition of software, property, plant, and equipment	27	(106,539)	(91,779)
Cash flows for investing activities		**(230,204)**	**(187,995)**
Repayments, non-current liabilities		(9,447)	(10,404)
Proceeds, new non-current liabilities		23,100	104,436
Minority interest – capital injection		275	0
Changes in current interest bearing debt		(51,624)	51,624
Loan from Parent Company		1,692	11,179
Cash flows from financing activities		**(36,004)**	**156,835**
Net cash flows from operating, investing, and financing activities		**95,328**	**(26,449)**
Current cash at 1 March		19,049	45,498
Current cash at 28 February		**114,377**	**19,049**

Notes

1. ACCOUNTING POLICIES

The Annual Report of Terma A/S for 2018/19 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The Consolidated Financial Statements of Terma A/S are included in the Consolidated Financial Statements of the Parent Company, Thrige Holding A/S, Lystrup.

Recognition and measurement of derivative financial instruments are made in accordance with International Financial Reporting Standards (IFRS), cf. the Danish Financial Statements Act, § 37 section 5.

The accounting policies are consistent with those of last year. Some accounting items have been reclassified, and the equity reserve for translation adjustments and hedging instruments has been implemented. The comparable figures have been restated.

Consolidated Financial Statements

The Consolidated Financial Statements comprise the Parent Company Terma A/S and subsidiaries over which Terma A/S has control, i.e. the power to govern the financial and operating policies so as to obtain benefits from its activities. Control is obtained when the Company directly or indirectly holds more than 50% of the voting rights in the subsidiary or, in some other way, controls the subsidiary.

The Consolidated Financial Statements have been prepared as a consolidation of the Financial Statements of the Parent Company and subsidiaries, prepared according to the Group's accounting policies. On consolidation, intra-group income and costs, stockholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated.

Entities acquired or formed during the year are recognized in the Consolidated Financial Statements from the date of acquisition or formation. Entities which are disposed of or wound up are recognized in the Consolidated Income Statement until the date of disposal or winding-up. The comparative figures are not restated for entities acquired, disposed of, or wound up.

Foreign currency translation

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 at the date of payment are recognized in the Income Statement as financial income or financial costs.

Receivables, payables, and other monetary items denominated in foreign currencies, which are not settled on the Balance Sheet date, are translated at the exchange rates at the Balance Sheet date. The difference between the exchange rates at the Balance Sheet date and at the date at which the receivable or payable arose or was recognized in the latest Financial Statements is recognized in the Income Statement as financial income or financial costs.

Upon recognition of subsidiaries that are foreign entities, the Income Statements are translated at an average rate of exchange for the month, and the Balance Sheet items are translated at the exchange rates at the Balance Sheet date. Currency differences arising upon translation of foreign subsidiaries' equity at the beginning of the year to the exchange rates at the Balance Sheet date and upon translation of Income Statements from the average rates of exchange to the exchange rates at the Balance Sheet date are recognized directly in the equity.

Foreign exchange adjustment of balances with foreign entities which are considered part of the investment in the entity is recognized in the Consolidated Financial Statements in the equity.

Upon recognition of foreign subsidiaries that are integrated entities, monetary items are translated at the exchange rate at the Balance Sheet date. Non-monetary items are translated at the exchange rate at the date of acquisition or the time of the subsequent revaluation or impairment of the asset. The items in the Income Statement are translated at the exchange rate at the date of transaction. However, items derived from non-monetary items are translated at the historical conversion rate of the non-monetary item.

Derivative financial instruments

Derivative financial instruments are initially recognized in the Balance Sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the Income Statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognized directly in other receivables or other payables and in the equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts which were previously recognized in the equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or costs, amounts previously recognized in the equity are transferred to the Income Statement in the period in which the hedge item affects the profit or loss.

Changes in the effective portion of the fair value of derivative financial instruments that are designated and qualify as hedge accounting are recognized in the hedging reserve within equity. When the hedged transaction materializes, amounts previously recognized in the hedging reserve are transferred to the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized in the Income Statement on a regular basis.

INCOME STATEMENT

Revenue

Revenue comprises the deliveries for the year and the value of construction contracts in process with significant customization.

Revenue from contract work in process with an insignificant degree of customization is recognized in the Income Statement when the transfer of risk to the customer has taken place. Any discounts allowed are deducted from the revenue.

Construction contracts with significant customization are recognized as revenue by reference to the percentage of completion method, which means that revenue corresponds to the selling price of work performed during the year.

Production costs

Production costs comprise costs, including depreciation, amortization, and salaries, incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, depreciation of production plants, and other production costs.

Production costs also comprise research and development costs that do not qualify for capitalization and amortization of capitalized development costs.

Production costs also comprise provisions for losses on construction contracts.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc. during the year are recognized as distribution costs. Also, costs relating to sales staff, advertising, exhibitions, and depreciation are recognized as distribution costs.

Administrative costs

Administrative costs comprise costs incurred during the year for the Management and administration, including costs related to administrative staff, office premises and office expenses, and depreciation.

Leases

Payments relating to operating leases are recognized in the Income Statement over the term of the lease. The Company's total liabilities relating to operating leases are disclosed in the notes.

Other operating income and costs

Other operating income and costs comprise items secondary to the principal activities, including gains and losses on disposal of intangibles and property, plant, and equipment. In the Parent Company, other operating income also comprises management fees from subsidiaries.

Profit in subsidiaries

The individual subsidiaries' profit after tax is recognized in the Income Statement for the Parent Company following elimination of intra-group gains/losses.

Financial income and costs

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

Tax on profit for the year

The Parent Company is subject to the compulsory Danish joint taxation method for the Thrige Holding Group's Danish subsidiaries. Subsidiaries are part of the joint taxation from the time of the consolidation in the Group's Financial Statements and until the time when they are left out of the consolidation.

Thrige Holding A/S is the administrative company for the joint taxation, and as a consequence, it settles all tax payments with the authorities.

The current Danish corporate income tax is allocated by payment of the joint taxation contribution between the jointly taxed companies relative to the taxable income. In this respect, companies with tax loss receive joint taxation contributions from companies which have used this loss to reduce their own tax profit.

Tax for the year comprises current tax for the year, the joint taxation contribution, and changes in deferred tax. The tax expense relating to the profit for the year is recognized in the Income Statement, and the tax expense relating to amounts directly recognized in equity is recognized directly in the equity.

BALANCE SHEET

Intangibles

Development projects, patents, and software licenses

Development projects comprise costs, salaries, and amortization directly attributable to the development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources, and a potential future market or development opportunities can be evidenced, and where it is intended to produce, market, or use the project, are recognized as intangibles, provided that the cost can be measured reliably, and that there is sufficient assurance that future earnings can cover production costs, selling costs, administrative costs, and development projects. Other development projects in process are recognized in the Income Statement when incurred.

Capitalized development projects are recognized at cost less accumulated amortization and impairment losses.

1. ACCOUNTING POLICIES, CONTINUED

Following the completion of development projects, capitalized development costs are amortized concurrently with the sale of the developed products, alternatively on a straight-line basis over the estimated useful life. The amortization period is usually 5-15 years. The amortization profile is reevaluated on an annual basis.

Patents and software licenses are measured at cost less accumulated depreciation and impairment loss. Patents are depreciated on a straight-line basis over the remaining patent period, and software licenses are depreciated over the contract period, however, not longer than 8 years.

Gains and losses on the disposal of development projects, patents, and software licenses are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognized in the Income Statement under other operating income and other operating costs, respectively.

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 when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, subcontractors, and wages and salaries. No interest is included.

The cost of a total asset is divided into separate elements which are depreciated separately if the useful life of the individual elements varies.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	10-50 years
Plant and machinery	3-20 years
Fixtures and fittings, tools and equipment	3-7 years

The basis of depreciation is based on cost reduced by the residual value of the asset at the end of its useful life and impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized.

In case of changes in the depreciation period or the residual value, the effect on the amortization charges is recognized prospectively as a change in accounting estimates.

Depreciation is recognized in the Income Statement as production costs, distribution costs, and administrative costs, respectively.

Gains and losses on the disposal of property, plant, and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. The gains or losses are recognized in the Income Statement as other operating income or other operating costs, respectively.

Investments in subsidiaries
Investments in subsidiaries are measured according to the equity method.

Investments in subsidiaries are measured in the Balance Sheet at the subsidiaries' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealized intra-group profits and losses.

Net revaluation of investments in subsidiaries is shown as a reserve for net revaluation according to the equity method under equity to the extent that the carrying value exceeds the cost. Subsidiary dividends are transferred from the net revaluation to the distributable reserves at the time of distribution.

Impairment of non-current assets
The carrying amount of intangibles and property, plant, and equipment as well as equity interests in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortization.

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.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net income from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognized impairment will only be reversed if the reason for impairment no longer exists.

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

Raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

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

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale, and is determined taking into account marketability, obsolescence, and development in expected selling price.

Receivables
Receivables are recognized initially at fair value and subsequently measured at amortized cost less impairment losses. The impairment assessment is based on the Expected Credit Loss model (ECL).

The ECL model involves a three-stage approach under which financial assets move through the stages as their credit quality changes.

The stages determine how impairment losses are measured and the effective interest is applied. For trade receivables, the Group applies the simplified approach, which permits the use of lifetime ECL. Provision rates are determined based on grouping of trade receivables sharing the same credit risk characteristics and days past due.

Regarding Group intercompany loans, impairment losses will be recognized based on 12-month or lifetime ECL depending on whether a significant increase in credit risk has arisen since initial recognition.

Construction contracts
Construction contracts are measured at the selling price of the work performed. The impairment assessment is based on the ECL model, cf. above.

The selling price is measured on the basis of the stage of completion at the Balance Sheet date and total expected income from the individual contract work. When the selling price of a contract cannot be measured reliably, the selling price is measured at the costs incurred or at net realizable value, if this is lower.

The individual construction contract is recognized in the Balance Sheet under either receivables or liabilities, depending on the net amount of the selling price less payables. Net assets are constituted by the sum of the construction contracts where the selling price of the work performed exceeds the amount which has been invoiced on account. Net liabilities are constituted by the sum of the construction contracts where the amount which has been invoiced on account exceeds the selling price.

Selling costs and costs incurred in securing contracts are recognized in the Income Statement when incurred.

Prepayments
Prepayments recognized under current assets comprise costs incurred concerning subsequent fiscal years.

Equity

Reserve for net revaluation according to the equity method (Parent Company)
Net revaluation of investments in subsidiaries is recognized at cost in the reserve for net revaluation according to the equity method. The reserve cannot be recognized at a negative amount.

Reserve for development costs (Parent Company)
The reserve for development costs comprises recognized development costs reduced by amortizations and taxes. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognized development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Proposed dividend
Dividend proposed is recognized as a liability at the date when they are adopted at the general meeting (declaration date). Dividend during the year (extraordinary) or dividend expected to be distributed for the year are disclosed separately under equity.

Current tax and deferred tax
Current tax payable and receivable is recognized 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.

Payable and receivable joint tax contributions are recognized in the Balance Sheet under balances for the Parent Company.

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. Where different tax rules can be applied to determine the tax base, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively. Adjustment is made to deferred tax resulting from elimination of unrealized intra-group profits and losses.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognized at the expected value of their utilization, either as a set-off against tax on future income or as set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the Balance Sheet date.

Provisions
Provisions comprise anticipated costs related to warranties, losses related to construction contracts in process, and the court case in Poland. Provisions are recognized when, as a result of past events, the Group has a legal or a constructive obligation, and it is probable that settlement of the obligation will result in an outflow of financial resources.

Warranties comprise obligations to make good any defects within the warranty period. Provisions for warranties are measured at net realizable value and recognized based on past experience.

If it is probable that the total costs related to a construction contract will exceed the total income, the expected total loss of the construction contract is recognized as a provision.

Provision for the Polish court case covers expected costs regarding the court case in Poland.

1. ACCOUNTING POLICIES, CONTINUED

Liabilities other than provisions
Financial liabilities are recognized at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the Income Statement over the term of the loan.

Other liabilities are measured at net realizable value.

Fair value
Fair value measurements are based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximizes the price of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierachy, see below:

Level 1: Value in an active market for similar assets/liabilities
Level 2: Value based on recognized valuation methods on the basis of observable market information
Level 3: Value based on recognized valuation methods and reasonable estimates (non-observable market information).

CASH FLOW STATEMENT

The Cash Flow Statement shows the Group's cash flows from operating, investing, and financing activities for the year, the year's changes in cash as well as the Group's cash at the beginning and end of the year.

Cash flows from operating activities
Cash flows from operating activities are calculated as the Group's profit adjusted for non-cash operating items, changes in working capital, corporate tax paid, and receivable/joint taxation contribution.

Cash flows for investing activities
Cash flows for investing activities comprise payments in connection with capitalized development costs (cash effect) and acquisitions and disposals of other intangibles, property, plant, and equipment, and investments.

Cash flows from financing activities
Cash flows from financing activities comprise payments to and from the Group's stockholders and related costs as well as raising of loans and repayment of interest-bearing debt.

Current cash
Current cash includes cash in hand and bank deposits.

SEGMENT INFORMATION

Revenue has been allocated according to business segments and geographical markets.

2. SPECIAL ITEMS

Special items comprise significant income and costs of a special character in relation to the Group's operating activities generating income, i.e. costs in connection with comprehensive restructuring of processes and fundamental structural modifications and related gains and losses on disposals which will be of significance over a period of time. Special items also comprise other significant one-off expenses, which according to Management are not a part of the normal operating activities of the Group.

As mentioned in the Management's Review, the result for the year has been impacted by circumstances that according to Management deviate from being a part of the operating activities.

In December, the Regional Court of Warsaw, a first instance court, delivered its judgment in the dispute, which Terma filed in 2014 against the Polish Ministry of National Defence for breach of contract.

Both parties have decided to appeal to the Court of Appeal.

The case confirmed that our Airborne Survivability Equipment system lives up to expected performance, and both we and our legal advisers view that we have a strong case against the Polish Ministry of National Defence. Nonetheless, due to the fact that the judgment did not fully turn out in our favor and due to the actual circumstances surrounding the Polish court system, we have accrued 133,681 tDKK for the case.

The order value of a customer project is downwards adjusted and thereby impacting the result for the year with 15,000 tDKK.

In addition, a restructuring of the organization has taken place with a further impact of 15,116 tDKK.

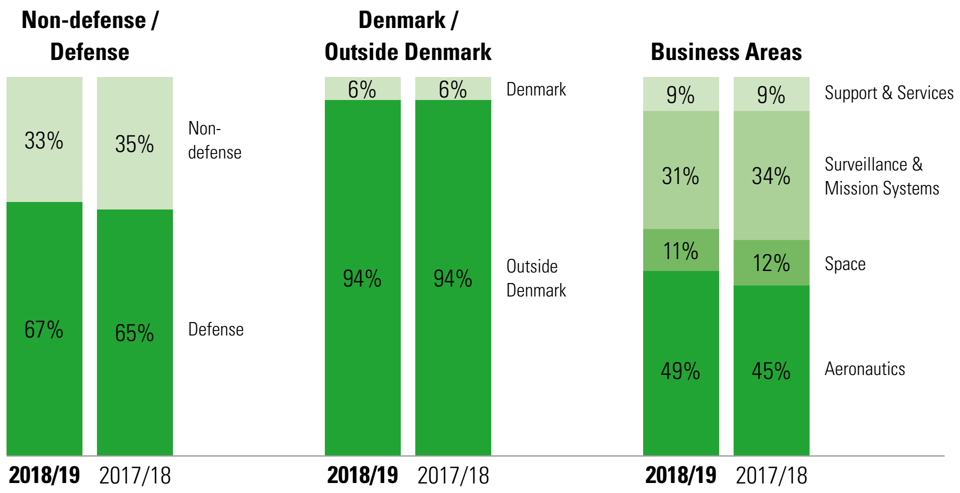
These one-off costs have impacted the profit before tax for the year negatively with 163,797 tDKK in total and relate to the following items:

2. SPECIAL ITEMS, CONTINUED

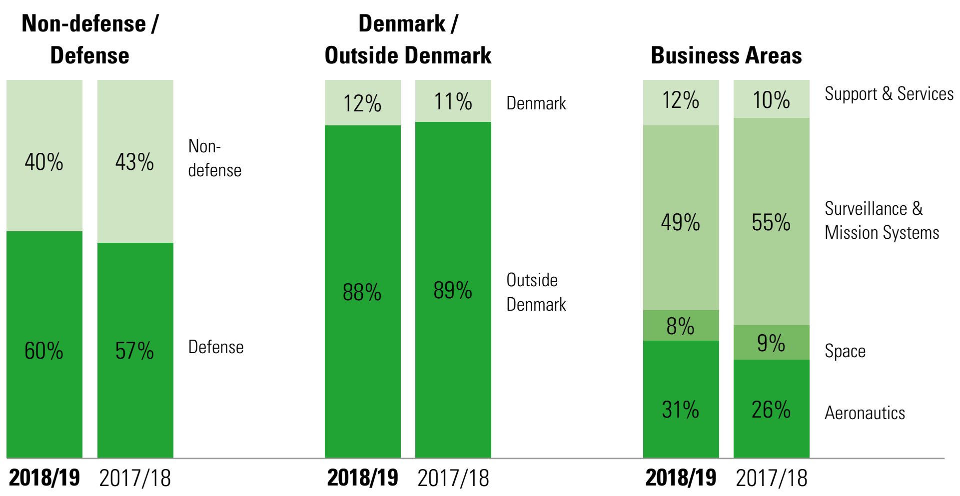
DKK thousand	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Revenue	77,945	0	77,945	0
Production costs	26,374	24,132	11,374	3,832
Distribution costs	2,611	2,320	2,611	976
Administrative costs	1,131	4,310	1,131	2,926
Other operating costs	15,851	0	15,851	0
Financial costs	39,885	0	39,885	0
Result in subsidiaries	-	-	11,700	17,962
Total before tax	**163,797**	**30,762**	**160,497**	**25,696**
Tax	(27,261)	(6,767)	(23,961)	(1,701)
Total	**136,536**	**23,995**	**136,536**	**23,995**

3. SEGMENT INFORMATION, REVENUE (EXCLUDING THE POLISH COURT CASE)

CONSOLIDATED



PARENT COMPANY



4. REVENUE

DKK thousand	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Goods and services	656,407	648,394	532,884	559,915
Construction contracts	1,146,951	1,136,197	563,622	624,048
	1,803,358	**1,784,591**	**1,096,506**	**1,183,963**

5. STAFF COSTS

	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Parent Company Board of Directors emoluments	1,650	1,575	1,650	1,575
Remuneration to Management registered in the Central Business Register	10,082	7,496	10,082	7,496
Wages and salaries	828,779	757,291	528,660	473,134
Pensions	52,573	47,792	38,951	35,402
Other social security costs	40,279	34,976	10,302	8,468
	933,363	**849,130**	**589,645**	**526,075**
Average number of full-time employees	1,495	1,398	895	838

Incentive programs have been established for the Management and employees in managerial positions. The programs comprise the possibility of settlement in cash depending on achievement of specific targets. The programs run mainly annually.

6. FEES PAID TO AUDITORS

Total fees to EY can be specified as follows:	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18
Statutory audit	816	960
Other assurance engagements	77	87
Tax and VAT	904	739
Other non-audit services	668	395
	2,465	**2,181**

7. OTHER OPERATING INCOME AND COSTS (EXCLUDING THE POLISH COURT CASE)

	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Management fees	1,053	1,013	36,461	35,679
Profit on disposal of non-current assets	0	116	0	116
Rental income	441	448	7,322	7,230
Other operating income	**1,494**	**1,577**	**43,783**	**43,025**
Loss on disposal of non-current assets	179	125	64	0
Costs related to premises rented out	133	134	7,255	6,510
Other operating costs	**312**	**259**	**7,319**	**6,510**

8. INVESTMENTS

DKK thousand	Investments in subsidiaries	Loan to subsidiary
Cost at 1 March 2018	269,267	56,000
Additions	262	0
Cost at 28 February 2019	**269,529**	**56,000**
Net revaluations at 1 March 2018	30,097	(7,249)
Translation adjustments	1,676	3,560
Dividends paid	(6,220)	-
Changes in value of hedging instruments (after tax)	(19,796)	-
Results for the year	13,861	-
Net revaluations at 28 February 2019	**19,618**	**(3,689)**
Carrying amount at 28 February 2019	**289,147**	**52,311**

8. INVESTMENTS, CONTINUED

PARENT COMPANY

Name	Registered office	Ownership	Capital stock
Terma Aerostructures A/S	Grenaa, Denmark	100%	5,000 tDKK
Terma GmbH	Darmstadt, Germany	100%	51 tEUR
Terma B.V.	Leiden, The Netherlands	100%	750 tEUR
Terma North America Inc.	Delaware, USA	100%	150 tUSD
Terma Singapore Pte. Ltd.	Singapore, Singapore	100%	100 tSGD
Terma (UK) Ltd.	London, United Kingdom	100%	10 tEUR
Terma (India) Pvt. Ltd.	Delhi, India	99.9%	1,000 tINR
Terma France SAS	Paris, France	100%	10 tEUR
Terma Middle East Trading LLC	Abu Dhabi, UAE	49%	300 tAED

9. FINANCIAL INCOME AND COSTS

DKK thousand	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Intra-group interest, current assets	0	0	2,695	1,182
Other interest	0	0	0	671
Exchange rate variations and hedging income regarding hedging instruments	16,311	9,837	13,514	1,812
Financial income	**16,311**	**9,837**	**16,209**	**3,665**
Intra-group interest, current liabilities	463	409	957	1,092
Interest on subordinated loans	5,625	5,625	5,625	5,625
Interest to credit institutions, non-current liabilities	4,618	6,407	4,618	6,407
Interest to credit institutions, current liabilities	6,538	2,793	6,504	1,853
Guarantee expenses and bank charges	2,425	2,001	1,998	1,338
Exchange rate variations and hedging costs regarding hedging instruments	13,782	17,787	3,830	12,682
Financial costs	**33,451**	**35,022**	**23,532**	**28,997**

10. TAX

	CONSOLIDATED 2018/19	CONSOLIDATED 2017/18	PARENT COMPANY 2018/19	PARENT COMPANY 2017/18
Joint taxation contribution/current tax	11,118	20,000	(3,115)	20,225
Deferred tax	(19,779)	10,290	(7,794)	3,659
Total tax	**(8,661)**	**30,290**	**(10,909)**	**23,884**
Specified as follows:				
Tax on profit	(3,091)	20,950	(10,923)	22,530
Tax on changes in equity	(5,570)	9,340	14	1,354
	(8,661)	**30,290**	**(10,909)**	**23,884**

11. INTANGIBLES

CONSOLIDATED

DKK thousand	Software	Software in process	Development projects, completed	Development projects, in process	Total
Cost at 1 March 2018	46,606	2,229	754,144	153,213	956,192
Foreign currency translation	0	0	0	1,657	1,657
Additions	18,631	12,352	0	123,665	154,648
Disposals	(3,473)	0	(35,496)	0	(38,969)
Transfers	1,979	(1,979)	2,079	(2,079)	0
Cost at 28 February 2019	**63,743**	**12,602**	**720,727**	**276,456**	**1,073,528**
Amortizations and impairments at 1 March 2018	22,878	0	498,696	0	521,574
Amortizations and impairments	14,371	0	99,254	0	113,625
Disposals	(3,473)	0	(35,496)	0	(38,969)
Amortizations and impairments at 28 February 2019	**33,776**	**0**	**562,454**	**0**	**596,230**
Carrying value at 28 February 2019	**29,967**	**12,602**	**158,273**	**276,456**	**477,298**
Amortized over	3-5 years		5-15 years		

PARENT COMPANY

	Software	Software in process	Development projects, completed	Development projects, in process	Total
Cost at 1 March 2018	46,453	2,229	692,317	130,457	871,456
Additions	18,631	9,801	0	103,821	132,253
Disposals	(3,473)	0	(35,496)	0	(38,969)
Transfers	1,979	(1,979)	0	0	0
Cost at 28 February 2019	**63,590**	**10,051**	**656,821**	**234,278**	**964,740**
Amortizations and impairments at 1 March 2018	22,765	0	472,987	0	495,752
Amortizations and impairments	14,353	0	90,342	0	104,695
Disposals	(3,473)	0	(35,496)	0	(38,969)
Amortizations and impairments at 28 February 2019	**33,645**	**0**	**527,833**	**0**	**561,478**
Carrying value at 28 February 2019	**29,945**	**10,051**	**128,988**	**234,278**	**403,262**
Amortized over	3-5 years		5-15 years		

11. INTANGIBLES, CONTINUED

Development projects

Development projects comprise large and small projects in all Terma's Business Areas. Investments are made in the development of:

- Physical products or product platforms based on a set of technologies
- Software platforms, generic or actual applications
- Production processes with future profitability, supporting provision of one or more of the other assets.

A development project is initiated based on an assessment of the business potential described in a business case. Terma uses a gateway model ensuring ongoing follow-up of the development projects.

All development projects are evaluated to ensure that future earnings justify the carrying amount. An annual impairment test of the individual development project will ensure this, in which the discounted expected cash flow is compared with the carrying amount. Ongoing projects are discounted with a WACC of 13-15% after tax, and finished projects are discounted with a WACC of 9-13% after tax.

Sensitivity analysis

An increase in the WACC percentage of 1% will decrease the discounted value of the projects, but they will all remain within the carrying amount.

12. PROPERTY, PLANT, AND EQUIPMENT

CONSOLIDATED

DKK thousand	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant, and equipment under construction	Total
Cost at 1 March 2018	481,086	440,214	113,247	25,235	1,059,782
Foreign currency translation adjustments	0	514	1,165	0	1,679
Transfers	6,839	10,154	205	(17,198)	0
Additions	8,508	11,846	13,339	34,303	67,996
Disposals	0	(3,812)	(6,100)	0	(9,912)
Cost at 28 February 2019	**496,433**	**458,916**	**121,856**	**42,340**	**1,119,545**
Depreciation and impairments at 1 March 2018	207,959	263,000	88,108	0	559,067
Foreign currency translation adjustments	0	487	775	0	1,262
Depreciations	14,091	27,777	9,731	0	51,599
Disposals	0	(3,812)	(5,967)	0	(9,779)
Depreciations and impairments at 28 February 2019	**222,050**	**287,452**	**92,647**	**0**	**602,149**
Carrying amount at 28 February 2019	**274,383**	**171,464**	**29,209**	**42,340**	**517,396**
Depreciated over	10-50 years	3-20 years	3-7 years		

PARENT COMPANY

DKK thousand	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Property, plant, and equipment under construction	Total
Cost at 1 March 2018	402,787	130,098	79,169	16,723	628,777
Transfers	6,839	5,637	178	(12,654)	0
Additions	8,508	6,740	6,779	27,078	49,105
Disposals	0	(2,658)	(5,790)	0	(8,448)
Cost at 28 February 2019	**418,134**	**139,817**	**80,336**	**31,147**	**669,434**
Depreciations and impairments at 1 March 2018	129,660	102,870	65,370	0	297,900
Depreciations	14,091	8,884	5,328	0	28,303
Disposals	0	(2,658)	(5,717)	0	(8,375)
Depreciations and impairments at 28 February 2019	**143,751**	**109,096**	**64,981**	**0**	**317,828**
Carrying amount at 28 February 2019	**274,383**	**30,721**	**15,355**	**31,147**	**351,606**
Depreciated over	10-50 years	3-10 years	3-7 years		

13. CONSTRUCTION CONTRACTS

DKK thousand	CONSOLIDATED **2019**	CONSOLIDATED 2018	PARENT COMPANY **2019**	PARENT COMPANY 2018
Selling price of construction contracts	2,893,544	2,152,006	1,757,342	1,418,917
Invoiced on account	(2,844,896)	(1,914,530)	(1,711,197)	(1,319,713)
Construction contracs at 28 February	**48,648**	**237,476**	**46,145**	**99,204**
Recognized as follows:				
Construction contracts (assets)	302,523	380,739	124,595	189,508
Construction contracts (liabilities)	(253,875)	(143,263)	(78,450)	(90,304)
	48,648	**237,476**	**46,145**	**99,204**

14. CORPORATE TAX PAYABLE

	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Corporate tax payable at 1 March	92	5,700	0	0
Tax for the year/joint taxation contribution	11,118	20,000	(3,115)	20,225
Corporate tax paid during the year	(27,149)	(30,796)	(21,092)	(24,875)
Transferred to intra-group balances	19,651	5,188	24,207	4,650
Corporate tax payable at 28 February	**3,712**	**92**	**0**	**0**
Recognized as follows:				
Corporate tax receivable	(362)	(3,268)	0	0
Corporate tax payable	4,074	3,360	0	0
	3,712	**92**	**0**	**0**

15. DEFERRED TAX

	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Deferred tax at 1 March	142,153	131,727	121,415	117,756
Foreign currency translation adjustments	(101)	136	0	0
Adjustment for the year	(19,779)	10,290	(7,794)	3,659
Deferred tax at 28 February	**122,273**	**142,153**	**113,621**	**121,415**
Recognized as follows:				
Deferred tax asset	(3,921)	(1,384)	0	0
Deferred tax liabilities	126,194	143,537	113,621	121,415
	122,273	**142,153**	**113,621**	**121,415**
Deferred tax relates to:				
Intangibles	86,845	86,348	80,638	78,154
Property, plant, and equipment	38,508	34,806	22,664	20,135
Current assets	29,618	21,611	33,528	23,365
Provisions	(20,635)	0	(20,635)	0
Liabilities other than provisions	(12,063)	(612)	(2,574)	(239)
	122,273	**142,153**	**113,621**	**121,415**
Expected timeframe for elimination of deferred tax liabilities:				
0-1 year	7,721	16,089	13,751	13,993
1-5 years	48,445	76,808	43,359	58,660
>5 years	66,107	49,256	56,511	48,762
	122,273	**142,153**	**113,621**	**121,415**

16. PREPAYMENTS

DKK thousand	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Insurance premiums	673	679	481	508
Rent	280	938	280	938
Tax on real property	505	519	429	445
IT licenses, short term	3,581	4,262	3,581	4,262
Other prepayments	1,778	999	1,734	655
Prepayments at 28 February	**6,817**	**7,397**	**6,505**	**6,808**

17. EQUITY

Capital stock consists of:

1 stock at MDKK 18.

The capital stock has remained unchanged during the preceding 5 years.

The Company does not hold any own shares at the Balance Sheet date. Buying or selling own shares have not taken place during the financial year, either.

18. WARRANTY PROVISIONS

DKK thousand	CONSOLIDATED 2019	CONSOLIDATED 2018	PARENT COMPANY 2019	PARENT COMPANY 2018
Warranty provisions at 1 March	11,772	12,179	11,772	12,179
Used during the year	(5,976)	(9,347)	(5,976)	(9,347)
Unused warranty provisions, reversed	(573)	(1,033)	(573)	(1,033)
Provisions for the year	6,643	9,973	6,643	9,973
Warranty provisions at 28 February	**11,866**	**11,772**	**11,866**	**11,772**
Expected maturity dates for warranty provisions:				
0-1 year	8,381	8,315	8,381	8,315
>1 year	3,485	3,457	3,485	3,457
	11,866	**11,772**	**11,866**	**11,772**

19. PROVISION FOR THE POLISH COURT CASE

Provision for the Polish court case covers expected costs. More information on the Polish court case can be found in the Management's Review and note 22. The judgment from the Court of Appeal is expected after more than 1 year.

20. SUBORDINATED LOANS

Terma A/S has obtained subordinated convertible loans from the ultimate parent company, the Thomas B. Thrige Foundation, with a total nominal value of 125 MDKK. The interest rate is fixed at 4.5%. The loans expire 31 May 2019 without further notice.

At the annual general meeting, the loan was renewed by the Thomas B. Thrige Foundation on similar terms, expiring on 1 March 2022.

21. NON-CURRENT LIABILITIES OTHER THAN PROVISIONS

CONSOLIDATED/PARENT COMPANY

DKK thousand	Liabilities	Fair value	Nominal value	Long-term liabilities	Short-term liabilities	Loans outstanding after five years
Subordinated loans	125,000	125,000	125,000	125,000	0	0
Credit institutions	208,777	208,916	208,916	197,171	11,606	17,409
Mortgage credit institutions	206,868	211,657	209,402	195,037	11,831	146,146
28 February 2019	**540,645**	**545,573**	**543,318**	**517,208**	**23,437**	**163,555**
Subordinated loans	125,000	125,000	125,000	125,000	0	0
Credit institutions	208,502	208,502	208,502	208,502	0	63,739
Mortgage credit institutions	193,490	199,403	197,449	182,983	10,507	139,611
28 February 2018	**526,992**	**532,905**	**530,951**	**516,485**	**10,507**	**203,350**

CONSOLIDATED

DKK thousand	28 February 2018	Cash flow	Non-monetary changes	28 February 2019
Non-current liabilities other than provisions	516,485	309	414	517,208
Current liabilities other than provisions	116,367	(37,002)	0	79,365
Liabilities other than provisions from investing activities	**632,852**	**(36,693)**	**414**	**596,573**

21. NON-CURRENT LIABILITIES OTHER THAN PROVISIONS, CONTINUED

Debt to financial institutions DKK thousand	Average nominal interest rate	Average effective interest rate	Currency	Fixed interest period	Carrying amount
2019					
Mortgage loans:					
Variable rate loans	0.95	0.91	DKK	3-6 months	51,967
Fixed rate loans	2.42	2.69	DKK	16-22 years	143,070
Mortgage loans total	**2.02**	**2.21**			**195,037**
Loans from banks:					
Fixed interest rate loans	1.15	1.15	EUR		197,171
Loans from banks total	**1.15**	**1.15**			**197,171**
Credit institutions total at 28 February					**392,208**
2018					
Mortgage loans:					
Variable rate loans	0.93	0.93	DKK	3-6 months	57,917
Fixed rate loans	2.82	3.12	DKK	17-23 years	125,066
Mortgage loans total	**2.23**	**2.43**			**182,983**
Loans from banks:					
Fixed interest rate loans	1.15	1.18	EUR		208,502
Loans from banks total	**1.15**	**1.18**			**208,502**
Credit institutions total at 28 February					**391,485**

22. CONTINGENT LIABILITIES AND SECURITY

DKK thousand	CONSOLIDATED **2019**	CONSOLIDATED 2018	PARENT COMPANY **2019**	PARENT COMPANY 2018
Contingent liabilities				
Lease liabilities (operating leases) at 28 February falling due within 5 years (annual cost 14,784 tDKK)	43,579	41,337	5,497	6,738
Lease liabilities at 28 February due after more than 5 years	3,026	483	0	0
Terma A/S is a party, as the plaintiff, to a court dispute with the Polish Ministry of National Defence regarding Aircraft Survivability Equipment. The Regional Court of Warsaw has delivered its judgment resulting in both parties having appealed to the Court of Appeal. If the Court of Appeal rules in favor of our opponent, we could risk a further loss for liquidated damages up to 33 MDKK plus statutory interest. Our principal claim is maintained at 135 MDKK plus statutory interest.				
Terma A/S including Danish subsidiaries is jointly taxed with Thrige Holding A/S. Within the taxation group, the Company is jointly and severally liable in line with the other Group members for payment of corporate income tax and withholding tax in Denmark. As of 2013/14, the net obligations of the jointly taxed companies towards the Danish Central Tax Administration (SKAT) appear from the Thrige Holding A/S (CVR No. 26 31 16 83) annual accounts. Any corrections to the joint taxation income and withholding tax appearing at a later time may result in the Company being liable for a larger amount.				
Terma A/S is jointly and severally liable for joint registration concerning VAT with the Parent Company Thrige Holding A/S, the ultimate Parent the Thomas B. Thrige Foundation, and the Group Company Thrige-Titan A/S.				
On behalf of the Terma Group, third parties have issued performance and advance payment bonds at a total amount of	74,205	152,684	72,766	139,576
Included in the amount are customer advances reflected in the Balance Sheet	12,704	18,492	11,266	10,870
Security				
The following assets have been provided as security for mortgage loans:				
Carrying amount of land and buildings	274,383	273,127	274,383	273,127
Other property, plant, and equipment estimated to be comprised by the collateral, cf. the provisions of the Danish Registration of Property Act	243,013	227,588	77,223	57,750
Terma A/S has issued a letter of intent to third parties in connection with the establishment of credit facilities for its subsidiaries at a total amount of	-	-	50,399	47,410

23. RELATED PARTIES

Terma A/S is a wholly owned subsidiary of Thrige Holding A/S (CVR No. 26 31 16 83), which is wholly owned by the Thomas B. Thrige Foundation (CVR No. 10 15 62 11), jointly referred to as the Owners.

Terma A/S' related parties exercising significant influence comprise the Board of Directors, Executive Management, managerial staff, and their family members. Further, related parties comprise companies in which the above-mentioned persons have substantial interests.

Transactions with related parties:

	CONSOLIDATED	
DKK thousand	**2018/19**	2017/18
Sale of services to the Owners	985	972
Sale of services to Group Companies	41	41
Interest paid to the Owners	6,088	6,034
Reinvoicing of costs to the Owners	28	18
Reinvoicing of cost to Group Company	2	2
Debt to the Owners	54,743	73,759
Subordinated loans from the Owners	125,000	125,000

	PARENT COMPANY	
DKK thousand	**2018/19**	2017/18
Sale to Group companies	260,857	270,425
Purchase from Group companies	55,807	60,269
Sale of services to the Owners	985	972
Sale of Services to Group companies	35,588	33,981
Rent from Group companies	6,881	6,782
Interest paid to Group companies	494	683
Interest paid from Group companies	2,695	1,182
Interest paid to the Owners	6,088	6,034
Reinvoicing of costs to Group companies	8,642	8,131
Reinvoicing of costs from Group companies	2,251	3,701
Receivable from Group companies	65,017	131,224
Debt to the Owners	54,743	73,759
Debt to Group companies	49,909	34,157
Subordinated loans from the Owners	125,000	125,000
Dividend paid from Group companies	6,221	10,031

24. EVENTS AFTER THE BALANCE SHEET DATE

Following the end of the fiscal year, no significant events have occurred which affect the assessment of the Group's and Parent Company's financial position as reported on 28 February 2019.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Through its operations, the Terma Group is exposed to a certain financial risk; this financial risk relates to and is defined as follows:

Liquidity risk	The risk that Terma Group is not able to meet its future cash flow needs
Credit risk	The risk of incurring a financial loss if a customer or counterparty fails to fulfill its contractual obligations
Market risk	The risk of losses in financial positions arising from movements in interest, currency rates, and raw material prices to which the Terma Group is exposed

Policies and objectives for handling financial risks are regularly assessed and approved by the Board of Directors.

Sensitivity analyses and stress tests are performed. Sensitivity information reported is calculated at Balance Sheet date and comprises only sensitivity relating to financial instruments, so the amounts disclosed do not necessarily give a complete picture of the Group's risk relating to changes in currency rates and interest rates.

There are no changes to the Group's exposure to and management of financial risk since last year.

LIQUIDITY RISK

Related business activity	Implication	Risk mitigation	Impact
The Group is exposed to liquidity risk due to ongoing normal business activities, significant investments, and to a lesser extent to repayment of mortgage loans. Cash management is vital in relation to fulfill requirements from financial institutions.	Effect: Medium Threat: Low	Liquidity is managed at Group level. Liquidity forecasts are produced and updated regularly based on forecasts on operational cash flows, CAPEX, and investment commitments. Flexibility in the Group's loan portfolio is secured by having different institutions, terms, and expiry. The Group's loan agreements include covenants (leverage ratio). The agreements do not include clauses where cash security has to be pledged.	The Group's liquidity reserve consists of an unsecured overdraft facility for multi-currency short-term financing needs. Similar to 2017/18, there has been no breach of covenants during the year. It is the Management's opinion that the Group has sufficient financial resources to settle obligations as they become due.

Investments are classified as financial assets at fair value through profit or loss (financial derivatives) or as loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial assets classified at fair value through profit or loss are investments that are measured and reported at fair value in the internal management reporting. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in trade receivables and other receivables in the statement of financial position.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

The Group's loan portfolio consists of a traditional mortgage loan, a European Investment Bank loan, and a loan from the Parent Company (intra-group balance).

In addition, the Company has subordinated loans of 125 MDKK.

At year-end February 2019, cash and bank deposits amounted to MDKK 114. In addition to cash and bank deposits, an unsecured overdraft facility for multi-currency short-term financing needs is in place.

Below is a maturity analysis of the financial liabilities at year-end, 28 February 2019 and 28 February 2018.

	2019				2018			
DKK thousand	Carrying amount/ contractual cash flow	0-1 year	1-5 years	>5 years	Carrying amount/ contractual cash flow	0-1 year	1-5 years	>5 years
Non-derivats:								
Subordinated loans	125,000	-	125,000	-	125,000	-	125,000	-
Credit institutions	208,777	11,606	179,762	17,409	208,502	-	144,763	63,739
Mortgage credit institutions	206,868	11,831	48,891	146,146	193,490	10,507	43,372	139,611
Current liabilities other than provisions	761,101	761,101	-	-	656,155	656,155	-	-
Derivats:								
Forward contracts	12,695	12,695	-	-	3,797	3,797	-	-
Interest swaps	3,044	3,044	-	-	3,778	3,778	-	-
	1,317,485	**800,277**	**353,653**	**163,555**	**1,190,722**	**674,237**	**313,135**	**203,350**

CREDIT RISK

Related business activity	Implication	Risk mitigation	Impact
The Group is exposed to credit risk from receivables and from balances with banks. Risk related to receivables occurs when customers do not pay as agreed. Credit risk with balances in banks occurs when it is uncertain if the bank is capable of settling its obligations as they become due.	Effect: Medium Threat: Low	The Group conducts credit assessments of new customers and partners. Customers outside Europe and North America are individually assessed, and due to the assessment, the trade is handled on letter of credit or with up-front payment. Credit insurance from EKF is used if deemed necessary. The Group minimizes risk from banks by using banks with proper ratings.	In general, there is no significant credit risk relative to individual customers. In 2018/19, the Group has incurred a minor financial loss on debtors. In 2017/18, there was no loss. The Group does not expect any loss on trade receivables, construction contracts, or amounts owed by subsidiaries. Therefore, there has not been recognized any ECL loss.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

In 2018/19, there was an impairment of receivables of 0.5 MDKK within the Asia Pasific area. 3% of the receivables exceeded payment terms with more than 1 month.

In 2017/18, there was no impairment of receivables. 5% of the receivables exceeded payment terms with more than 1 month.

	CONSOLIDATED	
DKK thousand	**2019**	2018
Accounts receivable from sales are specified as follows:		
Europe	192,822	177,731
North and Central America	119,384	95,805
Asia Pasific	36,153	25,416
Middle East and North Africa	8,805	19,151
Rest of World	1,245	612
Accounts receivable at 28 February	**358,409**	**318,715**
Overdue Accounts Receivable:		
Up to 1 month	16,480	35,703
Between 1 and 2 months	4,262	3,753
More than 2 months	8,247	10,701
Overdue accounts receivable at 28 February	**28,989**	**50,157**

INTEREST RATE RISK

Related business activity	Implication	Risk mitigation	Impact
Due to financing of investments and normal business operations, the Group is exposed to risk concerning fluctuations in the interest rate. The primary risk is related to fluctuations in CIBOR.	Effect: Medium Threat: Low	It is the Group's policy to have long-term borrowings to a large extent at fixed rates. Net interest rate risks may be hedged via interest rate swaps and related instruments, if assessed as advantageous. The Group uses cash pool arrangements to net funds on deposit with debt to minimize interest payments.	99% of total interest-bearing debt excluding subordinated loans is fixed rated (2017/18 it was 68%). The effective interest rate of this part of the debt is 1.8% (2017/18 it was 1.9%). Please refer to note 19 for information about sub-ordinated loans.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

The exposure to floating interest rates at Balance Sheet date 28 February 2019 and 28 February 2018 are as follows:

	2019				2018			
DKK thousand	Notional principal amount	Value adjustment recognized in equity after tax	Fair value	Expected life	Notional principal amount	Value adjustment recognized in equity after tax	Fair value	Expected life
Interest rate swaps	38,620	(2,375)	(3,254)	3 years	40,955	(2,947)	(3,999)	4 years

Changes in market values on derivatives could cause calls of further pledge or cash distribution, but the risk is considered insignificant, and we have sufficient credit lines with our financial counterparties. The Group has unutilized facilities including cash totalling 340 MDKK (2017/18: 188 MDKK).

Sensitivity of interest rate risk

The calculated effect after tax based on a 1%-point interest rate increase would affect profit/(loss) by 0 MDKK (2017/18: (1.6) MDKK) and equity by 0 MDKK (2017/18: (1.2) MDKK).

A 1%-point interest rate decrease would as a minimum have a corresponding inverse effect (however, not below zero interest rates).

CURRENCY RISK

Related business activity	Implication	Risk mitigation	Impact
The Group is exposed to currency risk due to selling in USD and EUR, buying in EUR, USD, and GBP, loan taken in EUR, and net investments in subsidiaries with functional currency in SGD, INR, and AED.	Effect: High Threat: Low	It is the Group's policy to use derivative instruments to hedge currency risks, and forward exchange contracts are entered into in connection with the acceptance and conclusion of contracts. EUR cash flow is used for repaying loan in EUR but otherwise not hedged due to Danish fixed exchange rate policy against EUR . Net investments in foreign subsidiaries are not hedged.	The effect from currency risk originates mainly from USD cash flows. The company has hedged the currency risk in accordance with the Group's policy. As in 2017/18, the Group has only used derivative financial instruments to hedge exchange rate risks.

The operating and reporting currency is DKK, and thus, all amounts are recorded and reported in DKK.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

At year-end, the Group held the following derivatives:

DKK thousand

Currency	Payable/ maturity date	Receivables	Credit institutions	Liabilities other than provisions	Hedged by forward exchange contracts and currency swaps	Net position
2019						
USD	< 1 year	114,474	-	(85,801)	(26,100)	2,573
GBP	< 1 year	169	-	(8,636)	8,475	8
SEK	< 1 year	-	-	(296)	-	(296)
EUR	< 1 year	218,979	(11,606)	(366,095)	-	(158,722)
EUR	> 1 year	-	(197,310)	-	-	(197,310)
INR	< 1 year	456	-	(326)	-	130
SGD	< 1 year	735	-	(2,178)	-	(1,443)
AED	< 1 year	2,816	-	(743)	(1,481)	592
2018						
USD	< 1 year	109,086	-	(68,886)	(22,955)	17,245
GBP	< 1 year	3,812	-	(8,532)	-	(4,720)
CAD	< 1 year	13	-	-	-	13
SEK	< 1 year	-	-	(555)	-	(555)
EUR	< 1 year	187,182	-	(90,440)	-	96,742
EUR	> 1 year	-	(208,502)	-	-	(208,502)
INR	< 1 year	180	-	(229)	-	(49)
SGD	< 1 year	563	-	(1,180)	-	(617)
AED	< 1 year	12,407	-	(370)	(12,037)	-
CHF	< 1 year	-	-	(42)	-	(42)

Sensitivity of currency risk

To measure currency risk in accordance with IFRS 7, sensitivity is calculated as the change in fair value of future cash flows from financial instruments as a result of fluctuations in exchange rates on the Balance Sheet date. Other things being equal and after tax, sensitivity to fluctuations in USD at Balance Sheet date based on a 10% decrease in currency translation rates against DKK would result in a net profit/(loss) of 0.3 MDKK (2017/18: (1.7) MDKK) and affect equity by 0.2 MDKK (2017/18: (1.3) MDKK). The effect of a 10% increase in the currency translation rates against DKK would have a corresponding inverse effect.

25. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

Exchange rate contracts at year-end:

DKK thousand		Contractual value		Fair value		Gains and losses recognized in the equity	
Currency	Period	**2019**	2018	**2019**	2018	**2019**	2018
AED	0-1 year	1,421	10,939	(107)	294	(39)	116
AED	1-5 years	635	2,487	(48)	71	(19)	95
USD	0-1 year	291,498	266,621	(20,648)	14,003	(7,879)	10,930
USD	1-5 year	109,411	225,765	(3,301)	2,289	(1,966)	3,828
		402,965	**505,812**	**(24,104)**	**16,657**	**(9,903)**	**14,969**
Tax						(2,793)	4,222
Total before tax						**(12,696)**	**19,191**

DKK thousand	**2019**	2018
Fair value of financial instrument is related to observeable input (level 2).		
Categories of financial instruments		
Financial assets:		
Financial derivatives used for hedging purposes	117,459	125,305
Receivables and cash at bank and in hand	472,786	337,764
Financial liabilities:		
Financial derivatives used for hedging purposes	95,180	77,788
Financial liabilities measured at amortized costs	540,645	578,616

RAW MATERIAL PRICE RISK

Related business activity	Implication	Risk mitigation	Impact
The Group is exposed to risk concerning raw material prices due to raw material as aluminum and composite materials forming part of the products sold.	Effect: Low Threat: Low	Raw material price risk has until now not been hedged. The impact on the financial results is immaterial as major parts of raw materials are bought in accordance with customer's requirement and their "Right to buy" agreements. These agreements are firm fixed prices in USD in 3-5 years. The development in raw material prices is followed continuously.	The developments in raw material prices have had an immaterial impact on the Group's financial results in 2017/18 and 2018/19.

26. PROPOSED PROFIT APPROPRIATION

	PARENT COMPANY	
DKK thousand	**2018/19**	2017/18
Proposed dividends	0	0
Reserve for net revaluation according to the equity method	13,861	(7,444)
Reserve for development costs	65,102	55,681
Retained earnings	(145,248)	24,119
	(66,285)	**72,356**

27. CHANGES IN WORKING CAPITAL AND INVESTMENTS

	CONSOLIDATED	
DKK thousand	**2018/19**	2017/18
Changes in working capital:		
Inventories	(63,826)	(30,930)
Receivables	50,874	(186,140)
Construction contracts and prepayments from customers	106,190	14,227
Trade payables and other payables	57,066	(13,182)
	150,304	**(216,025)**
Acquisition of software, property, plant, and equipment		
Additions to software, property, plant, and equipment (note 11 and 12)	98,979	92,931
Hereof trade payables to be paid in the following financial year	(6,930)	(14,490)
Trade payables beginning of year	14,490	13,338
Paid concerning addition to property, plant, and equipment	**106,539**	**91,779**