Annual Report 2017/18

TERMA
ALLIES IN INNOVATION

Terma A/S
Hovmarken 4
8520 Lystrup
Denmark
Central Business Register No. 41 88 18 28
Presented and approved on 25 May 2018
Meeting Chairman Morten Halskov

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Central Business Register No. 41 88 18 28
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Situated in Aarhus Municipality

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Board of Directors
Flemming H. Tomdrup (Chairman)
Jørgen Huno Rasmussen (Deputy Chairman)
Anders Eldrup
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 25 May 2018.

Contents

Statement by the Board of Directors and Executive Management

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

The Board of Directors and Executive Management have today discussed and approved the Annual Report of Terma A/S for the 2017/18 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 2018 and of the results of the Group's and the Parent Company's operations and the Group's cash flows for 2017/18.

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, 25 May 2018

Executive Management

Jens Maaløe
President & CEO

Per Thiesen
Executive Vice President & CFOO

Steen M. Lynenskjold
Executive Vice President & CCO

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

Board of Directors

Flemming H. Tomdrup
Chairman

Jørgen Huno Rasmussen
Deputy Chairman

Anders Eldrup

Carsten Dilling

Christina Grumstrup Sørensen

Bo Laursen

Martin Anders Hedegaard

Benny Daugaard Laursen

Independent Auditor’s Report

TO THE STOCKHOLDERS 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 2017 – 28 February 2018, 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 2018 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 2017 – 28 February 2018 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 Consolidated Financial Statements and Parent Company 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.

Independent Auditor’s Report

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.

Independent Auditor's Report
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, 25 May 2018

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

Jes Lauritzen
State-Authorized Public Accountant
MNE No.: mne10121

Financial Highlights

CONSOLIDATED

DKK million	**2017/18**	2016/17	2015/16	2014/15	2013/14
Key figures:					
Order intake	1,728	1,411	1,671	1,394	1,455*
Order backlog, year-end	2,374*	2,431*	2,739*	2,567*	2,507*
Revenue	1,785	1,719	1,499	1,308	1,137
EBITDA before special items	298	288	220	174	159
Special items	(31)	0	0	0	0
EBITDA	267	288	220	174	159
Depreciation, amortization, and write-downs	(149)	(147)	(107)	(74)	(75)
Operating profit	118	141	113	100	84
Operating profit before special items	149	141	113	100	84
Financial income and costs	(25)	(21)	(28)	(29)	(30)
Earnings before special items and tax	124	120	85	71	54
Earnings before tax (EBT)	93	120	85	71	54
Profit for the year	**72**	**91**	**66**	**53**	**53**
Non-current assets	935	899	839	796	788
Current assets	1,084	892	862	763	714
Total assets	**2,019**	**1,791**	**1,701**	**1,559**	**1,502**
Equity	**664**	**562**	**572**	**491**	**490**
Subordinated loans	125	125	0	0	0
Capital base**	**789**	**687**	**572**	**491**	**490**
Provisions	165	146	149	127	123
NIBD (excl. subordinated loans)	489	306	418	389	431
Cash flows from operating activities	5	283	120	133	50
Cash flows for investing activities	(188)	(206)	(139)	(81)	(77)
hereof investments in property, plant, and equipment	(92)	(133)	(70)	(35)	(28)
Cash flows from financing activities	105	(36)	17	(67)	(47)
Total cash flows	**(78)**	**41**	**(2)**	**(15)**	**(75)**
Financial Ratios:					
EBITDA margin before special items	16.6	16.8	14.6	13.3	14.0
EBT margin before special items	7.0	7.0	5.7	5.4	4.7
Return on investments before special items	8.0	8.2	7.0	6.6	5.9
Liquidity ratio	161	135	135	139	159
Solvency ratio (capital base)	39.0	38.4	33.6	31.5	32.6
Return on equity	11.8	16.1	12.5	10.8	11.4
Leverage ratio	1.8	1.1	1.9	2.2	2.7
Average number of full-time employees	**1,398**	**1,257**	**1,174**	**1,117**	**1,065**

** including framework agreements, e.g the F-35 Joint Strike Fighter program.*
*** Capital base is defined as equity and subordinated loans.*
Financial ratios are calculated in accordance with "Recommendations and financial ratios" of the Danish Finance Society, except for EBITDA margin before special items, EBT margin before special items, and return on investments before special items.

Definitions to Financial Highlights

EBITDA margin before special items: $\frac{\text{EBITDA before special items x 100}}{\text{Revenue}}$

Return on investments before special items: $\frac{\text{Operating profit before special items x 100}}{\text{Average operating assets}}$

Liquidity ratio: $\frac{\text{Current assets x 100}}{\text{Current liabilities other than provisions}}$

Return on equity: $\frac{\text{Profit for the year x 100}}{\text{Average equity}}$

EBT margin before special items: $\frac{\text{Earnings before special items and tax x 100}}{\text{Revenue}}$

Operating assets: Total assets less cash at bank and in hand, other interest-bearing assets, and equity interest in affiliated companies

Solvency ratio: (Capital base) $\frac{\text{Capital base x 100}}{\text{Total liabilities at year-end}}$

Leverage ratio: $\frac{\text{NIBD (excl. subordinated loans)}}{\text{EBITDA}}$

Terma at a Glance

2017/18 IN NUMBERS

MAIN CONCLUSIONS

Terma continued the growth in 2017/18 with increasing order intake and revenue. Earnings before special items also improved, whereas the net interest-bearing debt increased during the year due to a temporary increase in working capital related to F-35 ramp-up and high Q4 activity. Order intake was 1,728 MDKK with a resulting order backlog of 2,374 MDKK, providing a solid base for 2018/19.

Order intake (DKK million)
1,728
Up from 1,411

Order backlog, year-end (DKK million)
2,374
Down from 2,431

Revenue (DKK million)
1,785
Up from 1,719

EBITDA* (DKK million)
298
Up from 288

Earnings before tax (EBT)* (DKK million)
124
Up from 120

Return on investments* (%)
8.0
Down from 8.2

Leverage ratio
1.8
Up from 1.1

Capital base (DKK million)
789
Up from 687

** Operating profit, EBT, and EBITDA before special items of 31 MDKK*

Management's Review 2017/18

Results for 2017/18

The underlying business continued the growth in 2017/18 with increasing order intake and revenue. The order intake for the year was 1,728 MDKK, resulting in an order backlog at year-end of 2,374 MDKK. The order backlog provides for a comfortable business base in 2018/19 as well as in following years. Order intake is impacted by the F-35 program multi-year agreements; the next multi-year agreements are expected in 2018/19. The order intake was 1,411 MDKK in 2016/17.

Revenue for the fiscal year was 1,785 MDKK compared to 1,719 MDKK in 2016/17. 94% of the revenue was generated outside Denmark. The defense market constitutes 65% of the revenue. Non-defense markets constitute 35%.

To ensure optimum competitiveness in the coming years on the F-35 program and to strengthen our position in the U.S. market, Terma implemented a major reorganization of the airborne and aerostructures activities in the first half of 2017.

Aerostructures Manufacturing, based in Grenaa, Denmark, continues its journey to become a world-class manufacturing unit with full focus on delivering high quality products, while maintaining focus on continuous cost reductions and efficiency improvements to stay competitive in the market for aircraft composites.

The Aerostructures and Airborne Systems Business Areas were merged into one Business Area, Aeronautics. The Aeronautics Business Area, with main facilities in the U.S. and in Denmark, is managed out of Terma North America Inc. to be close to key customers and partners.

The reorganization resulted in extraordinary costs of 16 MDKK.

Besides the reorganization costs, the order value of a customer program was adjusted downwards by 15 MDKK due to a decrease in sales volume.

Special items therefore amounted to 31 MDKK in total, comprising the reorganization costs and the program charge.

EBITDA was 298 MDKK before special items in 2017/18 compared to 288 MDKK in 2016/17, with a 2017/18 EBITDA of 267 MDKK after special items.

Earnings before tax (EBT) were 124 MDKK before special items in 2017/18 compared to 120 MDKK in 2016/17. EBT was 93 MDKK after special items in 2017/18.

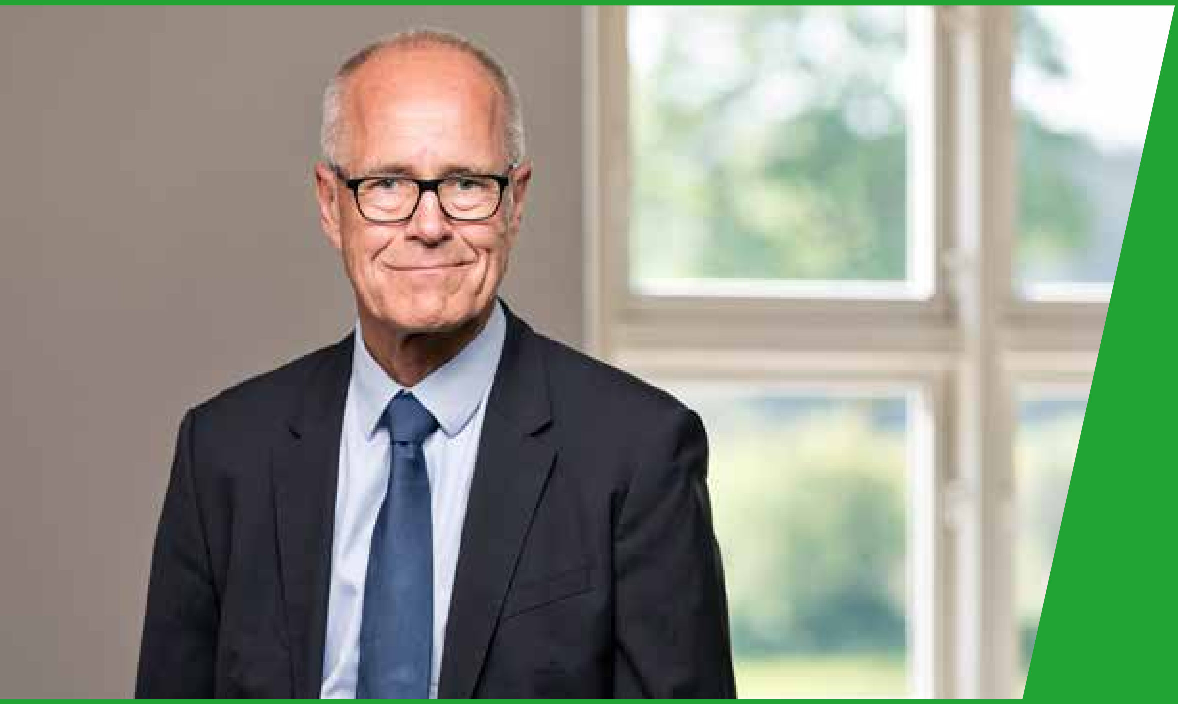
The net interest-bearing debt (NIBD) increased compared to 2016/17, from 306 MDKK to 489 MDKK, due to a temporary increase in working capital related to an extraordinarily high activity level in Q4 and F-35 ramp-up.

Compared to the outlook for 2017/18, EBT before special items was as expected slightly better than 2016/17, whereas the debt level did not decrease as anticipated.

At year-end, total staff was 1,458 Full-Time Employees (FTE). Like other high-tech companies, Terma is challenged by the general shortage of mainly software specialists.

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

Jens Maaløe will retire after completing the fiscal year 2018/19 and securing onboarding of his successor. Jens Maaløe has been President & CEO of the Terma Group since January 2003 and will turn 64 in January 2019. The Board has initiated a process to find his replacement.



Outlook for 2018/19
In 2018/19, Terma expects a consolidated organic growth >10% in revenue. The positive outlook is based on a solid order backlog to be delivered in 2018/19.

Earnings before tax (EBT) are expected to increase accordingly whereas cash flows from operating and investing activities are expected to improve markedly.

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 Low Rate Initial Production (LRIP) 12-14 orders. The LRIP12-14 frame order intake may exceed 1 billion DKK; frame order intake is expected to take place during 2018.

The debt level for 2018/19 is expected to improve, primarily due to working capital improvements offsetting higher investments.

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, Space, Surveillance & Mission Systems, and Support & Services.

Aeronautics provides a full range of world-class complex composites and aerostructures, aircraft self-protection and Electronic Warfare (EW) solutions, Electronics Manufacturing Services (EMS), and 3D-Audio management solutions.

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.

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.

Terma is active in 40-50 countries worldwide. With the opening of the new innovation center in Atlanta, Georgia, USA, Terma continued strengthening existing locations outside Denmark.

Within all business activities and programs, Terma utilizes nationally as well as internationally based suppliers and partners. Our global supplier list for production and project execution encompasses well over 700 suppliers and partners.

Terma successfully transitioned to the AS9100 rev. D standard for Quality Management Systems (equivalent to EN9100:2015). The international AS9100 System in the aerospace and defense industry is required by most major customers and is a prerequisite for doing business in most segments. The certification covers ten Terma facilities in four countries. AS9100 comprises all ISO 9001 requirements and adds industry specific requirements.

Terma again participated in knowledge sharing and joint auditing activities in the international F-35 Global Quality Council Meeting. This Council supports zero defect planning, supply chain improvements, and sharing of best practices between industry partners. This Council represents the top major suppliers/co-producers attached to F-35.

Terma successfully launched a new High-Power Solid State Power Amplifier for the SCANTER 4000 radar series. This solid state technology replaces the older technology, reduces life-cycle costs, and optimizes reliability. It has been put into operation in wind farm radar applications.

Terma initiated the development of a common C2 platform to ensure efficient reuse of common key functionalities across C2 product families. The new C2 software and its building blocks will reduce time-to-market, and a new automatic test setup will reduce release test and configuration costs.

Terma developed Artificial Intelligence (machine learning) in close cooperation with universities and end customers. The artificial intelligence engine strengthens intelligent automation required by the exponential growth in information and insufficient manpower and will contribute to the competitive advantage of military applications.

BUSINESS AREAS

Aeronautics

To better support our global customers, Airborne Systems and Aerostructures were merged into the Aeronautics Business Area. From the U.S. and from Lystrup and Grenaa in Denmark, Aeronautics provides a full range of world-class complex composites and aerostructures, aircraft self-protection and Electronic Warfare (EW) solutions, Electronic Manufacturing Services (EMS), and 3D-Audio management solutions.

Terma is a well-established supplier to the world's largest defense program, the F-35 Joint Strike Fighter. Terma provides major composite structures to Lockheed Martin Corporation, BAE Systems, and Northrop Grumman Corporation, sensitive electronic components to Northrop Grumman Corporation, and pylons to Marvin Engineering Company. Major agreements were reached for the next annual deliveries and increased production of electronics, structures, and pylons. With an additional precision milling machine and autoclave and major investments in Grenaa, Terma is ready for full-rate production of more than 150 aircraft per year.

The Dutch and Belgian Air Forces selected Terma's 3D-Audio/Active Noise Reduction technology, and thereby joined the Danish Air Force which has been flying with our 3D-Audio systems since 2009. Furthermore, the U.S. Air National Guard signed a major ~250 MDKK multi-year agreement to upgrade hundreds of F-16s, which provides paths for us to include other aircraft types in the future.

Electronics Manufacturing Services is growing, both as a supplier to Northrop Grumman Corporation and the ramp-up of the F-35 and as an electronics provider to Raytheon Company for the Evolved Sea Sparrow Missile (ESSM) Block 2 program.

More air forces select Terma's 3D-Audio/Active Noise Reduction technology

Next-generation self-protection solutions remain a core Terma capability as we continuously strengthen our customer relationships and add new partnerships, platforms, products, and solutions. New solutions were approved to supply future export requirements. Our T-OPS software will ensure that we remain capable of linking into and with other systems.

Commercial solutions remain part of the Aeronautics portfolio, and Terma delivered the first structural components for the Sikorsky S-92 and Boeing-777 aircraft.

Space

The worldwide space market is developing positively, and our product development over the last 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 2017/18, major space missions were pursued covering ESA missions for Earth observation as well as Plato, ExoMars 2020, the telecom platform Electra, and European defense 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 2018/19 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 early 2018 and was successfully launched on a SpaceX Falcon 9 launcher on 2 April 2018.

Contracts for the current generation of Star Trackers, as well as a new generation of test and control systems, continued in 2017/18, 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. The camera of the Star Tracker was launched during the fiscal year, and its performance exceeds all expectations.

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

Terma develops 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 success, 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.

Surveillance & Mission Systems
Surveillance & Mission Systems continues the strong performance in the defense and security markets, pursuing a global market reach and meeting the customers locally. Technology focus is on innovation and development improving the product performance while shortening delivery times and lowering costs.

As a world leader in coastal surveillance, Terma is well underway to deliver our largest program ever for a Middle East customer, requiring reliable long range detection of small targets in difficult atmospheric conditions; the trademark of our radars.

Traditional airport radars may be disturbed by wind turbines, and building large wind turbine facilities close to airports is thus a global challenge. Terma's SCANTER 4000 radar delivers surveillance over and around wind turbine farms in a range above 40 miles. The first radars are now operational in UK airports, ensuring green energy production close to cities without impacting air traffic safety.

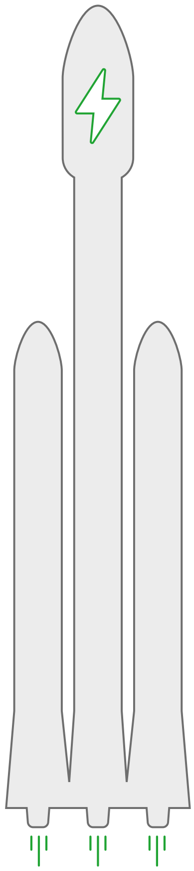
The obstruction lights on wind turbines warn low flying aircraft but also cause light pollution to neighbors. By use of SCANTER radars, it is possible to only turn on the lights when an aircraft is approaching and thereby limit the light pollution significantly. Terma is the only supplier that is authorized by both the U.S. Federal Aviation Administration (FAA) and by European authorities. In addition, Terma has approved radar systems operating in two European countries.

The critical infrastructure protection (CIP) area had a breakthrough sale in the Middle East where Terma is on contract to protect a major VIP facility. The solution protects facilities from intruders on land and on water, using a combination of sensors and the Terma CIP command and control (C2) system.

In the maritime domain, Terma as a technology partner to Indian company TATA Advanced Systems Ltd. is on contract for delivering the future surface surveillance radar for the Indian Navy, in the first ever 'Buy and Make India' program. Together with other significant wins in the Americas and Europe, this further establishes the SCANTER 6002 radar as a global naval standard for surface surveillance and helicopter control.

Recently, Surveillance & Mission Systems closed a significant naval C2 contract in Asia, delivering the C-Flex combat management system, combat system integration, and a number of sub-systems for two naval light frigates. This program will become a key reference for Terma.

ASIM was successfully launched on a SpaceX Falcon 9 launcher on 2 April 2018



Support & Services

Terma Support & Services 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 direct 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. Service capacity and capability near Terma's end users are focus areas in the coming year, with a notable expansion of our service partner portfolio.

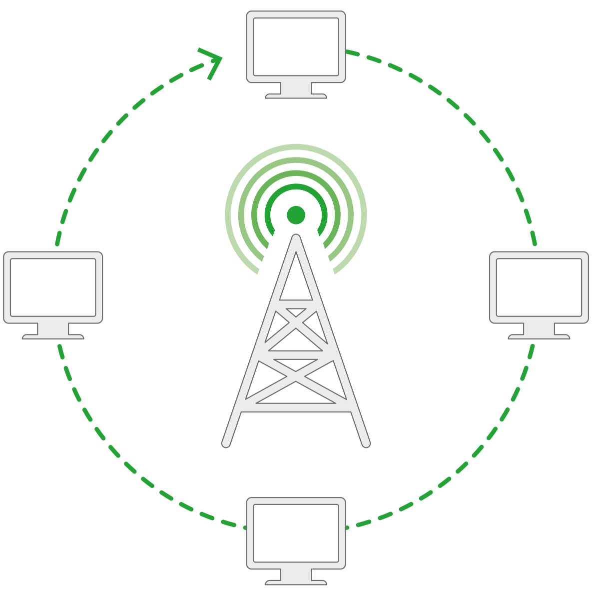
Terma secured a contract with the Danish Center of Emergency Communication for the delivery of a nationwide radio dispatch system including service and maintenance to the Danish National Police. The radio dispatch will provide 24-hour service to multiple simultaneous users at 15 National Police control and operations centers.

The F-35 fighter aircraft will be introduced in Denmark during the coming years, and Terma is actively pursuing sustainment contracts on avionics and composites in this important program. Terma is working on these opportunities by means of partnering opportunities both in Denmark and internationally. Our strong presence in Denmark, the Netherlands, and the U.S. is a valuable asset to this end.

The Maintenance, Repair & Overhaul (MRO) capabilities are expanding in both Denmark, the Netherlands, and in the U.S. Strong and mature MRO capabilities, together with a dedicated business development effort, are important enablers for pursuing and capturing MRO services for third-party OEMs.

In the coming year, Terma will strengthen the global support and service footprint by consolidating activities in the U.S. and Europe and grow activities in the Middle East and Asia Pacific regions.

Terma delivers radio dispatch system to the Danish National Police



INTERNATIONAL ACTIVITIES AND REGIONS

Market Development

Since the very start of the company, Terma has maintained deep and proud roots in Denmark which remains our center as we do business around the world. Terma believes in international partnerships and strong strategic alliances. Rooted in a small country, we depend on our ability to reach out to partners – and create solutions together.

Terma works closely with national defense forces, public authorities, international organizations, and customers around the world. Our global expansion, with the purpose of being closer to key customers and end users, continued in 2017/18 and will accelerate in the years to come.

Europe

High political attention on defense and security issues and spending increases by European governments continued through 2017/18. The European Union took new and important steps to establish common defense and security research & development, capability enhancement, and procurement programs.

In Denmark, a new ambitious defense agreement spanning six years until 2023 was agreed on by the government and a broad coalition of parties in the parliament. It carries significant business opportunities for Terma, for the national defense industry as well as international companies. The agreement provides solid ground for business in Denmark and secures the essential national security interests of Denmark through the Industrial Cooperation system, also with non-Danish international partners and customers.

Terma GmbH in Darmstadt focuses on Space support and services, but Terma is now executing on a plan to obtain an even better position in Germany, both looking at German, European, and global defense and security opportunities.

In the Netherlands, Terma is concluding the upgrade of the Royal Netherlands Air Force (RNLAF) F-16 pylons to PIDS+, integrating the MILDS-F missile warning sensor and adding a flare-dispense capability. Other ongoing programs include audio systems for the F-16 fighter, software upgrade of embedded training for the F-16 fighter, and self-protection systems for the NH90 helicopter.

Recently, Terma's Electronic Warfare Competence Centre at the RNLAF Woensdrecht Air Base expanded its operation by adding more space and capabilities. Besides RNLAF equipment, other EPAF customers are also being served by this dedicated test and repair center which is about to receive an MLE-145 accreditation. Our location at the premises of RNLAF proves the many benefits of working closely with an end user.

The longest track record of Terma's Dutch subsidiary is the Space activities, including in-house turnkey system integration and development, specializing in spacecraft test, simulation, and in-orbit management systems together with the provisioning of highly specialized engineering consultants to ESA's European Space Research and Technology Centre (ESTEC) in Noordwijk.

Our liaison office in Brussels was instrumental in getting Terma a place on the Preparatory Action for Defence Research (PADR) – the EU funded consortium OCEAN2020 led by Leonardo and focusing on enhancing European Maritime Domain Awareness.

Terma's Industrial Cooperation and Partnerships function is part of Market Development Europe, supporting the global business. The activity level in this area was very high with plans being prepared for the Canadian, Asian, and European markets and close Industrial Cooperation dialog with non-Danish suppliers to the Danish Defence in support of essential Danish security interests.

North and Central America

The U.S. remains the most important market for Terma due to large programs like the F-35 Joint Strike Fighter and the geographical locations of many of our key partners, including but not limited to Lockheed Martin Cooperation, Northrop Grumman Corporation, and Raytheon Company. Terma North America Inc. covers the North and Central American region as well as global export from the U.S. through Foreign Military Sales (FMS).

In 2017/18, Terma increased its footprint in the U.S. by opening the new Terma Innovation Center in Atlanta, GA (TIC-Atlanta). The new innovation center is an addition to Terma's global innovation network where we strive to develop the best possible solutions for our customers and end users – in close collaboration with industry partners and research institutions. TIC-Atlanta will mainly focus on product and technology development for U.S. domestic and global end users. The new office is a welcomed addition to our four U.S. locations.

In addition to strategically important contracts within Aeronautics, other key contracts were also secured within naval radars this fiscal year.

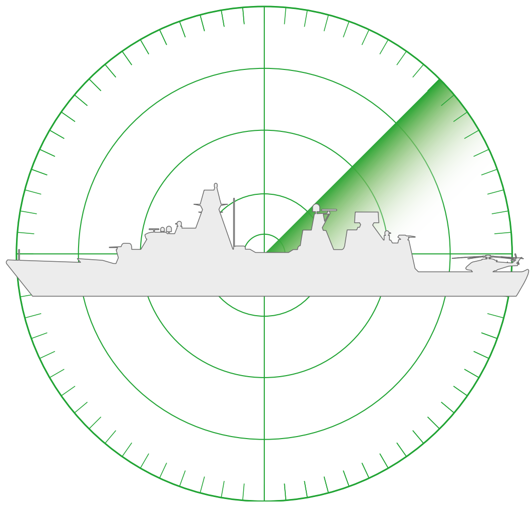
Most prominently, Terma sold its first naval radar (SCANTER 6000) to the U.S. Navy. In addition to this, the U.S. Coast Guard awarded a 9.8 MUSD ceiling, five-year sole source indefinite delivery / indefinite quantity (IDIQ) contract to Terma. Under the IDIQ, Terma will provide service and support to the U.S. Coast Guard and their 40 Terma Vessel Traffic Service radars located in major ports and waterways across the U.S.

Building on our many years of expertise in the radar domain, Terma continued to qualify for opportunities within the promising U.S. wind turbine radar systems market.

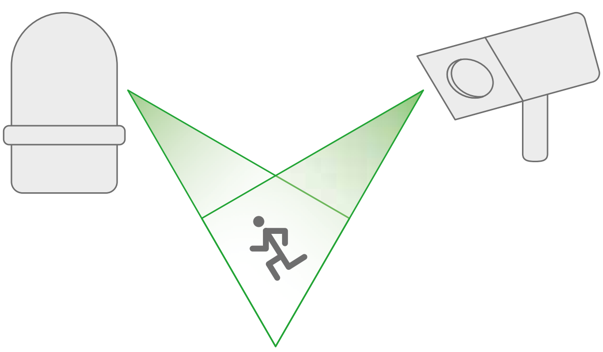
U.S. Foreign Military Sales (FMS) continued to be a key sales channel including a follow-on order to a coastal surveillance radar system in North Africa.

Teaming and other agreements helped position Terma for ship self-protection and radars for the Canadian Navy and Coast Guard programs.

The U. S. Navy buys its first SCANTER 6000 naval radar



First T.react CIP wide area protection system sold in the Middle East



Middle East and North Africa

Following the establishment of a local company in the UAE and onboarding of additional sales staff, Terma Middle East Trading LLC leased a new office space in International Tower in Abu Dhabi. The building and the neighboring area is home to numerous local and international defense and security companies and is ideally located right next to our joint venture partner, Al Maskari Holding.

Larger programs being executed in the region include the upgrade of the Tiger class naval program in Egypt with Terma's naval C-Flex command and control suite and delivery of Terma's SCANTER radars to nationwide coastal surveillance systems in two countries in the region.

The strengthened local sales team will continue the push for positioning Terma at our local partners, customers, and clients in the UAE and broader region, and thus build on a year with sales of our radars for coastal surveillance, Vessel Traffic Services, ground surveillance, and airport surveillance as well as the T.react CIP wide area protection system.

Asia Pacific

Multiple factors are driving rapid industrial development across Asia Pacific, in particular within the defense and security area: a desire for military self-sufficiency, a complex security environment, overlapping territorial claims in the East and South China Seas, combined with the continuous border tensions between countries are all drivers.

There has been an increasing demand in the emerging economies of Asia Pacific to be self-reliant in the defense sector. Transfer-of-Technology (ToT) and increased local content has become mandatory in many countries. Keeping in line with the changing eco-system, Terma has adapted itself and geared its product offerings by including ToT as part of our offerings.

Terma is proud to be part of the first successful "Buy & Make (Indian)" contract awarded by the Indian Ministry of Defence. We have partnered with TATA for the Surface Surveillance Radar (SSR) project for the Indian Navy. The project has been progressing well, and we aspire to replicate this template for other radar and naval products in India and elsewhere in the region.

The Asia Pacific airport market continues to be a niche of interest. Last year, we secured a number of Surface Movement Radar (SMR) projects in the region, the most prominent one for Singapore's Changi International Airport's new Terminal 4. The SMR market continues to be an area where we expect growth if we look at the region's massive infrastructure build-up.

Terma continues to focus on the strategically important Chinese market with respect to civil radar systems for airport surveillance and Vessel Traffic Services.

The naval domain witnessed a significant ramp-up in order intake for our entire product suite. C-Guard Decoy Launchers have been selected to equip the new frigates of the Philippine Navy currently being built by Hyundai Heavy Industries. And to an undisclosed Asian country, Terma has secured a complete naval combat management upgrade program. Terma expects the upwards trajectory of our naval business to continue in the next financial year.

During the past year, the regional strategy has focused on expansion, restructuring, and gearing the regional organization to cater for the growing number of naval and security opportunities, whilst also further maturing and tapping into the after-sales market. For the coming fiscal year, focus will be on evaluating the possibility of a further regional expansion through local establishment in select countries to better steer project implementation and business development efforts.

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 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 swap.

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.

Indian Ministry of Defence awards Terma the first successful "Buy & Make (India)" contract

In January 2014, Terma A/S terminated a contract with the Polish Armaments Inspectorate (IU), the Ministry of National Defence, regarding the supply of aircraft survivability equipment for Polish helicopters of the Mi-17 and Mi-24 types. Subsequently, Terma has taken out a writ of summons against the Polish Ministry of National Defence. The dispute between Terma and IU relates to contractual matters. As part of the court proceedings, the Polish Ministry of National Defence has filed a counter claim covering liquidated damages and damages as well as repayment of the advance payment made according to the contract. Based on external legal evaluation, it is the opinion of the Executive Management that the outcome of the dispute with the Polish Armaments Inspectorate will not affect the financial position apart from what is already recognized in the Assets and Liabilities in the Balance Sheet at 28 February 2018.

Corporate Social Responsibility and Equal Representation of Genders

Statutory report on Corporate Social Responsibility pursuant to the Danish Financial Statements Act section 99a

Based on Terma's values of working with integrity, showing passion, and working globally, Terma wishes to impact our industry and society in a positive way. A separate Corporate Social Responsibility (CSR) report for 2017/18 is published, which provides detailed information on Terma's CSR strategy, policies, and performance.

As Terma in April 2017 became signatory to the UN Global Compact, the report constitutes Terma's first Communication on Progress (COP), with a statement for our continued support for the UN Global Compact as well as a description of practical actions and measurement of outcomes.

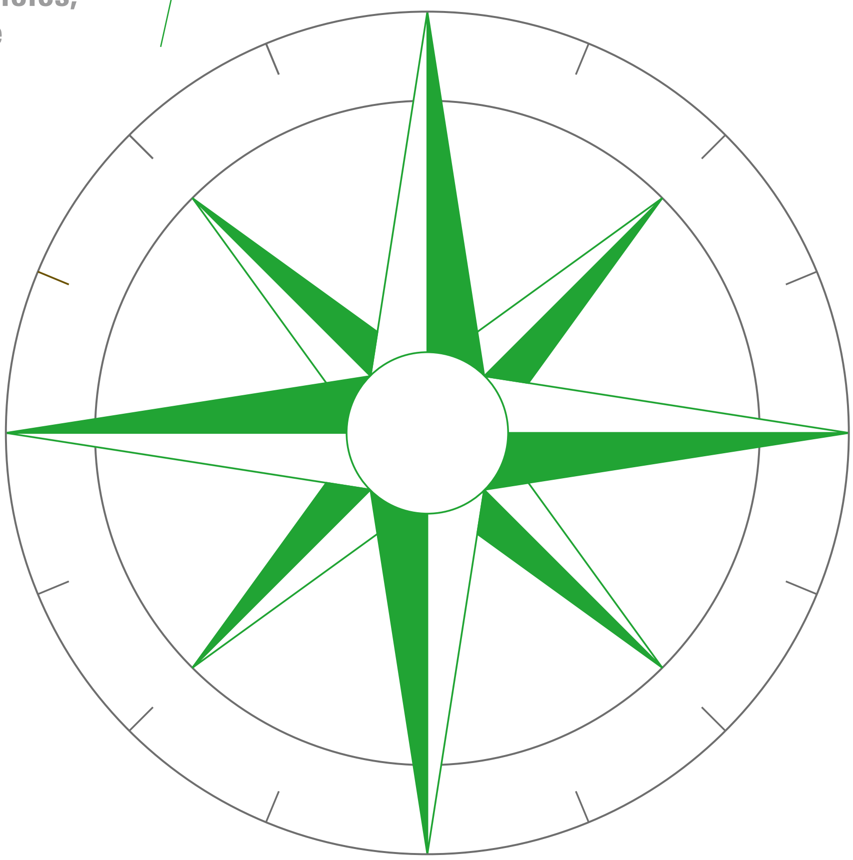
With this report, Terma lives up to the requirements for reporting on Corporate Social Responsibility in Section 99a of the Danish Financial Statements Act (Årsregnskabsloven).

The report is available at:
https://www.terma.com/static/csr_report2017-18/index.html

Policy to Target an Equal Representation of Genders pursuant to the Danish Financial Statements Act section 99b

The policy on Equal Representation of Genders in 2017/18 which forms an integral part of the Management's Review is available at:
https://www.terma.com/static/csr_report2017-18/index.html

Increased focus on Terma's CSR strategy, policies, and performance



Income Statement

1 MARCH - 28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2017/18	CONSOLIDATED 2016/17	PARENT COMPANY 2017/18	PARENT COMPANY 2016/17
Revenue	3,4	**1,784,591**	**1,718,809**	**1,183,963**	**1,148,622**
Production costs	2,5	(1,413,779)	(1,330,172)	(916,692)	(898,020)
Gross profit		**370,812**	**388,637**	**267,271**	**250,602**
Distribution costs	2,5	(146,346)	(145,366)	(113,715)	(113,187)
Administrative costs	2,5,6	(107,293)	(103,217)	(62,409)	(61,026)
Other operating income	7	1,577	1,453	43,025	39,003
Other operating costs	7	(259)	(610)	(6,510)	(5,332)
Operating profit		**118,491**	**140,897**	**127,662**	**110,060**
Results in subsidiaries after tax	8	-	-	(7,444)	21,350
Financial income	9	9,837	6,786	3,665	2,785
Financial costs	9	(35,022)	(27,962)	(28,997)	(22,448)
Earnings before tax (EBT)		**93,306**	**119,721**	**94,886**	**111,747**
Tax on profit	10	(20,950)	(28,280)	(22,530)	(20,306)
Profit for the year		**72,356**	**91,441**	**72,356**	**91,441**

Proposed profit appropriation	25				

Balance Sheet

28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
ASSETS					
Non-current assets					
Intangibles					
Software		23,728	26,637	23,688	26,579
Software in process		2,229	342	2,229	342
Development projects completed		255,448	276,039	219,330	238,628
Development projects in process		153,213	133,139	130,457	119,957
	11	**434,618**	**436,157**	**375,704**	**385,506**
Property, plant, and equipment					
Land and buildings		273,127	262,037	273,127	262,037
Plant and machinery		177,214	121,969	27,228	26,639
Fixtures and fittings, tools and equipment		25,139	16,063	13,799	8,319
Property, plant, and equipment under construction		25,235	62,554	16,723	10,950
	12	**500,715**	**462,623**	**330,877**	**307,945**
Investments					
Investments in subsidiaries		-	-	299,364	292,864
Loan to subsidiary		-	-	48,751	0
	8	**-**	**-**	**348,115**	**292,864**
Total non-current assets		**935,333**	**898,780**	**1,054,696**	**986,315**
Current assets					
Inventories					
Raw materials and consumables		225,272	206,633	169,492	156,141
Work in process		93,052	73,217	74,254	51,670
Prepayments to suppliers		2,339	12,043	2,339	11,771
		320,663	**291,893**	**246,085**	**219,582**
Receivables					
Trade receivables		318,715	243,187	188,592	130,670
Construction contracts	13	380,739	287,427	189,508	121,304
Amounts owed by subsidiaries		-	-	131,224	117,050
Corporate tax receivable	14	3,268	219	0	0
Other receivables		32,520	15,165	12,151	9,794
Deferred tax asset	15	1,384	1,028	0	0
Prepayments and deferred charges	16	7,397	7,452	6,808	6,658
		744,023	**554,478**	**528,283**	**385,476**
Cash at bank and in hand		**19,049**	**45,498**	**415**	**34,826**
Total current assets		**1,083,735**	**891,869**	**774,783**	**639,884**
Total assets		**2,019,068**	**1,790,649**	**1,829,479**	**1,626,199**

DKK thousand	Note	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
EQUITY AND LIABILITIES					
Equity					
Capital stock	17	18,000	18,000	18,000	18,000
Net revaluation according to the equity method		-	-	30,097	31,085
Reserve for development costs		-	-	98,690	43,009
Retained earnings		645,357	544,190	516,570	470,096
Proposed dividends		0	0	0	0
Total equity		**663,357**	**562,190**	**663,357**	**562,190**
Provisions					
Warranty provisions	18	11,772	12,179	11,772	12,179
Provisions regarding construction contracts		9,680	1,381	967	1,104
Deferred tax	15	143,537	132,755	121,415	117,756
Total provisions		**164,989**	**146,315**	**134,154**	**131,039**
Liabilities other than provisions					
Non-current liabilities other than provisions					
Subordinated loans	19	125,000	125,000	125,000	125,000
Credit institutions		208,502	104,066	208,502	104,066
Mortgage credit institutions		182,983	193,485	182,983	193,485
	20	**516,485**	**422,551**	**516,485**	**422,551**
Current liabilities other than provisions					
Current portion of non-current liabilities	20	10,507	10,409	10,507	10,409
Credit institutions		51,624	0	51,624	0
Construction contracts	13	143,263	121,406	90,304	90,163
Prepayments received from customers		60,520	68,150	45,158	56,369
Trade payables		137,925	150,669	90,034	105,329
Amounts owed to Parent Company		72,164	66,173	72,164	66,173
Amounts owed to subsidiaries		-	-	34,157	34,668
Corporate tax	14	3,360	5,919	0	0
Other payables		194,874	236,867	121,535	147,308
		674,237	**659,593**	**515,483**	**510,419**
Total liabilities other than provisions		**1,190,722**	**1,082,144**	**1,031,968**	**932,970**
Total equity and liabilities		**2,019,068**	**1,790,649**	**1,829,479**	**1,626,199**

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Statement of Changes in Equity

1 MARCH – 28 FEBRUARY

CONSOLIDATED

DKK thousand	Note	Capital stock	Net revaluation according to the equity method	Reserve for development costs	Retained earnings	Proposed dividends	Total
Equity at 1 March 2016		**18,000**			**543,776**	**10,000**	**571,776**
Dividends paid, ordinary		-			-	(10,000)	(10,000)
Dividends paid, extraordinary		-			(90,000)	-	(90,000)
Results for the year		-			91,441	-	91,441
Translation adjustment relating to foreign entity		-			659	-	659
Changes in value of hedging instruments, etc. (before tax)		-			(2,162)	-	(2,162)
Tax on changes in value of hedging instruments		-			476	-	476
Equity at 1 March 2017		**18,000**			**544,190**	**0**	**562,190**
Results for the year		-			72,356	-	72,356
Translation adjustment relating to foreign entity, net after tax		-			(9,952)	-	(9,952)
Changes in value of hedging instruments, etc. (before tax)		-			49,696	-	49,696
Tax on changes in value of hedging instruments		-			(10,933)	-	(10,933)
Equity at 28 February 2018		**18,000**			**645,357**	**0**	**663,357**

PARENT COMPANY

DKK thousand	Note	Capital stock	Net revaluation according to the equity method	Reserve for development costs	Retained earnings	Proposed dividends	Total
Equity at 1 March 2016		**18,000**	**21,032**	**-**	**522,744**	**10,000**	**571,776**
Dividends paid, ordinary		-	-	-	-	(10,000)	(10,000)
Dividends paid, extraordinary		-	-	-	(90,000)	-	(90,000)
Dividends received from subsidiaries		-	(12,675)	-	12,675	-	0
Results for the year	25	-	21,370	43,009	27,062	-	91,441
Translation adjustment relating to foreign entity		-	659	-	-	-	659
Changes in value of hedging instruments, etc. (before tax)		-	896	-	(3,058)	-	(2,162)
Tax on changes in value of hedging instruments		-	(197)	-	673	-	476
Equity at 1 March 2017		**18,000**	**31,085**	**43,009**	**470,096**	**0**	**562,190**
Dividends received from subsidiaries		-	(10,031)	-	10,031	-	0
Results for the year	25	-	(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 28 February 2018		**18,000**	**30,097**	**98,690**	**516,570**	**0**	**663,357**

Cash Flow Statement

1 MARCH – 28 FEBRUARY

DKK thousand	Note	CONSOLIDATED 2017/18	2016/17
Earnings before tax		**93,306**	**119,721**
Adjustments:			
Depreciation, amortization, and write-downs, etc.		150,909	147,820
Provisions		7,892	144
Net financial income and costs	9	25,185	21,176
		183,986	**169,140**
Changes in working capital	26	**(216,025)**	**19,457**
Cash flows generated from operations before financial items		**61,267**	**308,318**
Net financial income, paid and received		9,837	6,786
Net financial costs, paid and received		(35,597)	(28,509)
Cash flows from operations before tax		**35,507**	**286,595**
Corporate tax paid	14	(30,796)	(3,189)
Cash flows from operating activities		**4,711**	**283,406**
Capitalized development costs	11	(96,216)	(73,487)
Acquisition of software, property, plant, and equipment	26	(91,779)	(132,593)
Cash flows for investing activities		**(187,995)**	**(206,080)**
Repayments, non-current liabilities		(10,404)	(149,912)
Proceeds, new non-current liabilities		104,436	104,066
Subordinated loans		0	125,000
Loan from Parent Company		11,179	(15,507)
Dividends paid		0	(100,000)
Cash flows from financing activities		**105,211**	**(36,353)**
Net cash flows from operating, investing, and financing activities		**(78,073)**	**40,973**
Current cash and borrowings		45,498	4,525
Current cash and borrowings		**(32,575)**	**45,498**

The Cash Flow Statement cannot be directly derived from the Balance Sheet and the Income Statement.

Notes

1. ACCOUNTING POLICIES

The Annual Report of Terma A/S for 2017/18 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.

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.

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.

Changes in the fair value of derivative financial instruments used for the hedging of net investments in foreign entities are recognized directly in the equity.

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.

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 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.

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.

Patents and 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 licenses are depreciated over the contract period, however, not longer than 8 years.

Gains and losses on the disposal of development projects, patents, and 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.

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.

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 impament 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. However, deferred tax is not recognized on temporary differences relating to goodwill which is not deductible for tax purposes and other items in which temporary differences – excluding acquisitions – have arisen on the date of acquisition, without affecting the profit/loss for the year or taxable income. 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.

1. ACCOUNTING POLICIES, CONTINUED

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 and losses related to construction contracts in process. 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.

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.

Cash at bank and in hand reduced by current borrowings in credit institutions (current cash and borrowings)
Cash at bank and in hand comprises cash reduced by current borrowings in credit institutions.

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 the Management are not a part of the operating activities of the Group.

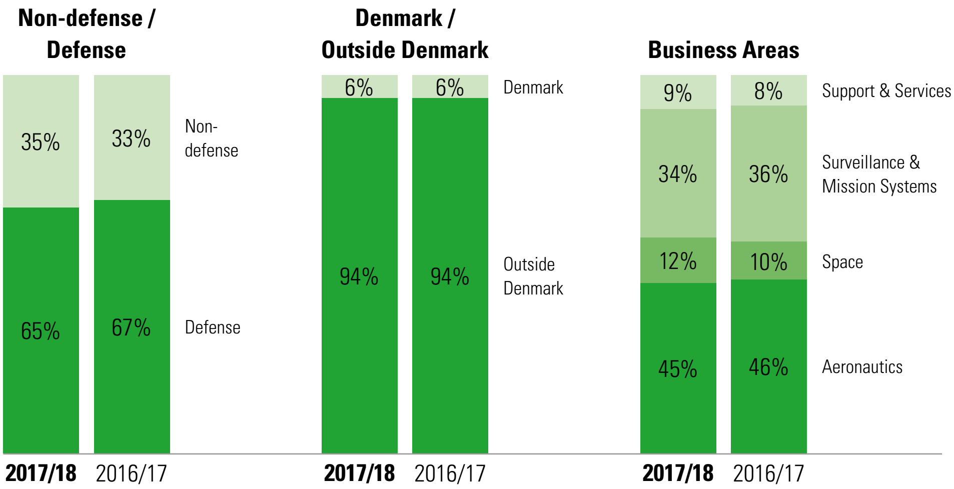
As mentioned in the Management's Review, the profit for the year has been impacted by circumstances which according to the Management deviate from being a part of the operating activities.

The order value of a customer project is significantly downwards adjusted and thereby impacting the profit for the year with 15,000 tDKK. In addition, a restructuring of the organization and Management has taken place with a further impact of 15,762 tDKK.

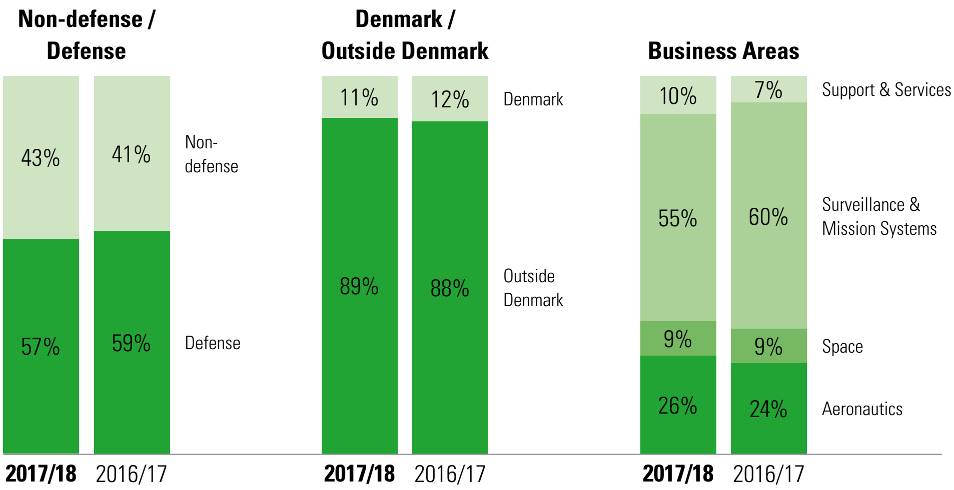
These significant one-off costs have impacted the profit for the year negatively with 30,762 tDKK in total, of which 24,132 tDKK relates to production costs, 2,320 tDKK relates to distribution costs, and 4,310 tDKK relates to administrative costs.

3. SEGMENT INFORMATION, REVENUE

CONSOLIDATED



PARENT COMPANY



4. REVENUE

DKK thousand	CONSOLIDATED 2017/18	CONSOLIDATED 2016/17	PARENT COMPANY 2017/18	PARENT COMPANY 2016/17
Goods and services	648,394	616,002	559,915	524,762
Construction contracts	1,136,197	1,102,807	624,048	623,860
	1,784,591	**1,718,809**	**1,183,963**	**1,148,622**

5. STAFF COSTS

	CONSOLIDATED 2017/18	CONSOLIDATED 2016/17	PARENT COMPANY 2017/18	PARENT COMPANY 2016/17
Parent Company Board of Directors emoluments	1,575	1,275	1,575	1,275
Remuneration to Management registered in the Central Business Register	7,496	6,415	7,496	6,415
Wages and salaries	757,291	692,379	473,134	436,333
Pensions	47,792	42,873	35,402	32,030
Other social security costs	34,976	30,988	8,468	7,918
	849,130	**773,930**	**526,075**	**483,971**
Average number of full-time employees	1,398	1,257	838	764

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 2017/18	CONSOLIDATED 2016/17
Statutory audit	1,071	983
Other assurance engagements	87	65
Tax and VAT	739	814
Other non-audit services	284	209
	2,181	**2,071**

7. OTHER OPERATING INCOME AND COSTS

	CONSOLIDATED 2017/18	CONSOLIDATED 2016/17	PARENT COMPANY 2017/18	PARENT COMPANY 2016/17
Management fees	1,013	1,006	35,679	32,830
Profit on disposal of non-current assets	116	0	116	0
Rental income	448	447	7,230	6,173
Other operating income	**1,577**	**1,453**	**43,025**	**39,003**
Loss on disposal of non-current assets	125	478	0	194
Costs related to premises rented out	134	132	6,510	5,138
Other operating costs	**259**	**610**	**6,510**	**5,332**

8. INVESTMENTS

DKK thousand	PARENT COMPANY Investments in subsidiaries	PARENT COMPANY Loan to subsidiary
Cost at 1 March 2017	269,192	0
Additions	75	56,000
Cost at 28 February 2018	**269,267**	**56,000**
Net revaluations at 1 March 2017	23,672	0
Translation adjustments	(4,414)	(7,249)
Dividends paid	(10,031)	-
Changes in value of hedging instruments (after tax)	28,314	0
Results for the year	(7,444)	-
Net revaluations at 28 February 2018	**30,097**	**(7,249)**
Carrying amount at 28 February 2018	**299,364**	**48,751**

8. INVESTMENTS, CONTINUED

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

	CONSOLIDATED		PARENT COMPANY	
DKK thousand	**2017/18**	2016/17	**2017/18**	2016/17
Intra-group interest, current assets	0	0	1,182	1,722
Other interest	0	138	671	138
Exchange rate variations regarding hedging instruments	9,837	6,648	1,812	925
Financial income	**9,837**	**6,786**	**3,665**	**2,785**
Intra-group interest, current liabilities	409	1,015	1,092	4,971
Interest on subordinated loans	5,625	2,984	5,625	2,984
Interest to credit institutions, non-current liabilities	6,407	5,339	6,407	5,339
Interest to credit institutions, current liabilities	2,793	4,994	1,853	2,403
Guarantee expenses and bank charges	2,001	5,428	1,338	4,975
Exchange rate variations and hedging costs regarding hedging instruments	17,787	8,202	12,682	1,776
Financial costs	**35,022**	**27,962**	**28,997**	**22,448**
Net financial income and cost	**(25,185)**	**(21,176)**	**(25,332)**	**(19,663)**

10. TAX

Joint taxation contribution/current tax	20,000	29,378	20,225	22,847
Tax adjustment regarding previous years	0	90	0	90
Deferred tax	10,290	(1,664)	3,659	(3,304)
Total tax	**30,290**	**27,804**	**23,884**	**19,633**
Specified as follows:				
Tax on profit	20,950	28,280	22,530	20,306
Tax on changes in equity	9,340	(476)	1,354	(673)
	30,290	**27,804**	**23,884**	**19,633**

11. INTANGIBLES

DKK thousand	Software	Software in process	Development projects, completed	Development projects, in process	Total
	CONSOLIDATED				
Cost at 1 March 2017	42,081	342	705,680	133,139	881,242
Foreign currency translation	0	0	0	(957)	(957)
Additions	4,241	2,171	0	96,216	102,628
Disposals	0	0	(26,721)	0	(26,721)
Transfers	284	(284)	75,185	(75,185)	0
Cost at 28 February 2018	**46,606**	**2,229**	**754,144**	**153,213**	**956,192**
Amortizations and impairments at 1 March 2017	15,444	0	429,641	0	445,085
Amortizations	7,434	0	95,776	0	103,210
Disposals	0	0	(26,721)	0	(26,721)
Amortizations and impairments at 28 February 2018	**22,878**	**0**	**498,696**	**0**	**521,574**
Carrying value at 28 February 2018	**23,728**	**2,229**	**255,448**	**153,213**	**434,618**
Amortized over	3-5 years		5-15 years		
	PARENT COMPANY				
Cost at 1 March 2017	41,928	342	647,205	119,957	809,432
Additions	4,241	2,171	0	79,754	86,166
Disposals	0	0	(24,142)	0	(24,142)
Transfers	284	(284)	69,254	(69,254)	0
Cost at 28 February 2018	**46,453**	**2,229**	**692,317**	**130,457**	**871,456**
Amortizations and impairments at 1 March 2017	15,349	0	408,577	0	423,926
Amortizations	7,416	0	88,552	0	95,968
Disposals	0	0	(24,142)	0	(24,142)
Amortizations and impairments at 28 February 2018	**22,765**	**0**	**472,987**	**0**	**495,752**
Carrying value at 28 February 2018	**23,688**	**2,229**	**219,330**	**130,457**	**375,704**
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.

Recognition and measurement in the financial statements
It is a prerequisite for capitalization

- that an explicit sales evaluation exists describing whether the asset in itself or in a modified form may form the basis of repeated sales to one or more customers
- that the technological challenges are described and that ressource requirements of the development projects are described
- that a financial impact analysis is made.

Development projects are valued at cost less accumulated amortization and write-downs, or recoverable amount if this is lower.

Capitalized development costs are amortized concurrently with the sale of the developed products and platforms or on a straight-line basis over the estimated useful life.

The amortization profile is determined based on a business case, and the amortization base comprises both existing and expected orders. An estimated useful life of usually no more than 10 years is attached to the amortization profile, adjusted according to the investment amount. The amortization profile is reevaluated on an annual basis.

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 11-13% 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 2017	457,044	365,182	101,744	62,554	986,524
Foreign currency translation adjustments	0	(1,055)	(1,929)	0	(2,984)
Transfers	6,816	51,280	501	(58,597)	0
Additions	17,599	30,896	16,746	21,278	86,519
Disposals	(373)	(6,089)	(3,815)	0	(10,277)
Cost at 28 February 2018	**481,086**	**440,214**	**113,247**	**25,235**	**1,059,782**
Depreciation and impairments at 1 March 2017	195,007	243,213	85,681	0	523,901
Foreign currency translation adjustments	0	(935)	(1,321)	0	(2,256)
Depreciations	13,002	25,669	7,393	0	46,064
Disposals	(50)	(4,947)	(3,645)	0	(8,642)
Depreciations and impairments at 28 February 2018	**207,959**	**263,000**	**88,108**	**0**	**559,067**
Carrying amount at 28 February 2018	**273,127**	**177,214**	**25,139**	**25,235**	**500,715**
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 2017	378,745	123,104	71,506	10,950	584,305
Transfers	6,816	1,117	501	(8,434)	0
Additions	17,599	9,664	8,962	14,207	50,432
Disposals	(373)	(3,787)	(1,800)	0	(5,960)
Cost at 28 February 2018	**402,787**	**130,098**	**79,169**	**16,723**	**628,777**
Depreciations and impairments at 1 March 2017	116,708	96,465	63,187	0	276,360
Depreciations	13,002	9,050	3,983	0	26,035
Disposals	(50)	(2,645)	(1,800)	0	(4,495)
Depreciations and impairments at 28 February 2018	**129,660**	**102,870**	**65,370**	**0**	**297,900**
Carrying amount at 28 February 2018	**273,127**	**27,228**	**13,799**	**16,723**	**330,877**
Depreciated over	10-50 years	3-10 years	3-7 years		

13. CONSTRUCTION CONTRACTS

DKK thousand	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Selling price of construction contracts	2,152,006	1,727,396	1,418,917	1,254,186
Invoiced on account	(1,914,530)	(1,561,375)	(1,319,713)	(1,223,045)
Construction contracts at 28 February	**237,476**	**166,021**	**99,204**	**31,141**
Recognized as follows:				
Construction contracts (assets)	380,739	287,427	189,508	121,304
Construction contracts (liabilities)	(143,263)	(121,406)	(90,304)	(90,163)
	237,476	**166,021**	**99,204**	**31,141**

14. CORPORATE TAX PAYABLE

	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Corporate tax payable at 1 March	5,700	2,537	0	0
Tax adjustment regarding previous years	0	90	0	90
Tax for the year/joint taxation contribution	20,000	29,378	20,225	22,847
Corporate tax paid during the year	(30,796)	(3,189)	(24,875)	(863)
Transferred to intra-group balances	5,188	(23,116)	4,650	(22,074)
Corporate tax payable at 28 February	**92**	**5,700**	**0**	**0**
Recognized as follows:				
Corporate tax receivable	(3,268)	(219)	0	0
Corporate tax payable	3,360	5,919	0	0
	92	**5,700**	**0**	**0**

15. DEFERRED TAX

	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Deferred tax at 1 March	131,727	133,435	117,756	121,060
Foreign currency translation adjustments	136	(44)	0	0
Adjustment for the year	10,290	(1,664)	3,659	(3,304)
Deferred tax at 28 February	**142,153**	**131,727**	**121,415**	**117,756**
Recognized as follows:				
Deferred tax asset	(1,384)	(1,028)	0	0
Deferred tax liabilities	143,537	132,755	121,415	117,756
	142,153	**131,727**	**121,415**	**117,756**
Deferred tax relates to:				
Intangibles	86,348	89,727	78,154	79,785
Property, plant, and equipment	34,806	30,622	20,135	19,442
Current assets	21,611	21,700	23,365	21,563
Liabilities other than provisions	(612)	(10,322)	(239)	(3,034)
	142,153	**131,727**	**121,415**	**117,756**
Expected timeframe for elimination of deferred tax liabilities:				
0-1 year	16,089	31,958	13,993	32,595
1-5 years	76,808	71,773	58,660	66,853
>5 years	49,256	27,996	48,762	18,308
	142,153	**131,727**	**121,415**	**117,756**

16. PREPAYMENTS

DKK thousand	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Insurance premiums	679	664	508	513
Rent	938	553	938	553
Tax on real property	519	517	445	443
IT licenses, short term	4,262	3,657	4,262	3,657
Other prepayments and deferred charges	999	2,061	655	1,492
Prepayments at 28 February	**7,397**	**7,452**	**6,808**	**6,658**

17. EQUITY

Capital stock consists of:

1 stock at MDKK 18.

The capital stock has remained unchanged during the preceding five 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 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Warranty provisions at 1 March	12,179	9,993	12,179	9,993
Used during the year	(9,347)	(6,779)	(9,347)	(6,779)
Unused warranty provisions, reversed	(1,033)	(48)	(1,033)	(48)
Provisions for the year	9,973	9,013	9,973	9,013
Warranty provisions at 28 February	**11,772**	**12,179**	**11,772**	**12,179**
Expected maturity dates for warranty provisions:				
0-1 year	8,315	8,271	8,315	8,271
>1 year	3,457	3,908	3,457	3,908
	11,772	**12,179**	**11,772**	**12,179**

19. SUBORDINATED LOANS

Terma A/S has obtained subordinated convertible loans from the ultimate parent company Thomas B. Thrige Foundation with a total nominal value of MDKK 125. The interest rate is fixed at 4.5%. The loans expire 31 May 2019 without further notice. Once a year in February, the loans can be fully or partly converted into shares in Terma A/S based on current value. However, not less than a share price of 100 per share amounting to 100.

20. 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	208,502	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**
Subordinated loans	125,000	125,000	125,000	125,000	0	0
Credit institutions	104,066	104,066	104,066	104,066	0	52,150
Mortgage credit institutions	203,894	208,088	208,088	193,485	10,409	150,966
28 February 2017	**432,960**	**437,154**	**437,154**	**422,551**	**10,409**	**203,116**

	CONSOLIDATED			
DKK thousand	28 February 2017	Cash flow	Non-monetary changes	28 February 2018
Non-current liabilities other than provisions	422,551	93,798	136	516,485
Current liabilities other than provisions	76,582	57,713	0	134,295
Liabilities other than provisions from investing activities	**499,133**	**151,511**	**136**	**650,780**

20. 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
	2018				
Mortgage loans:					
Variable rate loans	0.93	0.93	DKK	3-6 months	57,917
Fixed rate loans	2.82	3.12	DKK	14-22 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**
	2017				
Mortgage loans:					
Variable rate loans	0.93	0.97	DKK	3-6 months	62,509
Fixed rate loans	2.81	3.10	DKK	15-23 years	130,976
Mortgage loans total	**2.21**	**2.42**			**193,485**
Loans from banks:					
Fixed interest rate loans	1.13	1.13	EUR		104,066
Loans from banks total	**1.13**	**1.13**			**104,066**
Credit institutions total at 28 February					**297,551**

21. CONTINGENT LIABILITIES AND SECURITY

DKK thousand	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Contingent liabilities				
Lease liabilities (operating leases) at 28 February falling due within five years (annual cost 13,448 tDKK)	41,337	24,703	6,738	5,898
Lease liabilities at 28 February due after more than five years	483	0	0	0
The Group's Danish companies are jointly liable for joint registration of VAT.				

Terma A/S is a party, as the plaintiff, to a court dispute with the Polish Ministry of National Defence regarding an EW program. Our claim is MDKK 135. Early 2015, a counter claim was filed to the defendant amounting to approx. MDKK 116 (MPLN 64), including repayment of the advance payment. Based on external legal evaluation, it is the opinion of the Executive Management that the outcome of the court dispute will not negatively affect the Group's and the Parent Company's financial position as reflected in the Balance Sheet at 28 February 2018.

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.

Security

The following assets have been provided as security for mortgage loans:

DKK thousand	CONSOLIDATED 2018	CONSOLIDATED 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Carrying amount of land and buildings	273,127	262,037	273,127	262,037
Other property, plant, and equipment estimated to be comprised by the collateral, cf. the provisions of the Danish Registration of Property Act	202,353	138,036	41,027	34,958
Terma A/S – acting as the Parent Company – 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	-	-	47,410	38,113

22. 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 Parent Company.

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	**2017/18**	2016/17
Sale of services to Parent Company	1,013	1,006
Interest paid to Parent Company	6,034	3,999
Reinvoicing of costs to Parent Company	10	8
Debt to Parent Company	73,759	66,173
Subordinated loans from Parent Company	125,000	125,000
Dividend paid to Parent Company	0	100,000

	PARENT COMPANY	
DKK thousand	**2017/18**	2016/17
Sale to Group companies	270,425	294,636
Purchase from Group companies	60,269	98,234
Sale of services to Parent Company	1,013	1,006
Sale of Services to Group companies	33,981	31,824
Rent from Group companies	6,782	5,726
Interest paid to Group companies	683	3,956
Interest paid from Group companies	1,182	1,722
Interest paid to Parent Company	6,034	3,999
Reinvoicing of costs to Group companies	8,131	6,233
Reinvoicing of costs from Group companies	3,701	8,546
Receivable from Group companies	131,224	117,050
Debt to Parent Company	73,759	66,173
Debt to Group companies	34,157	34,668
Subordinated loans from Parent Company	125,000	125,000
Dividend paid to Parent Company	0	100,000
Dividend paid from Group companies	10,031	12,675

23. 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 2018.

24. 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 2016/17, 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.

24. 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 2018, cash and cash equivalents amounted to MDKK 19.0. In addition to cash and cash equivalents, 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 2018 and 28 February 2017.

	2018				2017			
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	208,502	-	144,763	63,739	104,066	-	51,916	52,150
Mortgage credit institutions	182,983	-	43,372	139,611	193,485	-	42,519	150,966
Current liabilities other than provisions	666,662	639,933	26,729	-	623,031	583,639	39,392	-
Derivats:								
Forward contracts	3,797	3,797	-	-	31,389	31,389	-	-
Interest swaps	3,778	3,778	-	-	5,173	5,173	-	-
	1,190,722	**647,508**	**339,864**	**203,350**	**1,082,144**	**620,201**	**258,827**	**203,116**

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 assess-ment, the trade is handled on letter of credit. 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 2017/18, the Group has not incurred any financial loss on debtors, neither in 2016/17. The Group does not expect any loss on trade receivables, con-struction contracts, or amounts owed by subsidiaries.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

In 2017/18, there was no impairment of receivables. 5% of the receivables exceeded payment terms with more than one month.
In 2016/17, there was no impairment of receivables. 2% of the receivables exceeded payment terms with more than one month.

DKK thousand	**2018**	2017
Accounts receivable from sales are specified as follows:		
Europe	177,731	137,313
North and Central America	95,805	87,314
Asia Pasific	25,416	12,722
Middle East and North Africa	19,151	3,274
Rest of World	612	2,564
Accounts receivable at 28 February	**318,715**	**243,187**
Overdue Accounts Receivable:		
Up to 1 month	35,703	43,694
Between 1 and 2 months	3,753	5,448
More than 2 months	10,701	37
Overdue accounts receivable at 28 February	**50,157**	**49,179**

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.	68% of total interest-bearing debt excluding subordinated loans is fixed rated (2016/17 it was 67%). The effective interest rate of this part of the debt is 1.9% (2016/17 it was 2.2%). Please refer to note 19 for information about sub-ordinated loans.

24. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS, CONTINUED

The exposure to floating interest rates at Balance Sheet date 28 February 2018 and 28 February 2017 are as follows:

	2018				2017			
DKK thousand	Notional principal amount	Value adjustment recognized in equity	Fair value	Expected life	Notional principal amount	Value adjustment recognized in equity	Fair value	Expected life
Interest rate swap	40,955	(2,947)	(3,999)	4 years	43,236	(4,035)	(5,393)	5 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.

Sensitivity of interest rate risk

The calculated effect after tax based on a 1% point interest rate increase would affect profit/(loss) by (1.6) MDKK (2016/17: (1.2) MDKK) and equity by (1.2) MDKK (2016/17: (0.9) 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 2016/17, 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.

24. 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
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)
2017						
USD	< 1 year	76,227	-	(99,503)	46,771	23,495
GBP	< 1 year	201	-	(8,690)	8,370	(119)
SEK	< 1 year	19	-	(810)	-	(791)
NOK	< 1 year	-	-	(272)	-	(272)
EUR	< 1 year	146,367	-	(123,590)	-	22,777
EUR	> 1 year	-	(104,066)	-	-	(104,066)
INR	< 1 year	24	-	(67)	-	(43)
SGD	< 1 year	1,903	-	(2,382)	-	(479)

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 (1.7) MDKK (2016/17: (2.3) MDKK) and affect equity by (1.3) MDKK (2016/17: (1.8) MDKK). The effect of a 10% increase in the currency translation rates against DKK would have a corresponding inverse effect.

24. 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	**2018**	2017	**2018**	2017	**2018**	2017
GBP	0-1 year	-	(29,631)	-	(1,111)	-	-
GBP	1-5 years	-	-	-	-	-	-
AED	0-1 year	10,939	-	294	-	116	-
AED	1-5 years	2,487	-	71	-	95	-
USD	0-1 year	266,621	301,297	14,003	(23,876)	10,930	(13,742)
USD	1-5 year	225,765	340,035	2,289	(20,643)	3,828	(10,742)
		505,812	**611,701**	**16,657**	**(45,630)**	**14,969**	**(24,484)**

DKK thousand	**2017/18**	2016/17
Fair value of financial instrument is related to observeable input (level 2).		
Categories of financial instruments		
Financial assets:		
Financial derivatives used for hedging purposes	8,849	0
Receivables and cash at bank and in hand	337,764	288,685
Financial liabilities:		
Financial derivatives used for hedging purposes	3,797	36,562
Financial liabilities measured at amortized costs	578,616	432,960

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 2016/17 and 2017/18.

25. PROPOSED PROFIT APPROPRIATION

DKK thousand	PARENT COMPANY 2017/18	2016/17
Proposed dividends	0	0
Reserve for net revaluation according to the equity method	(7,444)	21,370
Reserve for development costs	55,681	43,009
Retained earnings	24,119	27,062
	72,356	**91,441**

26. CHANGES IN WORKING CAPITAL AND INVESTMENTS

DKK thousand	CONSOLIDATED 2017/18	2016/17
Changes in working capital:		
Inventories	(30,930)	5,473
Receivables	(186,140)	3,619
Construction contracts and prepayments from customers	14,227	(19,841)
Trade payables and other payables	(13,182)	30,206
	(216,025)	**19,457**
Acquisition of software, property, plant, and equipment:		
Additions to software, property, plant, and equipment (note 11 and 12)	92,931	134,442
Hereof trade payables to be paid in the following financial year	(14,490)	(13,338)
Trade payables beginning of year	13,338	11,489
Paid concerning addition to property, plant, and equipment	**91,779**	**132,593**