Nilfisk A/S

Kornmarksvej 1, 2605 Brøndby

Central Business Registration No. 62 57 22 13

Annual Report 2020

Adopted at the annual general meeting
on 1 June 2021

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Heidi Pontoppidan Föh
Chairman of the meeting

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Management's Statement

The Board of Directors and the Executive Management have today considered and approved the Annual Report of Nilfisk A/S for the financial year 1 January - 31 December 2020.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2020 and of the results of its operations for the financial year 1 January - 31 December 2020.

In our opinion, the Management commentary contains a fair review of the affairs and conditions referred to therein. We recommend the Annual Report for adoption at the Annual General Meeting.

Brøndby, 31 May 2021

Executive Management

Hans Flemming Jensen
Senior Vice President

Board of Directors

Hans Henrik Lund Chairman	Prisca Havranek-Kosicek Deputy Chairman	Hans Flemming Jensen
Søren Giessing Kristensen Staff representative	Jan Bøgh Georgsen Staff representative	

Independent Auditor's Report

To the shareholder of Nilfisk A/S

Opinion

We have audited the financial statements of Nilfisk A/S for the financial year 1 January 2020 – 31 December 2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31 December 2020 and of the results of its operations and cash flows for the financial year 1 January 2020 – 31 December 2020 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 financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed; we conclude that the management commentary 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 commentary.

Copenhagen, 31 May 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Sumit Sudan
State-Authorised Public Accountant
MNE-no mne33716

Management's Commentary

Company Information

The Company

Name:	Nilfisk A/S
Address:	Kornmarksvej 1, 2605 Brøndby
CVR No:	62 57 22 13
Financial period:	1 January – 31 December
Municipality of reg. office:	Brøndby
Board of Directors	Hans Henrik Lund (Chairman) Prisca Havranek-Kosicek (Deputy Chairman) Hans Flemming Jensen Søren Giessing Kristensen Jan Bøgh Georgsen
Executive Management	Hans Flemming Jensen (Senior Vice President)
Auditors	Deloitte, Statsautoriseret Revisionspartnerselskab Weidekampsgade 6, 2300 København S
Consolidated Fin. Statements	The company is included in the Group Annual Report of the parent company Nilfisk Holding A/S, CVR 38998870. The Group Annual report may be obtained at Nilfisk Holding A/S, Kornmarksvej 1, 2605 Brøndby.

Financial highlights

EUR million	2020	2019	2018*	2017*	2016*
Income statement					
Revenue	420.3	462.9	510.6	537.2	505.1
Profit/loss before financial items and income taxes	-13.0	-32.2	-29.5	-2.2	-3.2
Financial items, net	-25.5	-26.7	-15.1	2.0	1.2
Profit/loss before income taxes	-26.5	-47.2	-26.7	28.4	13.8
Profit/loss for the year	-25.1	-36.4	-20.1	28.1	12.0
Balance sheet					
Total non-current assets	568.5	591.5	583.3	460.8	346.6
Total assets	702.5	731.4	724.7	778.6	636.0
Investments in tangible assets	14.3	2.9	1.5	0.8	3.5
Equity	102.0	126.8	166.1	193.8	166.7
Key ratios					
Operating profit margin %	-3.1	-7.0	-5.8	-0.4	-0.6
Return on equity %	-21.9	-24.9	-11.2	15.6	7.5
Solvency ratio %	14.5	17.3	22.9	24.9	26.2

*Comparative figures are not restated with the effect of changes in accounting policies including the effect of implementing IFRS 16 as interpretation for accounting for lease contracts.

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Finance Society.

Management’s commentary

Core activity, research and development and knowledge resources

Nilfisk was founded in 1906 on a vision of producing and selling products of the highest quality worldwide, and for more than a hundred years we have adapted to the changing needs of markets and customers with innovative cleaning products and solutions. We have a clear mission that drives us: We enable sustainable cleaning worldwide to improve quality of life.

Nilfisk A/S’ activities are unchanged compared to 2019.

Significant events in 2020

Nilfisk A/S was as many other businesses affected by the global COVID-19 pandemic outbreak during 2020. To mitigate the impact of the COVID-19 pandemic, Nilfisk announced in May 2020 a restructuring plan to adjust and structurally lower the cost base. Measures included a reduction in the workforce in Nilfisk A/S by approximately 50 positions.

Nilfisk continued executing on strategic initiatives in 2020. Focusing on consolidation of the European distribution structure, we opened new distribution centers in Ghent (Belgium) and Trollhättan (Sweden) during 2020, operated by our third-party supply chain partner. The distribution center in Denmark was closed by the end of 2020.

Development in the year

Revenue decreased by 9.2% to 420.3 mEUR, gross profit increased by 9.4% to 111.6 mEUR and loss for the year ended with -25.1 mEUR compared to -36.4 mEUR last year. Loss for the year was positively affected by the higher gross profit, which was material affected by an adjustment of the transfer pricing rates and hence profit generation in the subsidiaries in 2020. The loss for the year is also affected by impairment of subsidiaries.

Due to the COVID-19 outbreak in the first quarter of 2020, outlook for 2020 was suspended. Visibility was low and the escalation of the outbreak caused a high degree of uncertainty. Hence Management could not accurately assess the potential negative impact. A lower activity level and hence lower result than in 2019 was expected. By adapting the business to the lower activity level and executing on a restructuring plan, the result for the year came out higher than 2019 on a lower activity level. Management consider the financial result for 2020 satisfactory.

Key accounting estimates and judgments

When preparing the financial statements, the use of reasonable estimates and judgments is an essential part. Given the uncertainties inherent in our business activities, the Executive Management Board makes a number of accounting estimates and judgments. The estimates and judgments are based on assumptions which form the basis for recognition and measurement of our assets, liabilities, cash flows and related disclosures. Estimates and judgments are regularly reassessed.

Key accounting estimates are expectations of the future based on assumptions, that to the extent possible are supported by historical experience, customer demands, competitor actions and other reasonable expectations. Estimates, by their nature, are associated with uncertainty and unpredictability. The actual amounts may differ from the amounts estimated as more detailed information becomes available. The Executive Management Board believe that the estimates are reasonable, appropriate and the most likely outcome of future events under the given circumstances.

Key accounting judgments are made when applying accounting policies. Key accounting judgments are judgments made, that can have a significant impact on recognition, classification and disclosures of amounts in the financial statements.

Reference is made to note 19 for details on areas subject to significant accounting estimates and judgments.

Special risks

Risks	Risk description	Risks mitigation
Transformation initiatives	Nilfisk's on-going focus on simplification, growth and digitalization requires execution of significant transformative initiatives including organizational changes, optimization of cost structures, reallocation of resources, implementation of market strategies, and standardized processes. If the expected benefits and savings arising from the transformation initiatives and processes are not realized and continued, this may negatively impact our ability to meet our strategic objectives, improve profiablity and serve our customers.	We closely monitor and track initiatives across the Group to ensure the execution and realization of benefits. Tracking and coordination of transformation projects across Nilfisk is carried out centrally and seeks to enhance speed and quality of execution, and ensure organizational implementation and value realization. A monthly follow-up is carried out by the Nilfisk Leadership Team, enabling immediate reaction if needed.
Commoditization	Customer demand is changing towards low-price "good-enough" products. At the same time, competition is intense, and low-cost competition could come to a level where customers will be hesitant towards paying a premium for higher quality products. The Nilfisk Group's competitors include various large global and regional enterprises as well as smaller regional or local companies. Our operational results and financial position may be negatively impacted if Nilfisk products do not satisfy customer demand.	We monitor indicators in customer behavior, in terms of both segment trends and purchase loyalty. Nilfisk responds to changes in customer behavior with a strategy focused on product innovation and uniquely positioned customer offerings in which we add value beyond the machine to deliver cleaning vsolutions that blend into operations and integrate digital services, collectively increasing the value of clean. We leverage our strengths within brands, product portfolio range, product quality, and customer access, and we scale benefits due to our size and geographical coverage.
Political and economic instability including trade conflicts	Adverse economic conditions including a risk of economic conflicts may negatively impact our financial position and decrease demand for Nilfisk products and affect sales in a downward direction At the same time, major social or political changes may disrupt sales and operations.	We closely monitor developments in our markets and the global economic situation to be able to respond in a timely manner to any adverse developments. We also mitigate possible negative macroeconomic changes by hedging and maintaining variability in our cost base as well as well as establishing a certain degree of flexible "plant-in-plant" production footprint.
Operational interruptions (production and distribution)	Failures or delays may occur through the entire supply chain including sourcing of components, manufacturing, and distribution of products. In daily operations we are dependent on information technology systems, production companies and distribution centers. If functionality is interrupted in any of these, for a substantial period, our business continuity planning might be insufficient to continue daily operations. In addition, our global operations are subject to various local legislation, creating a legal risk of not being compliant with such laws and regulations.	We focus on optimal production and distribution footprint including several production facilities and distribution centers, dual sourcing initiatives, optimization of supply chain processes and modularization strategy with the aim of increasing scale advantages and reduction of production complexity. We continuously monitor functionality of utilities and compliance with applicable regulations.
Interruptions to IT service or systems	Nilfisk's IT systems are subject to damage or interruption from power outages, computer and telecommunications failures, malware, catastrophic events and user errors. Errors made due to lack of user awareness or deliberate misuse, such as individual attempts to gain access to systems, are among the risks Nilfisk faces. Inadequate management of changes to systems or service together with ineffective measures to deter, prevent, detect and react to such attempts might expose Nilfisk to risks. Further, Nilfisk is faced with the threat of security breaches (viruses, ransomware, etc.) such as attempts of hacking our information technology systems.	We have implemented procedures and management processes to ensure necessary availability for critical IT systems and services. Furthermore, we have developed and actioned an IT security policy to prevent intentional damage to our systems and limit access to critical data and systems. Finally, initiatives have been planned and implemented to secure the digital business, strengthen the infrastructure platform and enhance IT service and recovery business continuity plans.

Outlook

The Nilfisk Group has come from a situation where we have seen demand improving quarter over quarter in the second half of 2020, however, in the first months of 2021, there has been an increase in lockdowns and restrictions across markets as a result of the continued outbreak of COVID-19. With the roll-out of vaccines across markets we expect a more normalized environment during the second half of the year, but we see, however, continued uncertainty for market conditions in the year.

The 2021 expectations on financial performance are naturally subject to uncertainty and in particular in regard to the development of COVID-19. Management thus, expects increased activity across markets as a result of the roll-out of vaccines. Therefore, Nilfisk A/S expects to reach a revenue level at the same level as 2019 and a higher net result compared to 2020.

Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the presentation of the financial statements that materially affect the assessment of the financial statements.

Statutory report on Corporate social responsibility, incl. impact on environment and gender composition in the management

Nilfisk's Group Annual Statutory Report on Corporate Social Responsibility, including articles 99a and 99b of the Danish Financial Statements Act related to corporate social responsibility and gender composition in management, covers Nilfisk A/S, and is available at https://www.nilfisk.com/en/nilfisk-group/csr/Pages/CSR-Report.aspx.

Nilfisk seeks to provide equal opportunities for all genders, and gender is in focus when assessing qualifications and experience of Board candidates. In the current Board of Directors in Nilfisk A/S shareholder-elected members consist of two men and one woman. We intend to keep the gender as balanced as possible going forward.

Knowledge resources

It is significantly important for Nilfisk A/S' continuing growth to attract and maintain high educated resources both internal workforce and especially external business partners that have engineers with high expertise within innovative cleaning products and solutions.

To ensure high productivity and competitiveness Nilfisk A/S use the latest technology in the production, which demand resources with a high competence level. These resources are mainly coming from external business partners

Development activities

In the financial year 2020 Nilfisk A/S spent 22.7 mEUR on development projects and software in progress. The amount is mainly related to existing project portfolio and innovative cleaning technology. 7.0 mEUR of the development costs is capitalized under intangible assets and 15.7 mEUR are recognized as expenses in the income statement for the year.

Financial Statements

Income Statement for the years ended 31 December

EUR million	Note	2020	2019
Revenue	2	420.3	462.9
Cost of sales	3, 4	-308.7	-360.9
Gross profit		**111.6**	**102.0**
Research and development costs	3, 4	-30.6	-33.5
Sales and distribution costs	3, 4	-58.5	-61.9
Administrative costs	3, 4	-37.3	-39.2
Other operating income, net	5	1.8	0.4
Operating profit/loss		**-13.0**	**-32.2**
Dividends from subsidiaries and associated companies	6	12.0	11.7
Financial income	7	5.8	6.3
Financial expenses	7	-13.8	-13.5
Impairment of non-current assets	6, 7	-17.5	-19.5
Profit/loss before income taxes		**-26.5**	**-47.2**
Income taxes	8	1.4	10.8
Profit/loss for the year	9	**-25.1**	**-36.4**

Balance Sheet at 31 December

Assets

EUR million	Note	2020	2019
Intangible assets	10		
Goodwill		9.5	12.6
Development projects completed		23.7	37.9
Software		29.5	24.6
Development projects and software in progress		20.8	33.0
Other intangible assets		2.0	2.7
		85.5	110.8
Property, plant and equipment	11		
Land and buildings		16.1	7.7
Plant and machinery		0.3	0.9
Tools and equipment		5.5	6.7
Asset under construction		0.5	0.5
		22.4	15.8
Other non-current assets			
Investments in subsidiaries	6	328.8	335.2
Investments in associates	6	1.3	1.3
Deferred tax	12	11.7	9.7
Receivables from affiliated companies		117.3	117.3
Other receivables	13	1.4	1.4
		460.7	464.9
Total non-current assets		**568.5**	**591.5**
Inventories	14	44.1	50.7
Trade receivables		11.5	11.9
Receivables from affiliated companies		71.4	67.4
Other receivables		4.1	5.8
Prepayments		2.9	3.6
Income tax receivable		-	0.2
Cash at bank and in hand		0.1	0.3
Total current assets		**134.1**	**139.9**
Total assets		**702.5**	**731.4**

Balance Sheet at 31 December

Equity and liabilities

EUR million	Note	2020	2019
Equity			
Share capital	15	67.0	67.0
Hedging reserve		-0.9	-0.5
Development cost reserve		17.9	29.5
Retained earnings		18.0	30.8
Total equity		**102.0**	**126.8**
Provisions	16	**3.1**	**3.0**
Non-current liabilities			
Interest-bearing loans and borrowing	17	198.4	353.1
Lease liabilities	17	13.5	5.4
Other liabilites		0.2	0.3
Total non-current liabilities		**212.1**	**358.8**
Current liabilities			
Interest-bearing loans and borrowing	17	280.1	125.1
Trade payables		30.5	35.2
Payables to affiliated companies	17	49.0	51.5
Lease liabilities	17	4.3	5.0
Other liabilities	13	21.4	26.0
Total current liabilities		**385.3**	**242.8**
Total provisions and liabilities		**600.5**	**604.6**
Total equity and liabilities		**702.5**	**731.4**

Statement of changes in Equity at 31 December

	Share capital	Hedging reserve	Development cost reserve	Proposed dividends	Retained earnings	Total equity
Equity, 1 January 2020	67.0	-0.5	29.5	-	30.8	126.8
Result for the year	-	-	-	-	-25.1	-25.1
Additions development costs	-	-	5.2	-	-5.2	-
Disposals development costs	-	-	-9.9	-	9.9	-
Amortizations development costs	-	-	-6.9	-	6.9	-
Foreign exchange translation adjustments	-	-	-	-	0,6	0.6
Hedge effect for the year, net	-	-0.3	-	-	-	-0.3
Share option program	-	-	-	-	0.1	0.1
Tax on equity	-	-0.1	-	-	-	-0.1
Equity, 31 December 2020	**67.0**	**-0.9**	**17.9**	**-**	**18.0**	**102.0**

Hedging reserve consist of the value of unrealized hedging transactions as of 31 December 2020. Net movement after tax in 2020 -0.4 mEUR (2019: -1.6 mEUR).

Notes

1 Going concern

The Executive Management Board is required to decide whether the financial statements can be presented on a 'going concern' basis. Based on estimated future prospects, expectations of future cash flows, existence of credit facilities, etc., the Executive Management Board is of the opinion that there are no factors giving reason to doubt whether Nilfisk A/S can continue operating for at least 12 months from the balance sheet date.

2 Revenue

Revenue by segments and geographical regions

EUR million	2020	2019
Professional	301.6	340.6
Consumer	80.1	78.0
Private label and other	38.6	44.3
	420.3	**462.9**
EMEA	353.0	416.0
Americas	53.6	60.3
APAC	13.7	34.3
	420.3	**462.9**

3 Amortization, depreciation and write-downs

Split on cost functions

EUR million	2020	2019
Cost of sales	4.8	5.9
Research and development costs	15.7	16.2
Sales and distribution costs	2.3	2.1
Administrative costs	11.6	8.4
	34.4	**32.6**
Hereof depreciation of right-of-use assets	5.9	5.1

4 Staff costs

EUR million	2020	2019
Wages and salaries	69.3	85.1
Long-term incentive program	-	0.4
Social security costs	0.7	0.6
Pensions	3.8	4.0
	73.8	**90.1**
Staff costs recognized as follows:		
Cost of sales	5.6	12.1
Research and development costs	15.8	20.1
Sales and distribution costs	27.0	29.5
Administrative costs	25.4	28.4
	73.8	**90.1**
Number of full-time employees, average*	449	815
Number of full-time employees, year-end	408	760
Remuneration to Board of Directors	-	-
Remuneration to Executive Management	N/A	1.0

* Number of full-time employees average in 2019 was impacted by salary re-invoicing of 315 full-time employees. Re-invoicing In 2020 was zero.

The development in staff costs is mainly related to the transformation of the Nilfisk Group, restructurings carried out and lower activity driven by COVID-19

Remuneration to the Executive Management has not been disclosed for 2020 as there has only been one member in 2020.

In 2020 an incentive program has been established for the Executive Management and selected key employees in line with 2019 and 2018. In the programs the Executive Management and selected key employees have been awarded performance shares based on certain performance measures of Nilfisk Holding A/S, including target EBITDA and RoCE measures as well as the development in the Nilfisk Holding A/S share price. The Performance Shares will be converted to Nilfisk Holding A/S shares after completion of the performance period. For each performance share, the employee will receive one Nilfisk Holding A/S share.

5 Other operating income, net

EUR million	2020	2019
Other operating income		
Service fee for Nordic Shared Service Center	0.4	0.4
Government grants	1.0	-
Other income	0.5	-
	1.9	**0.4**
Other operating expenses		
Other expenses	-0.1	-
	-0.1	**-**
Other operating income, net	**1.8**	**0.4**

6 Dividends from and investments in subsidiaries and associated companies

	Subsidiaries		Associated companies	
EUR million	2020	2019	2020	2019
Dividends	**10.7**	**10.4**	**1.3**	**1.3**
Costs, 1 January	335.2	354.0	1.3	1.3
Exchange rate adjustments	1.4	-	-	-
Additions	9.7	0.7	-	-
Disposals	-	-	-	-
Impairment losses	-17.5	-19.5	-	-
Costs, 31 December	**328.8**	**335.2**	**1.3**	**1.3**

Impairment losses comprised loss on investment in a total of nine entities.

Group companies (100% ownership)

Denmark
Nippon Investment Corporation ApS Denmark

Europe
Nilfisk GmbH Austria
Nilfisk N.V./S.A. Belgium
Nilfisk s.r.o. Czech Rep.
Nilfisk Oy Finland
Nilfisk S.A.S. France
Jungo Voirie S.A.S. France
Nilfisk-Advance Eppingen GmbH Germany
Nilfisk GmbH Germany
Nilfisk Hellas S.A. Greece
Nilfisk Production Kft. Hungary
Nilfisk Commercial Kft. Hungary
Nilfisk Ltd Ireland
Nilfisk S.p.A. Italy
Nilfisk B.V. Netherlands
Nilfisk AS Norway
Nilfisk Polska Sp.z.o.o. Poland
Nilfisk Lda Portugal
Nilfisk-Advance S.R.L. Romania
Nilfisk LLC Russia
Nilfisk s.r.o. Slovakia
Nilfisk S.A. Spain
Nilfisk AB Sweden
Nilfisk AG Switzerland
Nilfisk Profesyonel Temizlik Ekipmanlari Ticaret. A.S. Turkey Nilfisk Ltd.
Nilfisk Trading LLC (49%)* UAE
Nilfisk Ltd. United Kingdom
Floor Cleaning Machines United Kingdom

North and Central America
Nilfisk Canada Company Canada
Nilfisk de Mexico S. de R.L. de C.V. Mexico
Nilfisk de Mexico Services S. de R.L. de C.V. Mexico
Nilfisk de Mexico Manufacturing Services S. de R.L. de C.V. Mexico
Nilfisk de Mexico Manufacturing S. de R.L. de C.V. Mexico
Nilfisk U.S Holding Inc. US
Nilfisk Inc. US
Hathaway North America Inc. US
Hydro Tek Systems, Inc. US
Nilfisk Pressure-Pro, LLC. US
Nilfisk Robotics Inc. US

South America
Nilfisk S.R.L. Argentina
Nilfisk Equipamentos de Limpeza Ltda. Brazil
Nilfisk S.A. Chile
Nilfisk S.A.C. Peru

Asia/Pacific
Nilfisk Pty. Ltd. Australia
Kerrick Distributers (Aust) Pty. Ltd. Australia
Dongguan Viper Cleaning Equipment Co. Ltd. China
Nilfisk Cleaning Equipment (Shanghai) Co. Ltd China
Nilfisk Professional Cleaning Equipment (Suzhou) Co. Ltd. China
Nilfisk Ltd. Hong Kong
Nilfisk India Private Ltd. India
Nilfisk Inc. Japan
Nilfisk Korea Co. Ltd. Korea
Nilfisk Sdn Bhd Malaysia
Nilfisk Ltd. New Zealand
Nilfisk Pte. Ltd. Singapore
Nilfisk Ltd. (Branch) Taiwan
Nilfisk Co. Ltd. Thailand
Nilfisk Company Ltd. Vietnam
Nilfisk Ltd. (Branch) Macau

Associated companies (Ownership % in brackets)

M2H S.A. (44%) France
CFM Lombardia S.r.l. (33%) Italy

*Majority of woting rights

Ownership below 100% is disclosed in brackets

7 Financial items

EUR million	Financial income 2020	Financial income 2019	Financial expenses 2020	Financial expenses 2019
Interest, external	1.1	2.3	12.4	10.7
Interest, intercompany	2.2	2.4	-	0.1
Security commission, intercompany	-	0.1	-	-
Foreign exchange gains/losses	2.5	-	-	0.1
Disposal and impairment of investments in subsidiaries	-	-	17.5	19.5
Derivative financial instruments gains/losses	-	1.5	1.4	2.6
	5.8	**6.3**	**31.3**	**33.0**

8 Income taxes

EUR million	2020	2019
Tax recognized in the income statement		
Deferred tax	0.9	8.1
Adjustment prior years, current tax	-0.4	-0.1
Adjustment prior years, deferred tax	1.2	3.2
Withholding tax	-0.3	-0.4
	1.4	**10.8**

9 Profit distribution

Profit/loss to be distributed as follows:

EUR million	2020	2019
Transferred to development costs reserve	11.6	8.8
Transferred to retained earnings	-36.7	-45.2
	-25.1	**-36.4**

10 Intangible assets

EUR million	Goodwill	Develop-ment projects completed	Software	Develop-ment pro-jects and software in progress	Other intangible assets	Total
Costs, 1 January 2020	31.5	115.6	60.2	34.9	13.6	255.8
Exchange rate adjustments	0.1	0.5	0.1	0.1	0.1	1.0
Additions	-	0.7	3.2	7.1	-	11.0
Disposals	-	-12.9	-4.1	-2.7	-	-19.8
Transferred between classes of assets	-	6.7	1.0	-16.7	-	-
Costs, 31 December 2020	31.6	110.6	69.4	22.7	13.7	248.0
Amortization and impairment, 1 January 2020	-18.9	-77.7	-35.6	-1.9	-10.9	-145.0
Exchange rate adjustments	-0.1	-0.3	-0.1	-	-	-0.5
Amortization for the year	-3.1	-12.8	-7.4	-	-0.8	-24.1
Impairment	-	-	-	-2.7	-	-2.7
Disposals	-	3.9	3.2	2.7	-	9.8
Amortization and impairment, 31 December 2020	-22.1	-86.9	-39.9	-1.9	-11.7	-162.5
Carrying amount, 31 December 2020	**9.5**	**23.7**	**29.5**	**20.8**	**2.0**	**85.5**
Amortization in years	10	3-10	3-15	-	5-20	

Software and other intangible assets are amortized over 10 years or lifetime if Management has assessed that the economic lifetime is more than 10 years.

11 Tangible assets

EUR million	Land and buildings	Plant and machinery	Tools and equipment	Assets under construction	Total
Costs, 1 January 2020	11.2	2.6	19.7	0.5	34.0
Additions	13.0	-	0.8	0.5	14.3
Disposals	-	-1.7	-1.2	-	-2.9
Transferred between classes of assets	-	0.2	0.3	-0.5	-
Costs, 31 December 2020	24.2	1.1	19.6	0.5	45.4
Depreciation and impairment, 1 January 2020	-3.5	-1.7	-13.0	-	-18.2
Depreciation for the year	-4.6	-0.7	-2.3	-	-7.7
Disposals	-	0.2	1.2	-	2.8
Depreciation and impairment, 31 December 2020	-8.1	-0.8	-14.1	-	-23.0
Carrying amount, 31 December 2020	**16.1**	**0.3**	**5.5**	**0.5**	**22.4**
Hereof right-of-use assets	16.1	0.1	1.8	-	18.0
Depreciation in years	1-20	1-20	1-15	N/A	

12 Deferred tax

EUR million	2020	2019
Deferred tax assets and liabilities		
Deferred tax assets, January 1	9.7	-
Deferred tax liabilities, January 1	-	-2.1
Deferred tax recognized in the income statement	2.1	11.3
Tax recognized on equity	-0.1	0.4
	11.7	**9.7**
Recognized deferred tax:		
Deferred tax assets, December 31	11.7	9.7
Deferred tax liabilities, December 31	-	-
	11.7	**9.7**
Specification of deferred tax assets and liabilities:		
Intangible assets	-7.5	-11.6
Tangible assets	8.2	6.9
Provisions	-0.9	3.8
Tax losses	11.9	10.6
	11.7	**9.7**

Not recognized tax assets amount to 1.5 mEUR.

13 Financial Instruments

EUR million	2020	2019
Derivative financial instruments, January 1	-1.9	1.3
Value adjustment recognized in equity	-0.4	-1.7
Value adjustment recognized in profit and loss	1.2	-1.5
Derivative financial instruments, December 31	**-1.1**	**-1.9**

14 Inventories

EUR million	2020	2019
Raw materials, consumables and goods for resale	0.9	1.2
Work in progress	-	-
Finished goods	43.2	49.5
	44.1	**50.7**
Write-down on inventories, December 31	-1.8	-1.2

15 Equity

The share capital consists of 5,000,000 shares. The share capital and the number of shares has not changed the last 5 years.

16 Provisions

EUR million	Within 1 year	More than 1 year
Warranty provisions	1.1	-
Other provisions	1.4	0.6
	2.5	**0.6**

17 Liabilities

	Maturity		
EUR million	Within 1 year	1-5 years	After 5 years
Interest-bearing loans and borrowing	280.1	193.8	4.6
Lease liabilities	4.3	11.4	2.1
Payables to subidiaries	49.0	-	-
	333.4	**205.2**	**6.7**

18 Contingent liabilities, securities and contractual obligations

Nilfisk A/S is a party to various disputes, legal proceedings and inquiries from authorities, including tax authorities, whose outcome is not expected to materially impact result for the year and the financial position.

Nilfisk A/S has issued guarantees towards third parties with a total nominal value of 11.9 mEUR (2019: 26.1 mEUR). This mainly relates to guarantees provided to subsidiaries' credit institutions.

Nilfisk A/S is taxed jointly with all Danish entities of the Nilfisk Holding A/S Group. As part of the joint taxation, Nilfisk A/S is liable with other companies in the joint taxation scheme for Danish corporate taxes on corporate income taxes, dividend, interest and royalties within the joint taxation group.

Nilfisk A/S are issuing parent company guarantees for local rental agreements and local credit facilities. Nilfisk

A/S guarantees for certain affiliates that are not audited on annual basis.

19 Related parties

Nilfisk A/S' parent company is Nilfisk Holding A/S which owns 100% of Nilfisk A/S.

Other related parties comprise all subsidiaries and associated companies. In addition, the members of the Board of Directors and the Executive Management are considered to be related parties. All related parties transactions are made at market term.

20 Key accounting estimates and judgments

COVID-19

Compared to what was disclosed in the Annual Report 2019, the COVID-19 outbreak is considered to impose less uncertainty on the financial statements. With vaccine programs progressing worldwide the future market situation is expected to be slightly less affected by COVID-19 compared to the situation during 2019. The financial impacts of COVID-19 still requires significant judgment and are included in the estimates of the activity of Nilfisk A/S, the valuation of our asset base and the liquidity situation.

As for any other significant uncertainties we will, given the evolving nature of the pandemic and the uncertainties involved, monitor the situation and implication on Nilfisk A/S' financial position, activities and cash flows and seek the appropriate mitigating measures. As of December 31, 2020, we have included updated estimates to assess the recoverability of our asset base, including deferred tax assets, development projects and impairment in investments in subsidiaries. We have realized no specific impairments of assets and no additional obligations or liabilities have been recognized as a direct result of COVID-19.

Depending on the escalation of COVID-19 in the future and thereby the long-term impact for Nilfisk A/S, there is an inherent risk that the estimates and judgments made in 2020 could change. Future changes in estimates and judgments may have an impact on Nilfisk A/S's result and financial position.

Deferred Tax

The Executive Management Board's assessment of the recoverability of the deferred tax assets is based on taxable income projections which contain estimates of and tax strategies for the future taxable income for the next 5 years taking into account the general market conditions and the future development outlook. The projections are based on budget and mid-term targets, and are inherently subject to uncertainty, as the realization of the projections are dependent on the outcome of future events. In the event that actual future taxable profits generated are less than expected and depending on the tax strategies that may be able to be implemented, impairment of the deferred tax assets may be required. It is the Executive Management Board's assessment that the budgets and mid-term targets are achievable and supports the recognized deferred tax assets.

Development projects

Development projects/products completed and development projects/products in progress includes capitalized development costs primarily related to the Group's investments in digitalization and development of new products within autonomous cleaning. The value of the development projects is dependent on a number of factors, including the timely and successful completion of in-progress development projects as well as the Group's ability to successfully commercialize completed development projects/products. Since the products are under development or in the early stages of the product life cycle, any assessment of market potential, product performance and viability, customer demand, potential impact from technological innovations and competitor actions, marketing and services cost, the ability to scale production and reduce productions costs etc. is inherently subject to uncertainty as it is only to a limited extent based on past experience, and is dependent on the outcome of future events. It is Management's assessment that a significant market potential exists, and that the value-in-use of development projects completed and development projects in progress exceed the carrying amounts, under the assumptions mentioned above.

Investment in subsidiaries

Investment in subsidiaries are measured at costs. If there is any indication of impairment of the investment a discounted cashflow is prepared. The discounted cashflows are based on budget and mid-term targets, that inherently are subject to uncertainty, as the realization of the budget assumptions are dependent on the outcome of future events.

21 Events after the balance sheet date

No events have occurred in the period from the balance sheet date until the presentation of the financial statements that materially affect the assessment of the financial statements.

Accounting policies

General accounting policies

The financial statements for Nilfisk A/S are prepared in accordance with the Danish Financial Statements Act for accounting class large C companies.

The Annual Report is presented in EUR rounded to nearest EUR 1,000,000 with one decimal. A DKK/EUR exchange rate of 7.454 (2019: 7.466) has been applied.

Nilfisk A/S is a public company domiciled in Denmark. The shares in Nilfisk A/S is held by Nilfisk Holding A/S, which is the parent company in the Nilfisk Group.

In pursuance of section 112(3,2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The company is included in the Group Annual Report of the parent company Nilfisk Holding A/S (CVR 38 99 88 70). The Group Annual report may be obtained at Nilfisk Holding A/S, Kornmarksvej 1, 2605 Brøndby or at https://investor.nilfisk.com/financial-information/financial-reports-presentations.

In pursuance of section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared.

Except for that stated under "Changes to accounting policies" the accounting policy described are applied consistently during the financial year and for the comparative figures.

Changes to accounting policies

The following revised standard issued by IASB is implemented for 2020:

- Amendments to IFRS 16 – rent reduction (COVID-19)

The revised standard has not had material impact on accounting policy or disclosure for the period and is not expected to have impact on Nilfisk A/S.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is affected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the income statement when earned, whereas costs are recognized by the amounts attributable to this financial year.

Translation of transactions and balances

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognized in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income Statement

Revenue

Revenue from sale of goods for resale and finished goods and service is recognized in the income statement when transfer of control of products or services to a customer has taken place. Sales are recognized when control of the goods has transferred, being when the goods are delivered to the customer, and there is no unfulfilled obligation that could affect the customers’ acceptance of the products.

Revenue from Aftermarket sales which includes service packages relating to products and contracts as well as sale of parts, consumables and accessories is recognized concurrently with the supply of those services. Depending on the type of contract service revenue is recognized over time or at a point in time.

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple and does not include an integration service and could be performed by another party. It is therefore not accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price was allocated to each performance obligation based on the stand-alone selling prices. Where these were not directly observable, they were estimated based on expected cost plus margin.

Revenue is measured at the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognized in the revenue.

Cost of sales

Cost of sales comprises costs incurred to achieve the revenue for the year. Cost of sales includes direct and indirect costs of raw materials and consumables; salaries; maintenance, depreciation and impairment of production plant; and costs and expenses relating to the operation, administration and management of factories. Also included are inventory write-downs.

Research and development costs

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential future market or internal utilization can be demonstrated, and where it is intended to manufacture, market or utilize the project, are recognized as intangible assets. It provides that the costs can be reliably determined, and that there is also adequate certainty that the future earnings or net selling prices can cover carrying amount as well as the development costs necessary for finalizing the project. Other development costs are expensed in the income statement as incurred.

Capitalized development projects are measured at costs less accumulated amortization and impairment losses. The costs include wages, amortization and other costs relating to the Nilfisk A/S development activities.

On completion of the development work, development projects are amortized on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortization period is 3-10 years. The amortization base is reduced by any impairment losses.

Sales and distribution costs

Sales and distribution costs comprise costs relating to the sale and distribution of products, including salaries, sales commissions, advertising and marketing costs, depreciation and impairment, etc.

Administrative costs

Administrative expenses comprise expenses incurred for management and administration of the company, including expenses for the administrative staff and Management, stationery and office supplies as well as depreciation and amortization.

Long term incentive programs

Nilfisk A/S long-term incentive programs include a performance share program and a phantom share program for Nilfisk Leadership Team and selected key employees.

The performance share program is accounted for as an equity-settled share-based payment to employees and measured at the fair value of the option. The Total Shareholder Return (TSR vesting condition) is measured at grant date, whereas estimated EBITDA and RoCE (vesting conditions) will be updated based on the plans approved by the board. The fair value is expensed on a straight-line basis over a period of three years. At the end of the period the participants will be awarded shares corresponding to the achieved targets.

The phantom share program is accounted for as cash-settled share-based payments. An expense and a liability is recognized for the service acquired on a straight-line basis over the vesting period for the individual portion of the program that vests in the specific month, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured with any changes in fair value recognized in the income statement for the year.

Other operating income, net

Other operating income, net comprises income and expenses of a secondary nature as viewed in relation to the entity's primary activities, hereby sale of subsidiaries and gain and losses of intangible and tangible assets. Gain and losses of intangible and tangible assets is recognized as the sales price deducted with expenses related to the sales and the recognized value at the point of sale.

Government grants

Government grants are comprised of grants for compensation for costs or losses already incurred and recognized. Government grants are recognized when there is reasonable assurance that the grants will be received. Government grants for compensation for costs or losses incurred and recognized without resulting in further future costs or losses are recognized in the income statement as other operating income in the period where the compensation is granted.

Income from investments in subsidiaries and associated companies

Dividends from investments in subsidiaries and associated companies are recognized in the income statement in the year the dividends are declared.

Financial items

Financial income comprises interest, dividends, gains on receivables and transactions denominated in foreign currencies, amortization of financial assets, and allowances under the Danish tax prepayment scheme, etc. Positive changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Financial expenses comprise interest, losses on and impairment of securities, payables and transactions denominated in foreign currencies, amortization of financial liabilities, including finance lease commitments, and surcharges under the Danish tax prepayment scheme, etc. Negative changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Tax on result for the year

Nilfisk A/S is jointly taxed with the administration company Nilfisk Holding A/S and Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed companies proportionately to their taxable income. Companies who is utilizing the tax loss in other companies, is paying a joint tax refund to the administration company equal to the tax value of the utilized tax loss. Further companies, whose tax loss is utilized by other companies, are receiving joint tax refund from the administration company equal to the tax value of the utilized tax loss (full allocation). The jointly taxed companies are part of the on the account tax agreement.

Tax expense for the year, consisting of the year's current tax, change in deferred tax, movements resulting from a change of the corporate tax rate and changes in provision for uncertain tax positions, is recognized in the income statement, except to the extent that it relates to items recognized in equity.

Current tax payable and receivable are recognized in the balance sheet as tax estimated on taxable income for the year, adjusted for tax on taxable income for previous years and for prepaid taxes.

Balance Sheet

Goodwill

Goodwill is amortized over the expected economic lifetime being 10 years. Where the carrying amount exceeds the recoverable amount it is written down to the recoverable amount. Goodwill acquired is measured at cost less accumulated amortization.

Other intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives of the assets. Other intangible assets are written down to the lower of recoverable amount and carrying amount. Amortization and impairment are recognized in the income statement as cost of sales, sales and distribution costs and administrative costs.

Intangible assets are amortized on a straight-line basis over the expected useful life which is:

Development projects completed	3-10 years
Software	3-15 years
Other intangible assets	5-20 years

Development projects that are clearly defined and identifiable, where there is evidence of the technical utilization degree, sufficient resources and a potential future market or development opportunities in the Group, and where Nilfisk A/S intends to produce, market or use the project, are recognized as intangible assets if it is probable that costs incurred will be covered by future earnings.

The cost of such development projects includes direct salaries, materials, and other direct costs attributable to the development projects.

Amortization and write-down of such capitalized development projects start from the date of completion and are included in research and development costs. Other development costs are recognized in the income statement as incurred.

Projects are assessed on an ongoing basis, taking into account development progress, expected approvals and commercial utilization.

Property, plant and equipment

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

The costs comprise the purchase price and any costs directly attributable to the acquisition until the asset is ready for use. The costs of self-constructed assets comprise costs of materials, components, subcontractors and wages. The costs are supplemented by the present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset was utilized.

Subsequent costs, e.g. relating to replacement of parts of an item of property, plant and equipment, are recognized in the carrying amount of the asset if it is likely that the costs will result in future economic benefits for the Nilfisk Group. The carrying amount of the replaced parts is derecognized in the balance sheet and recognized in the income statement. All other costs relating to ordinary repair and maintenance are recognized in the income statement as incurred.

If individual parts of an item of property, plant and equipment have different useful lives, they are depreciated separately.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful life which is:

Buildings	8-50 years
Plant and machinery	4-20 years
Tools and equipment	3-15 years

The basis of depreciation is calculated according to the residual value less impairment losses. The residual value is determined at the acquisition date and reviewed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Property, plant and equipment under construction and prepayments are measured at cost. When ready for use, the asset is transferred to the relevant category and depreciated.

Leases

Leases are recognized as right-of-use assets with the corresponding liability at the time the asset is available for use by the Group.

Lease liabilities are comprised of expected fixed payments throughout the expected lease period (including options to extend the lease when exercise is reasonably certain), less any lease incentives. The lease payments are discounted using the contract's internal discount rate or the company's incremental borrowing rate.
The costs of right-of-use assets is comprised of the calculated lease liabilities, payments made prior to entering the lease, initial direct costs, and expected restoration costs.

Right-of-use assets and lease liabilities are re-measured when a factual or contractual change is executed or if a significant event or change affects the expected use of the assets. The impact is discounted to a present value basis.

Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses. When changing the value of right-of-use assets through remeasurement or when changing the depreciation period, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Right-of-use assets are depreciated on a straight-line basis of the expected length of the contract or the expected useful lives of the assets, whichever is the shorter. Lease costs for low value assets and short-term leases are included as operational costs throughout the period based on a straight-line basis.

Leased buildings	1-10 years
Other leases	1-6 years

Investments in subsidiaries and associated companies

Investments in subsidiaries are measured at cost. If there is indication of impairment, impairment testing is carried out. Where the carrying amount exceeds the recoverable amount it is written down to the recoverable amount. An associated company is an entity in which Nilfisk A/S has significant influence, but not control, which in general will be when holding 20% to 50% of the voting rights. Such investments are accounted for using the cost method.

Inventories

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

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

Finished goods and work in progress are measured at cost, which includes costs of raw materials, consumables, direct wages/salaries and production overheads. Production overheads include indirect materials and wages/salaries, as well as maintenance and depreciation of production machinery, buildings and equipment, along with costs for production administration and management.

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

Inventory write-downs are carried out if net realizable value is lower than costs, e.g. in case of obsolescence.

Receivables

Receivables are measured at amortized cost, usually equaling nominal value less write-downs for bad and doubtful debts, except for derivative financial instruments which are measured at fair value.

Prepayments

Prepaid expenses are measured at cost.

Provisions

Provisions are recognized when, as a result of events arising before or at the balance sheet date, Nilfisk A/S has a legal or a constructive obligation, and it is likely that there may be an outflow of resources embodying economic benefits to settle the obligation.

The amount recognized as a provision is the Executive Management Board's best estimate of the amount required to settle the obligation.

When measuring provisions, the costs required to settle the obligation are discounted if this significantly affects the measurement of the liability. A pre-tax discount rate is applied that reflects the current market interest rate and the specific risks relating to the obligation. Changes in present values during the year are recognized under financial expenses.

Warranty commitments are recognized in step with sale of goods and services based on the level of warranty expenses incurred in previous years and current level of sales.

Provisions for acquisition-related earnouts are recognized based on the Executive Management Board's best estimate of future revenue and profit in the acquired businesses.

Provisions for restoring rented facilities when vacated are measured at the present value of the expected clearance and closure obligation at the balance sheet date. The provision is based on existing encumbrances and estimated costs discounted to present value. Specific risks considered to attach to the obligation are included in the estimated costs. A discount rate is applied which reflects the current market interest rate. The obligations are included as they occur and continuously adjusted to reflect changed requirements and price levels, etc. The present value of the costs is included in the costs of the relevant tangible assets and depreciated accordingly. The increase in the present value over time is recognized in the income statement under financial expenses.

Deferred tax

Deferred tax is measured according to the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is, however, not recognized in respect of temporary differences on initial recognition of goodwill and other items, apart from business combinations, where temporary differences have arisen at the time of acquisition without affecting the result for the year or the taxable income. In cases where the computation of the tax base may be made according to different tax rules, deferred tax is measured on the basis of management's intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry-forward, are recognized under Other non-current assets at their expected utilization value, either as set-off against tax on future income, or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the company has a legal right to offset current tax assets and tax liabilities and intends to settle current tax assets and tax liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

Trade payable and other liabilities

Liabilities are measured at amortized cost, except for derivative financial instruments which are measured at fair value. Deferred income is measured at cost.

Payables to credit institutions and other payables

Payables to credit institutions, etc. are recognized at the amount of proceeds received at the date of borrowing, net of transaction costs paid. In subsequent periods the financial liabilities are measured at amortized cost using 'the effective interest method', the difference between the proceeds and the nominal value therefore being recognized in the income statement under financial expenses over the term of the loan.

Financial risks and instruments

Derivative financial instruments

Derivative financial instruments are recognized from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively, and set-off of positive and negative values is affected only when Nilfisk A/S has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of current market data and generally accepted valuation methods.

Fair value hedges

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

The portion of the value adjustment of a derivative financial instrument not included in a hedging relationship is presented under financial items.

Cash flow hedges

Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as hedges of future payment flows are recognized in a separate hedging reserve under equity until the cash flows hedged influence the income statement. Gains or losses relating to such hedging transactions are then recognized in the same item as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. The cumulative change in value recognized in equity is transferred to the Income statement when the hedged cash flows influence the income statement.

If the hedged cash flows are no longer expected to be realized, the cumulative change in value is immediately transferred to the income statement.

The portion of the value adjustment of a derivative financial instrument not included in a hedging relationship is presented under financial items.

Other derivative financial instruments

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized under financial items as they arise.