

Annual Report 2005



**Nilfisk  
Advance**

*setting standards*

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## Financial section

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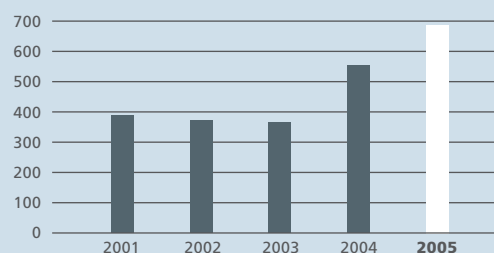
The following is a translation of a Danish original document. The original Danish text is the governing text for all purposes and in case of any discrepancy the Danish wording will prevail.

# Financial Highlights

Amounts in EUR '000

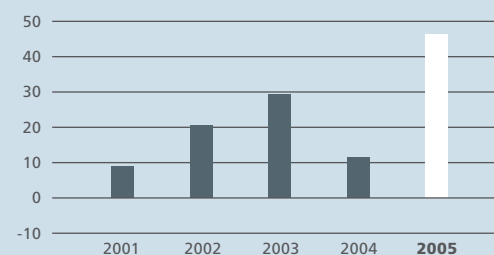
## Net sales

EUR million



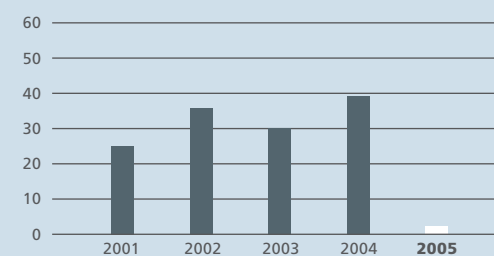
## EBITA

EUR million



## Cash flow from operating activities

EUR million



## Definitions of earnings measures

### EBITDA

Earnings before interest, tax, depreciation and amortisation of acquired intangibles.

### EBITA

Earnings before interest, tax and amortisation of acquired intangibles.

### EBIT

Earnings Before Interest and Tax.

	2001	2002	2003	2004	2005
<b>Income statement</b>					
Net sales	386,877	367,769	363,471	551,831	686,310
EBITDA	17,754	28,798	37,109	25,350	62,881
EBITA before restructuring and sale of buildings	8,979	20,656	29,259	35,905	45,103
EBITA	8,979	20,656	29,259	11,519	46,157
EBIT	1,448	12,796	21,839	10,523	44,828
Financial items	(6,864)	(4,478)	(1,850)	(5,459)	(6,993)
Income before tax	(5,416)	8,318	19,989	5,064	37,835
Net income	(6,704)	7,701	19,926	3,673	34,070
Net income, Nilfisk-Advance A/S share	(7,227)	7,631	19,944	3,734	34,275
<b>Balance sheet</b>					
Intangibles	95,589	87,484	78,059	113,222	126,348
Other non-current assets	38,510	32,721	32,648	76,625	78,181
Total non-current assets	134,099	120,205	110,707	189,847	204,529
Current assets	186,329	154,120	139,630	253,096	298,855
Total assets	320,428	274,325	250,337	442,943	503,384
Shareholders equity	108,705	101,698	109,145	120,309	167,350
Net interest bearing debt	100,580	81,166	62,667	143,518	156,749
<b>Cash flow</b>					
Cash flow from operating activities	24,947	36,036	30,603	39,398	2,196
Free cash flow	20,756	19,026	19,977	(29,505)	(12,648)
<b>Development expenses</b>					
Product development expenses incurred	8,216	9,104	11,272	20,422	23,469
<b>Financial ratios</b>					
EBITA %	2.3	5.6	8.0	2.1	6.7
Return on equity %	(6.5)	7.3	18.9	3.3	23.8
Equity %	33.9	37.1	43.6	27.2	33.2
Cash flow per share (in EUR)	6.2	9.0	7.7	8.8	0.4
<b>Other data</b>					
Average number of shares (1,000 shares)	4,000	4,000	4,000	5,000	5,000
Average number of employees	2,253	2,116	2,049	3,310	3,838

Figures in brackets are losses or negative amounts.

Figures from the period from 2001 to 2003 are unchanged in accordance to previous GAAP.

#### Definitions of financial ratios

EBITA %:	$\frac{\text{EBITA} \times 100}{\text{Net sales}}$
Return on equity:	$\frac{\text{Net income} \times 100}{\text{Average shareholders' equity}}$
Equity %:	$\frac{\text{Shareholders equity end of year} \times 100}{\text{Total assets end of year}}$
Cash Flow Per Share (in EUR)	$\frac{\text{Cash flow from operating activities}}{\text{Average number of shares}}$

# A solid foundation for our second century of innovation and growth



2005 was a good year for Nilfisk-Advance, one in which we continued to sustain our record of controlled, profitable growth. There are a number of reasons for this solid performance – including strong customer relationships, innovative products, new offices and streamlined operations – which will be examined in more detail below. There is, however, one factor that cannot be over-emphasised: the dedication of employees at all levels of our organization. The best systems and processes in the world are not enough to assure success without the best people to run them. We are proud to say that, as the results of 2005 indicate, Nilfisk-Advance has such people.

Overall financial results for 2005 were very satisfactory. We realised sales of EUR 686.3 million for the year. This increase of 24% above last year's sales results is due in part to our successful integration of ALTO, which we acquired in 2004.

More important, the organic growth was 7% in 2005, a performance that reflects growth in all areas of our business and that is above our expectations for 2005 of 4%. Operating income was EUR 44.8 million, an increase of EUR 34.3 million compared to the previous year, resulting in an operating income margin of 7%.

Also, it is important to note that 2005 marked the third consecutive year of organic growth for Nilfisk-Advance. This level of controlled, profitable growth bodes well for continued success as we enter our second century of business. In the report that follows, we will provide insights into how different areas of our operations contributed to this growth – and why we believe it is sustainable as we continually strive to be the No. 1 global supplier of professional cleaning equipment.

## Long-term relations with our customers

Certainly, the most important single key to our continued market leadership is the strong long-term relationships we build with customers worldwide. We realize that Nilfisk-Advance can be successful only to the degree that we help our customers succeed – by providing products that deliver higher productivity, easier maintenance, greater energy efficiency and many other benefits.

So, while we are a product-driven company, the driving force behind our products is our customers. Our intensive R&D efforts begin with a thorough assessment of customer needs; an essential part of maintaining long-term relationships with customers is keeping lines of communication open.

## BR 601



Industrial cleaning



As suggested by the brief descriptions of new products that follow, input from customers about capabilities and features they would like to see contributes to virtually all of our new product ideas.

We are well aware that being No. 1 is not a static position; instead, it is a goal we continually work toward in all areas of the company, a goal that we rely on our customers to help us achieve. The best way we can thank our customers for their continued loyalty is our continued effort to fine-tune every aspect of our business – from new product ideas to development, production, delivery and after sales service – in ways that help us better satisfy their needs.

#### **A steady stream of high-quality products to meet customer needs**

Nowhere is this effort more important than in our ability to provide a steady stream of innovative, high-quality products that provide exceptional value by boosting benefits and cutting costs. We have divided our product development effort into three distinct areas to help us focus more sharply and measure results more accurately: 1) basic technical research; 2) developing new products and applications; and 3) maintaining and updating our existing product portfolio. In all of these areas, we seek to reduce the time between identifying a customer need and having a product or service to meet that need, to make Nilfisk-Advance first in the market with new ideas and products.

## Highlights of 2005

- Sales of EUR 686.3 million, up 24% on 2004
- Operating income of EUR 44.8 million, four times up on 2004
- Continuing integration of Nilfisk-Advance and ALTO (acquired in 2004) within logistics, production and shared services for finance, IT and administration
- Launch of BR 601 ride-on scrubber/dryer; BA 650/850 series of walk-behind scrubbers; ALTO proprietary sweeper/scrubber line; Clarke ride-on scrubber; and Clarke boost-scrubber technology
- A line of mid- and large-sized walk-behind scrubbers, with and without onboard chemicals dispensing system
- Onboard chemical dispensing systems for all ride-on scrubbers
- Rollout of the Poseidon and Neptune lines of high-pressure washers and a new range of DIY high-pressure washers for consumers
- Launch of GD 910 commercial vacuum; IVT 1000 clean-room vacuum for the pharmaceutical industry; and a new line of CFM Sol vacuum cleaners
- A new AX310/410 line of carpet extractors
- Launch of Nilfisk Extreme and Nilfisk Action consumer vacuum cleaners
- Acquisition or start-up of local sales companies in Finland, Germany, Hungary, Turkey and Mexico
- Ongoing consolidation of production facilities in Europe and North America

## Celebrating 100 years of growth

In 2006, Nilfisk-Advance celebrates the 100th anniversary of its founding by P. A. Fisker. The story of our first century in business is one of people and perseverance, of ups and downs, of challenges and of growth – from humble beginnings in a backyard workshop to a global company.

The first milestone in our history was when P. A. Fisker designed and built a breakthrough product: a vacuum cleaner that could be used by a single person and weighed a mere 17 kilos. This kind of inspired product development has been the hallmark of the company throughout the years, and continues to be so, as the list of new product launches in this annual report attests. Today, many milestones and innovations later, Nilfisk-Advance has worldwide operations and employees spread all around the globe.

The imagination and insight embodied by P. A. Fisker have been passed down through generations of dedicated and skilled employees and are the driving force behind today's company, which has the most extensive product range in the industry. Everyone at Nilfisk-Advance is eager to enter our second century of operation and to renew our commitment to customers and employees. We look forward to another 100 years of product innovation and service excellence – of continuing to be the world's leading supplier of professional cleaning equipment.



Providing nothing less than 100% quality is one of our core values. We adhere to it by performing exhaustive testing of all new technologies and products, including hundreds of trials at our testing centres. These are followed by field tests, and then by close monitoring after product launch to make any adjustments necessary to maintain quality and customer satisfaction.

### 2005 product launches

Following are highlights of Nilfisk-Advance and Nilfisk-ALTO product launches during 2005. We – and our customers – benefit from our substantial annual investment in R&D. Our new product development team innovates continuously to stay abreast of market changes and customer needs, and we adhere to a policy of always maintaining a high percentage of new products in our total product portfolio.

#### Cost-effective commercial scrubbers and sweepers

In the area of scrubbers, we introduced the BR 601, a small ride-on scrubber/dryer that will help Nilfisk-Advance move into a new segment of the market with high-quality and a competitive price. We anticipate the BR 601 will be very successful, especially in commercial applications such as supermarkets, large and small malls and for use by contract cleaners.

In North America, we launched both a new mid-sized walk-behind scrubber (BA655/755) and a new range of large walk-behind scrubbers (BA 755/855) with the new option of onboard chemicals. We now also offer the possibility of



onboard chemicals for all ride-on scrubbers. Within 2006, the option of onboard chemical dispensing will also be introduced in Europe.

In Europe, we introduced a new proprietary sweeper/scrubber line – based on the Nilfisk technology platform – under the ALTO brand. In the United States, under the Clarke brand, we launched a new ride-on scrubber. This is the first mid-sized rider-scrubber for the Clarke brand, and it employs a new joystick control technology. At the end of 2005, also under the Clarke name, we launched our boost-scrubber technology, which saves water and energy and increases efficiency.

In October, we introduced a new technology, called Adhancer, to sweep, wash and polish floors in one pass. We also introduced a new ride-on sweeper, the SR1100S, to accommodate the need for an easy-to-operate, high-quality sweeper.

#### New portfolio of high-pressure washers

2005 saw the rollout of our Poseidon and Neptune portfolios of high-pressure washers. Within the do-it-yourself (DIY) segment, the new Compact range and the Excellent range of high-pressure washers for consumers were introduced, and were well received by our customers. These new products and our growth in sales volume underscore the positive impact of our Boost Benefits and Cut Costs programs on the Nilfisk-ALTO portion of our business.

#### Best-value industrial, commercial and consumer vacuum cleaners

There were a number of significant product launches on the vacuum side of our business during 2005. New commercial products include the GD 910; easy-to-use and maintain, it is the new best-value offering for commercial cleaning. We also introduced the IVT 1000, a new clean-room vacuum designed to meet the needs of the pharmaceutical industry. Also in the industrial segment, we launched a new line of Sol vacuum cleaners under the Italian CFM brand. These machines have already done very well and have positioned us strongly to meet customer needs across the full range of the highly competitive Italian market. Additionally, the ATTIX 7 was introduced in the industrial segment with good success.

#### GD 910



Vacuum cleaners



On the consumer side, the introduction of the Nilfisk Extreme – the future flagship of our consumer portfolio – gives us best-in-market status, with the most silent operation and best filtration available, remote controls built into the handle and a five-year guarantee. The Nilfisk Action, also introduced in 2005, is positioned in the mid-market range. It is a high-quality offering for cost-conscious buyers: no other manufacturer is able to provide this level of quality at this price point.

#### Continuing commitment to global markets

Throughout 2005, Nilfisk-Advance continued to expand and strengthen our local presence in global markets. We have a long-term commitment to remain – and grow – in existing markets and to build a presence in new ones, to demonstrate to our customers that we will be there when they need us.

Nilfisk-Advance is represented in more than 100 countries by sales companies, importers or dealers. During the last year, we sought to further develop our presence in the three major global regions of Europe, North America and Asia-Pacific by expanding our sales force in specific territories. In addition to completing the acquisition of the Swedish distributor Tennab, which was begun in 2004, we acquired local dealers/importers or opened new ones in numerous countries during 2005, including: Finland, Germany, Hungary, Turkey and Mexico – and the list will continue to grow.

This expanding network of sales companies will allow us to serve customers better by leveraging the benefits of our full product and service infrastructure through local offices. Similarly, the merging of Nilfisk-Advance and Nilfisk-ALTO sales companies in Asia and Europe has helped us create a stronger and more responsive infrastructure. In addition to developing a strong presence on the ground, we also continue to strengthen the many ways in which e-commerce can help us stay in close touch with our customers in all areas of the world.

### Neptune 3



High pressure cleaning

#### Strong focus on after-sales service

Opening new offices worldwide also gives Nilfisk-Advance a foothold to build a strong after-sales service force in the countries we serve. Where we do not yet have a local presence, we have fully trained local dealers. As the world's largest supplier of professional cleaning equipment, we provide machines to industrial and commercial operations worldwide who depend on us to help them maintain continuous uptime. We therefore work constantly to expand our global service force and to develop new service technologies.



Such technologies include a GPS tracking system that allows us to direct service engineers to a specific location virtually anywhere a customer needs assistance. Additionally, immediate Internet access to service manuals, part numbers and engineering drawings assures customers from Vietnam to New York that our machines can be dependably and quickly repaired to keep their operations running.

When these capabilities are combined with our growing force of service engineers and an increasing number of service contracts – ranging from conventional and preventive maintenance agreements to full-service contracts – we feel confident in our ability to provide the 24/7 service guarantee our customers rely on.

#### **Creating fully integrated operations**

We made significant progress in 2005 toward our goal of merging ALTO and Nilfisk-Advance operations into a single integrated structure. Although comprehensive restructuring takes time and requires a tolerance for change – by our customers and by our employees – creating an integrated organization will provide important long-term benefits. Unified data and logistical structures will allow us to be more responsive and focused in all of our customer support and service operations. Our customers will also benefit from the renewed strength of our management team: we envision our combined operations as a meritocracy, and have chosen the best people from both organizations for leadership positions.

#### **Nilfisk-Advance in brief**

Nilfisk-Advance is the world's leading supplier of professional cleaning equipment. Headquartered in Denmark, the company has sales companies in 33 countries and manufacturing facilities in China, Denmark, Hungary, Italy, Sweden and the United States. A network of exclusive dealers is responsible for sales and service in more than 100 countries. Nilfisk-Advance's core businesses are the supply of industrial and commercial cleaning machines and professional high-pressure cleaning equipment. Customers include manufacturers, businesses, institutions and contract cleaners as well as agricultural, automotive, construction and service companies. Nilfisk-Advance also markets vacuum cleaners and high-pressure cleaners to consumers. The company employs 3,939 people worldwide.



Nilfisk-Advance and ALTO headquarters operations were merged in Europe and North America, as were our logistics operations for the Europe and Asia-Pacific regions. Formerly separate sales operations in Europe and Asia/Pacific have been combined into single sales companies. Establishment of shared service centres within IT, finance and administration in Europe and Asia/Pacific has been implemented with success and similar initiatives are in progress in North America. Additionally, ALTO business has been incorporated into the Nilfisk-Advance e-business platform.

#### Increasingly efficient production

We have completed the shift of our Danish production centre to Hungary, and the Swedish production centre will follow by mid 2006. All Nilfisk-ALTO production has been transferred to our facilities in Hungary and China. The shift to Eastern Europe and China moves us closer to customers in growing markets, helps us continue to provide high-quality products with the best price-benefit ratio and gives us direct access to new suppliers.

A remaining task for 2006 is to complete the integration of our North American production sites by moving the resources of American Lincoln in Bowling Green, Ohio, to our Plymouth, Minnesota, facility. Looking ahead, we will focus our production facilities to Hungary, Italy, China and North America, which will allow us to serve customers efficiently in both established and developing markets.

#### Company-wide standards and systems

We believe that making disciplined organizational decisions now will produce significant benefits in the long run. In 2005,

for example, we established a separate department to drive our long-term standardization initiative, which, over the course of the next five to ten years, will help us streamline our manufacturing processes by reducing the number of parts and machines we need for production. We have also set up a central department to help us achieve our lean-production goal of running all Nilfisk-Advance factories on an efficient, continuous-flow basis, much like modern automobile production plants.

Another long-term project now underway is the implementation of a SAP system in Europe to fully integrate areas ranging from finance to logistics by providing a seamless data flow throughout the organization. It is also noteworthy that all areas of our business continue to benefit from our Cut Costs and Boost Benefits programs, as do our customers. The ultimate goal of all these initiatives is the same: to help us continue to supply our customers with the best possible combination of quality and value and thereby help reduce the total cost of cleaning.

#### Our people make the difference

Nilfisk-Advance now employs 3,939 people worldwide, an increase of 10% compared to last year. It is no exaggeration to say that our continued success as the No. 1 global supplier of professional cleaning equipment is directly related to the commitment and initiative of each individual employee. Being No. 1 means more than being biggest – it means striving to be the best in everything we do, which is an attitude and a mindset all of us must share.



The best way to foster this outlook is by giving people an attractive work environment, one that provides the support to grow personally and professionally. We do this by providing a thorough system of training and feedback and a structured process for evaluating growth and success. As our company grows, so does our skill base and the opportunity for knowledge sharing and new professional opportunities. We believe there is a direct link between innovative products and excellent customer service and a workplace that fosters individual growth and initiative.

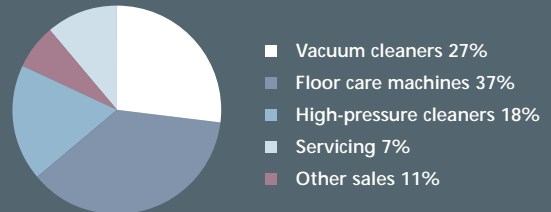
My thanks to our business partners and everyone in our organization for making 2005 another good year for Nilfisk-Advance. I am confident that, with this solid foundation to build on, the dedication and skill of our employees will ensure that our second century is as successful as our first.

Finally, I would like to thank former President and CEO Johan Molin for his leadership and contribution to the company's growth during the past five years, and to wish him the best of luck in his future endeavours as President and CEO of ASSA ABLOY.

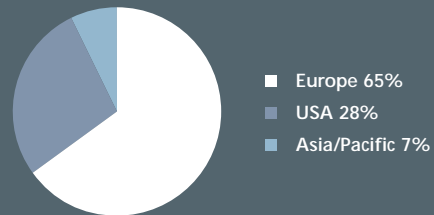
**Outlook for 2006**

In addition to our primary focus on product innovation, Nilfisk-Advance will continue to open new offices in the countries we serve and to integrate and improve our IT and logistics systems. The outlook for the economy in general and our markets in particular is positive for the coming year. Accordingly, we expect to achieve sales of around EUR 720 million, with organic growth of nearly 5% and an EBITA level slightly below 8%.

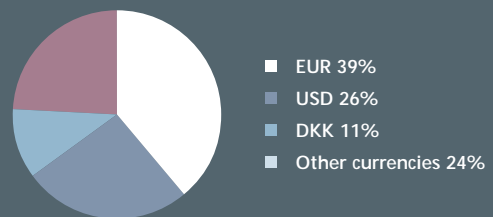
Net sales by product category



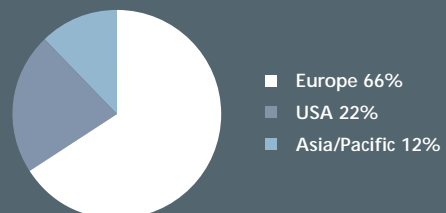
Geographic distribution of net sales



Net sales by currency



Geographic distribution of employees



# Financial Review

Nilfisk-Advance realized net sales of EUR 686.3 million and operating income (EBIT) of EUR 44.8 million. Operating income before amortization, restructuring and gain of disposal of buildings reached EUR 45.1 million. The EBITA margin amounted to 6.7%, which is an increase compared to 2004.

The Group has implemented International accounting standards (IFRS). Thus the Group is now in compliance with accounting standards approved by the European Union.

As a consequence of change in accounting standards the figures in the financial statement has undergone some changes.

Material changes involves following areas:

- Business combinations, including goodwill
- Share based options
- Pensions
- Minority interest
- Recognition of equity interest in subsidiaries in the parent balance sheet.

These changes are explained further under accounting policies, and note 32.

## Income statement

### Net sales

The net sales of the Group came to EUR 686.3 million, against EUR 551.8 million in 2004, an increase of 24.4%. The increase is primarily due to the fact that the financial statement contains a consolidated income statement that includes ALTO from 1st May 2004. Furthermore the increase represents the organic growth of 7%.

### Cost of goods sold

The cost of goods sold, which includes service costs, amounted to EUR 409.6 million, representing 59.7% of net sales, thus being in line with 2004.

### Selling and distribution expenses

Consolidated selling and distribution expenses amounted to EUR 134.1 million, an increase by EUR 21.7 million relative to 2004. The increase is due to full year effect from Alto by EUR 16.4 million and organic growth by EUR 5.3 million.

### Product development expenses

Development expenses, including capitalized product development projects, rose from EUR 20.4 million in 2004 to EUR 23.5 million in 2005. A portion of EUR 8.3 million of total development expenses of EUR 23.5 million was recognized as intangibles.

### Administrative expenses

The Group's administrative expenses increased to EUR 80.4 million in 2005 from EUR 65.0 million in 2004 – an increase of EUR 15.4 million, or 23.6%. The increase is due to full year effect from Alto by EUR 13.9 million and organic growth by EUR 1.5 million.

### Amortization of intangibles

Due to change in accounting principles goodwill are no longer amortized. Goodwill is allocated to the smallest recognizable cash generating unit and impairment tested. There has not been basis for writing down goodwill as a result of impairment test.

Amortization of trademarks and customers lists has increased from 1.0 million EUR in 2004 to 1.3 million EUR in 2005.

### Other operating income

Other operating income came to EUR 6.6 million in 2005, against EUR 1.5 million in 2004. The increase in other operating income consist mainly of gain of disposal of buildings that amounts totally to EUR 5.8 million.

### Net interest

Net interest expenditure increased to EUR 7.0 million in 2005, from EUR 5.5 million in 2004, which is due to full year effect of ALTO and higher level of interest bearing debt.

### Operating and net income

Realized operating income was EUR 44.8 in 2005, against EUR 10.5 million in 2004, an increase of EUR 34.3 million. The development in operating income is effected by restructuring cost of EUR 24.4 million in 2004, against EUR 4.7 million in 2005. Operating income was furthermore impacted by sales of buildings in the year.

Figure 1. Split of operating income (EUR thousand)

	Nilfisk- Advance Group 2004	ALTO Group* 2004	Restated Nilfisk- Advance Group 2004	Nilfisk- Advance Group 2005
Net sales	551.831	93.703	645.534	686.310
Costs of sales	(326.598)	(58.304)	(384.902)	(409.566)
Gross profit	225.233	35.399	260.632	276.744
R&D expenses	(14.200)	(3.738)	(17.938)	(18.661)
Selling and distributions expenses	(112.276)	(16.394)	(128.770)	(134.119)
Administrative expenses	(65.036)	(13.899)	(78.935)	(80.389)
Restructuring cost	(24.386)	-	(24.386)	(4.700)
Total other operating Income	2.284	14	2.298	7.282
Total amortization of trademarks etc.	(995)	(268)	(1.264)	(1.329)
Total of costs	(214.710)	(34.285)	(248.995)	(231.916)
Operating income	10.523	1.114	11.637	44.828

\*Unaudited

Income before tax for the year reached EUR 37.8 million, against EUR 5.1 million in 2004 an improvement of EUR 32.7 million.

#### Corporate income tax

The parent company and its Danish subsidiaries are jointly taxed with NKT Holding A/S as prescribed under the compulsory Danish tax consolidation rules applicable from 2005.

The income tax charge for 2005 was EUR 3.8 million, compared to a charge of EUR 1.4 million in 2004.

The expected tax liability, based on the current Danish rate of corporate income tax of 28 per cent, would amount to an expense of EUR 10.6 million. The differential is related to the tax effects of differences between Danish and non-Danish tax rates, non-deductible costs, non-taxable income, changes in the value adjustment of tax assets and other adjustments. A specification is shown in note 10.

#### Statement of cash flows

##### Cash flows

The Group generated a negative free cash flow of EUR 12.6 million in 2005.

At the end of 2005, working capital was equal to 23% of sales.

The cash flow from financing activities was EUR 12.8 million, against EUR 40.1 million in 2004 mainly due to the increase in short-term borrowing. The year's total cash flows from operating, investing and financing activities produced a positive amount of EUR 0.2 million.

**Figure 2. Summary of consolidated balance sheet**

<b>Assets</b>	<b>EUR m</b>	<b>Equity and liabilities</b>	<b>EUR m</b>
Goodwill	104.0	Shareholders' equity	167.4
Other non-current assets	100.5	Non-current Liabilities	98.9
Total non-current assets	204.5	Current liabilities	237.1
Current assets	298.9	Total liabilities	336.0
<b>Total assets</b>	<b>503.4</b>	<b>Total liabilities and shareholders equity</b>	<b>503.4</b>

**Figur 3. Interest bearing assets and liabilities**

<b>EUR m</b>	<i>2005</i>	<i>2004</i>
Cash and cash equivalents	16.7	15.2
Current interest bearing assets	0.1	4.8
Non current interest bearing liabilities	87.8	155.0
Current interest bearing liabilities	85.7	8.5
<b>Total net interest bearing assets and liabilities</b>	<b>156.7</b>	<b>143.5</b>

### Balance sheet

A summary of the consolidated balance sheet is shown in figure 2.

### Goodwill

Goodwill is mainly related to Nilfisk-Advance Inc., Euroclean/Kent, CFM and ALTO. A substantial part of the goodwill is accounted for in the financial statements of foreign subsidiaries and translated from foreign currencies.

In 2005, goodwill increased from EUR 93.4 million to EUR 104.0 million, due to the acquisitions of Kvantor Kft. and exchange rate adjustments. The value of goodwill is assessed continuously based on the development in the Group's performance and cash generation. The value of goodwill is assessed every year and impaired if it is considered necessary. Based on the latest forecasts of earnings and cash flow, no impaired was required at December 31, 2005.

### Property, plant and equipment

The Group's property, plant and equipment amount to EUR 50.8 million compared to EUR 51.1 million in 2004.

### Inventories

At the end of the year, the value of the Group's inventories was EUR 128.1 million, compared to EUR 102.9 million at the end of 2004. The increase is mainly due to the higher level of activity.

### Shareholders' equity

Consolidated shareholders' equity is EUR 167.4 million, against EUR 120.3 million at the end of 2004. The changes in equity for 2005 are shown on page 31.

The Group's equity ratio is 33.2%, compared to 27.2% in 2004.

### Provisions

Restructuring provision of EUR 11.5 million were recognized in 2005, against EUR 18.4 million in 2004. Additions in the year amounts to EUR 4.7 million and concerns restructuring in Aamaal. Disposals in the year was EUR 12.0 million.

### Interest bearing debt

In 2005, net interest bearing debt increased by EUR 13.2 million to EUR 156.7 million and corresponds to 48.3% of the Group's total capital employed.

### Financial risk exposure

The most important financial risks of the Group are currency and interest rate exposure.



Currency exposure is due to the inconsistency of revenue and expenditure in each currency. The Group has higher revenue in certain currencies and higher expenses in other currencies, including domestic currency, and covers this risk by hedging transactions in foreign currency up to one calendar year ahead using forward currency contracts.

The parent company's investment in its subsidiaries is not hedged. The resulting positive foreign exchange adjustment for 2005, amounting to EUR 14.1 million, was recognized in shareholders' equity. The positive effect from loan to subsidiaries amounted to EUR 6.2 million and was recognised on shareholders equity.

At the end of the year the Group had acquired forward currency contracts totaling EUR 29.8 million to hedge the local currencies of sales and manufacturing subsidiaries. A specification is shown in note 18 to the financial statements.

Interest rate exposure reflects the potential impact on the Group's earnings of movements in market rates relating to interest bearing assets and liabilities as shown in Figure 3.

For the Group's cash and cash equivalents and its short-term interest-bearing debt, cash pooling is carried out, partly through the Group's bankers and partly by integrating the Group's borrowing and deposit requirements handled by the corporate finance function of the parent company, NKT Holding A/S.

The greater part of the Group's interest-bearing debt carries interest at rates below 4% p.a.

For the Group's net interest-bearing debt, the income impact for 2006 of a one percentage point movement in market interest rates will be in the magnitude of EUR 1.6 million.

At the end of the year, the Group had not hedged its interest rate risk by means of FRAs (Forward Rate Agreements), futures or long-term interest rate swaps.

#### **Distribution of net income**

The Board of Directors recommends to the Annual General Meeting that the Company distribute a dividend of EUR 3.4 per share of DKK 100, equal to EUR 17 million or 25.3 per cent of the capital stock of EUR 67.2 million, and thus corresponding to 50% of net income. It is recommended to transfer the remainder of the net income for the year, of EUR 17.3 million, to the general reserves of shareholders' equity.

#### **Staff**

At the end of 2005, the staff of the Group was 3,939 against 3,551 at the end of 2004.

#### **Corporate structure**

The structure of the Group including this year's acquisitions is shown on page 61.

#### **Ownership**

Nilfisk-Advance A/S is wholly owned by NKT Holding A/S and its financial statements are integrated in the consolidated financial statements of NKT Holding A/S, DK-Brøndby.

#### **Branches**

The production facility and sales company in Sweden are branches of Nilfisk-Advance A/S and included in its Annual Report.

#### **Quality management**

The Group's manufacturing sites in Denmark, Italy and Sweden are all certified to the ISO 9000 standard.

#### **Environmental certification**

The Danish manufacturing sites in Brøndby and Randers are certified to the ISO 14001 standard.

# Management's and Auditors' Report

## Management's report on the financial statements

The Board of Directors have today discussed and approved the annual report of Nilfisk-Advance A/S for the financial year 2005.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports. We consider the accounting policies used to be appropriate. Accordingly, the annual report gives a true and fair view of the Group's and the parent company's financial position at 31 December 2005 and of the results of the Group's and the parent company's operations and cash flows for the financial year 2005.

We recommend adoption of the consolidated financial statements and the financial statements of the parent company by the Annual Shareholders' Meeting.

### Brøndby, March 2, 2006

#### Management

Jørgen Jensen  
*President and CEO*

Christian Cornelius-Knudsen  
*Executive Vice President*

Claus Michelsen  
*Executive Vice President and CFO*

Anders Terkildsen  
*Executive Vice President*

#### Board of Directors

Thomas Hofman-Bang  
*Chairman*

Christian Kjær  
*Vice-Chairman*

Johan Molin

Arne Dan Kjærulff  
*Elected by the employees*

Ole Leicht Madsen  
*Elected by the employees*

Christian Ussing-Nielsen  
*Elected by the employees*



## Auditors' report

To the Shareholders of Nilfisk-Advance A/S

We have audited the annual report of Nilfisk-Advance A/S for the financial year 2005, prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

The annual report is the responsibility of the Company's Executive and Supervisory Boards. Our responsibility is to express an opinion on the annual report based on our audit.

### Basis of Opinion

We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in

the annual report. An audit also includes assessing the accounting policies used and significant estimates made by the management and board of directors, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any qualification.

### Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the parent company's financial position at 31 December 2005 and of the results of the Group's and the parent company's operations and cash flows for the financial year 2005 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports.

**Brøndby, March 2, 2006**

KPMG C.Jespersen  
Statsautoriseret Revisionsinteressentskab

J. Skovbæk Johansen  
*State authorised public accountant*

Søren P. Krejler  
*State authorised public accountant*

# Accounting Policies

## Accounting policies

The annual report of Nilfisk-Advance A/S for 2005 is presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports.

This annual report is the first annual report prepared according to IFRS. IFRS 1 on first-time adoption of IFRS has been used for the transition.

The annual report is presented in EUR.

## Changes in accounting policies

As a result of the transition to IFRS, both the Group and the parent company accounting policies have been changed in a number of areas.

In accordance with IFRS 1, the opening balance sheet at 1 January 2004 and comparative figures for 2004 have been prepared in accordance with the IFRS/IASs and IFRIC/SICs effective as at 31 December 2005. The opening balance sheet at 1 January 2004 has been prepared as if these standards and interpretations had always been used, except for the specific transitional provisions and effective dates described below.

The accounting effect of the transition to IFRS is presented in note 33.

## Reclassifications

In addition to the changes in accounting policies, the following reclassifications and changes to the presentation format and with restatement of the comparative figures for 2004 have been made:

- Deferred tax liabilities, pensions and similar liabilities and provisions are no longer presented as a separate main classification (provisions) in the balance sheet, but are recognised in non-current and current liabilities.

The reclassifications have not affected profit for the year or equity.

## Financial highlights

Financial highlights for 2001-2003 have not been restated to the new accounting policies and therefore correspond to the financial highlights presented in the annual report for 2004. The nature of adjustments which would be necessary if the comparative figures in the financial highlights for 2001-2003 were to be adjusted to IFRS correspond to the adjustments made in the opening balance sheet at 1 January 2004, cf. note 32.

## Description of accounting policies

### Consolidated financial statements

The consolidated financial statements comprise the parent company Nilfisk-Advance A/S and subsidiaries in which Nilfisk-Advance 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 which it, in some other way, controls. Enterprises over which the Group exercises significant influence, but which it does not control, are considered associates. Significant influence is generally obtained by direct or indirect ownership or control of more than 20% of the voting rights but less than 50%. When assessing whether Nilfisk-Advance A/S exercises control or significant influence, potential voting rights are taken into account on the balance date.

The consolidated financial statements have been prepared as a consolidation of the parent company's and the individual subsidiaries financial statements prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's ownership share of the enterprise. Unrealised losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of identifiable net assets and liabilities at the acquisition date.



### Business combinations

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not restated for acquisitions or disposals. Discontinued operations are, however, presented separately, cf. below.

For acquisitions of new enterprises in which the parent company is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right, and the fair value can be reliably measured. Deferred tax on revaluations is recognised.

For business combinations made on 1 January 2004 or later, any excess of the cost over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill under intangible assets. Goodwill is not amortised but is tested annually for impairment. The first impairment test is performed within the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than the presentation currency used in the Nilfisk-Advance A/S Group's financial statements are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date. Negative differences (negative goodwill) is recognised in the income statement at the acquisition date.

For business combinations made prior to 1 January 2004, the accounting classification is maintained according to the former accounting policies. Goodwill is recognised on the basis of the cost recognised in accordance with the former policies (the Danish Financial Statements Act and Danish Accounting Standards) less amortisation and impairment up until 31 December 2003. Goodwill is not amortised after 1 January 2004. The accounting treatment of business combinations prior to 1 January 2004 is not changed in connection with the opening balance sheet at 1 January 2004. Goodwill recognised in the opening balance sheet is tested for impairment at 1 January 2004.

If uncertainties regarding measurement of identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have different fair value at the acquisition date than first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments is recognised in the opening balance of equity and the comparative figures are restated accordingly. Subsequently, goodwill is only adjusted as a result of changes in estimates of contingent purchase considerations, except in cases of material error. However, subsequent realisation of the acquired enterprise's deferred tax assets not recognised at the acquisition date will require recognition of the tax benefit in the income statement and at the same time write-down of the carrying amount of goodwill to the amount which would have been recognised if the deferred tax asset had been recognised as an identifiable asset at the acquisition date.

Gains or losses on disposal of subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets including goodwill at the date of disposal plus anticipated disposal costs. On full or partial realisation of the net investment, the foreign exchange adjustments recognised in equity cf. below are transferred to the income statement.

### Foreign currency translation

For each of the reporting enterprises in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency 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 recognised in the income statement as financial income or financial expenses.

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

On recognition in the consolidated financial statements of foreign entities with a functional currency that differs from the presentation currency used in Nilfisk-Advance A/S' financial statements, the income statements are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognised directly in a separate translation equity.

Foreign exchange adjustments of intra-group balances with foreign subsidiaries which are considered part of the net investment in the subsidiary are recognised directly in equity. Correspondingly, foreign exchange gains and losses on the part of loans and derivative financial instruments which are designated as hedges of investments in foreign subsidiaries with another functional currency than Nilfisk-Advance A/S's functional currency and efficiently hedge against corresponding foreign exchange gains and losses on the investment in the subsidiary are also recognised directly in a separate translation reserve in equity.

On recognition in the consolidated financial statements of associates with a functional currency that differs from Nilfisk-Advance A/S' presentation currency, the share of profit/loss for the year is translated at average exchange rates and the share of equity, including goodwill, is translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on the translation of the share of the opening balance of equity of foreign associates at the exchange rates at the balance sheet date, and on translation of the share of profit/loss for the year from average exchange rates to the exchange rates at the balance sheet date, are recognised directly in a separate translation reserve in equity.

#### Derivative financial instruments

Derivative financial instruments are initially recognised 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 only made when the Company has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of market data and generally accepted valuation methods.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement together with changes in the value of the hedged asset or liability as far as the hedged portion is concerned. Hedging of future cash flows according to firm commitments, except for foreign currency hedges, is treated as a fair value hedge of a recognised asset or liability.

Changes in the portion of the fair value of derivative financial instruments designated as and qualifying as a cash flow hedge that is an effective hedge of changes in the value of the hedged item are recognised in equity. If the hedged transaction results in gains or losses, amounts previously recognised in equity are transferred to the same item as the hedged item. Gains or losses from hedges of proceeds from future borrowings are, however, transferred from equity over the term of the loan.



For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries or associates that are effective hedges of currency fluctuations in these entities are recognised directly in a separate translation reserve in equity.

Certain contracts contain characteristics of derivative financial instruments. Such embedded derivatives are recognised separately and measured at fair value if they differ significantly from the host contract, unless the entire host contract is recognised and measured at fair value.

#### **Income statement**

##### **Revenue**

Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that transfer of risk to the buyer has taken place before year end and that the income can be reliably measured and is expected to be received.

Revenue from services comprising service contracts and extended warranties relating to sold products and services are recognised on a straight line basis as the services are provided.

Revenue is measured ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

##### **Production costs**

Production costs comprise costs incurred in generating the revenue for the year. Trading enterprises recognise their cost of sales, and production enterprises recognise their production costs incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation of production plant.

##### **Selling and distribution expenses**

Costs incurred in distributing and selling goods sold during the year and in conducting sales campaigns etc. during the year are recognised as distribution costs.

Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as selling and distribution costs.

##### **Development expenses**

Development expenses comprise salaries, amortisation and other costs attributable to the Company's development activities.

##### **Administrative expenses**

Administrative expenses comprise expenses incurred during the year for management and administration, including expenses for 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 of the enterprises, including gains and losses on disposal of intangible assets and property, plant and equipment. Gains and losses on disposal of intangible assets and property, plant and equipment are determined as the sales price less selling costs and the carrying amount at the selling date.

##### **Profits/losses from investments in associates in the consolidated financial statements**

The proportionate share of the results of associates is recognised in the consolidated income statement after elimination of the proportionate share of intra-group profits/losses.

##### **Dividend from investments in subsidiaries and associates in the parent company financial statements**

Dividend received from investments in subsidiaries and associates is recognised in the parent company income statement in the financial year in which the dividend is declared. To the extent that distributed dividend exceeds the accumulated earnings after the acquisition date, the dividend is, however, not recognised in the income statement but recognised as a write-down of the cost of the investment.

##### **Financial income and expenses**

Financial income and expenses comprise interest income and expense, gains and losses on securities and impairment of securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme. Furthermore, realised and unrealised gains and losses on derivative financial instruments which are not designated as hedging arrangements are included.

#### Tax on profit/loss for the year

Nilfisk-Advance A/S is jointly taxed with Parent company NKT Holding A/S. The current Danish corporation tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full absorption with refunds for tax losses). The jointly taxed companies are taxed under the on-account tax scheme.

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

#### Balance sheet

##### Intangible assets

##### Goodwill

Goodwill is initially recognised in the balance sheet at cost as described under "Business combinations". Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's cash-generating units at the acquisition date. Identification of cash-generating units is based on the management structure and internal financial control. As a result of the integration of acquired enterprises in the existing group, Management assesses that the smallest cash-generating units to which the carrying amount of goodwill can be allocated is per Business segment.

The carrying amount of goodwill is tested for impairment at least once annually, together with the other non-current assets in the cash-generating unit to which the goodwill is allocated and written down to recoverable amount over the income statement if the carrying amount is higher. The recoverable amount is generally computed as the present value of the expected future net cash flows from the enterprise or activity (cash-generating unit) to which the goodwill is allocated. Impairment of goodwill is recognised on a separate line in the income statement.

The carrying amount of goodwill at 1 January 2004 (IFRS transition date) has been tested for impairment.

##### Development projects, trademarks and customer lists

Development projects that are clearly defined and identifiable, where the technical utilisation degree, sufficient resources and a potential future market or development opportunities in the Company is evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net sales price can cover production costs, selling and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Recognised development costs are measured at cost less accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five to ten years. The basis of amortisation is calculated less any impairment.

The carrying amount of in-process development projects is tested for impairment at least once annually and written down to the recoverable amount over the income statement if the carrying amount exceeds the present value of the future cash flows expected to be generated by the development project.

Other intangible assets, including intangible assets acquired in business combinations, are amortised over the expected useful life. However, intangible assets with an indefinite useful life are not amortised but are tested for impairment annually.

##### Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, other plant 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, subsuppliers, and wages and salaries. Costs of dismantling and removing the asset and restoring the site on which the asset is located are added to the cost of self-constructed assets if they are provided for in the balance sheet. Where individual parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The cost of assets held under finance leases is stated at the lower of fair value of the assets and the present value of the future minimum lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as discount rate.

Subsequent costs, e.g. in connection with replacement of parts of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. The carrying amount of the replaced parts is derecognised in the balance sheet and recognised as an expense in the income statement. All costs incurred for ordinary repairs and maintenance is recognised in the income statement as incurred.

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

Buildings	25 years
Fixed plant in buildings	10 years
Plant and machinery	8-15 years
Fixtures and fittings, other plant and equipment	4-8 years

Land is not depreciated.

The basis of depreciation is calculated considering the residual value and impairment losses. The residual value is determined at the acquisition date and reassessed 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 recognised prospectively as a change in accounting estimates.

#### Investments in associates in the consolidated financial statements and parent company

Investments in associates are measured according to the equity method.

Investments in associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus the proportionate share of unrealised intra-group profits and losses and plus the carrying amount of goodwill.

Investments in associates with negative net asset values are measured at EUR 0 (nil). If the Group has a legal or constructive obligation to cover a deficit in the associate, the remaining amount is recognised under provisions.

Any amounts owed by such enterprises are written down to the extent that the amount owed is irrecoverable.

Investments in Group enterprises and associates are in the parent financial statement recognised at cost less write-downs.

#### Inventories

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

Cost of goods for resale and raw materials and consumables comprises purchase price plus delivery costs.

Cost of finished goods and work in progress comprises 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.

The net realisable 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 sales price.

#### **Trade and other receivables**

Receivables are measured at amortised cost less impairment losses.

#### **Prepayments**

Prepayments comprise costs incurred concerning subsequent financial years.

#### **Investments**

Shares included in the Group are recognised under current assets at cost at the trade date and are subsequently measured at fair value corresponding to an estimated fair value computed on the basis of market data and generally accepted valuation methods. Changes in fair value are recognised currently in the income statement as financial income or financial expenses.

#### **Impairment of assets**

Goodwill and intangible assets with indefinite useful lives are subject to an annual impairment test, initially before the end of the acquisition year. Similarly, in-process development projects are subject to an annual impairment test.

The carrying amount of other non-current assets, except for deferred tax assets, is assessed annually for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use.

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit, respectively, exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognised in the income statement under production costs, distribution costs and administrative expenses, respectively. However, impairment of goodwill is recognised in a separate line item in the income statement.

Impairment of goodwill is not reversed. Impairment of other assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortisation had the asset not been impaired.

## **Equity**

#### **Dividends**

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

#### **Translation reserve**

The translation reserve in the consolidated financial statements comprises foreign exchange difference arising on translation of financial statements of foreign entities from their functional currencies into the presentation currency used by the Nilfisk-Advance Group (EUR).

On full or partial realisation of the net investment, the foreign exchange adjustments are recognised in the income statement.

At 1 January 2004 the translation reserve is deemed to be zero in accordance with IFRS 1.


#### **Share option programme**

The Nilfisk-Advance Group's incentive programmes comprise a share option programme.

The value of services received in exchange for granted options is measured at the fair value of the options granted.

For equity-settled programmes, the share options are measured at the fair value at the grant date and recognised in the income statement under staff costs over the vesting period. The counter item is recognised directly in equity.

On initial recognition of the share options, the Company estimates the number of options expected to vest, cf. the service condition described in note 19 (Share option plan). That estimate is subsequently revised for changes in the number of options expected to vest. Accordingly, total recognition is based on the number of options ultimately vested.



The fair value of granted options is estimated using an option pricing model, taking into account the terms and conditions upon which the options were granted.

#### Pension obligations

The Group has in some countries entered into pension schemes and similar arrangements, with most of the group employees.

Contributions to defined contribution plans are recognised in the income statement in the period to which they relate and any contributions outstanding are recognised in the balance sheet as other payables.

For defined benefit plans an annual actuarial calculation is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognised in the balance sheet under pension obligations, cf. however below.

Any difference between the expected development in plan assets and the defined benefit obligation and actual amounts results in actuarial gains or losses. In connection with the transition to IFRS, accumulated actuarial gains and losses are recognised in full in the opening balance sheet at 1 January 2004. If subsequent cumulative actuarial gains or losses at the beginning of the year exceed the greater numerical value of 10% of the defined benefit obligation or 10% of the fair value of the plan assets, the excess amount is recognised in the income statement over the expected remaining working lives of the employees. Actuarial gains or losses not exceeding the above limits are not recognised in the income statement or the balance sheet, but are disclosed in the notes.

If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognised as historical costs. Historical costs are recognised immediately, provided employees have already earned the changed benefits. If employees have not earned the benefits, the historical costs are recognised in the income statement over the vesting period.

If a pension plan constitutes a net asset, the asset is only recognised if it off sets unrecognised actuarial losses, future refunds from the plan or will lead to reduced future payments to the plan.

#### Corporation tax and deferred tax

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

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised under other non-current assets at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement.

#### Provisions

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

On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability. A pre-tax discount factor is used that reflects the current market interest rate level plus risks specific to the liability. Changes in present values during the year are recognised as financial expenses.

The amount recognised as a provision is Management's best estimate of the expenses required to settle the obligation.

Warranty provisions are recognised as the underlying goods and services are sold based on warranty costs incurred in previous years.

Restructuring costs are recognised under liabilities when a detailed, formal restructuring plan has been announced to the parties affected no later than at the balance sheet date. On acquisition of enterprises, restructuring provisions in the acquiree are only included in goodwill when the acquiree has a restructuring liability at the acquisition date.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

When the Group has a legal obligation to dismantle an asset or restore the site on which the asset is located, a provision is recognised corresponding to the present value of expected future costs.

#### **Financial liabilities**

Amounts owed to mortgage credit institutions etc. are recognised at the date of borrowing at the net proceed received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised under financial expenses over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

#### **Deferred income**

Deferred income comprises payments received concerning income in subsequent years.

#### **Cash flow statement**

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash at bank and in hand as well as the Group's cash at bank and in hand at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

#### **Cash flows from operating activities**

Cash flows from operating activities are calculated as the share of the profit/loss before depreciations (EBITDA) adjusted for non-cash operating items, changes in working capital, interest and corporation tax paid.

#### **Cash flows from investing activities**

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and of intangible assets, property, plant and equipment and other non-current assets as well as acquisition and disposal of securities.

#### **Cash flows from financing activities**

Cash flows from financing activities comprise changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.

#### **Cash at bank and in hand**

Cash at bank and in hand comprise cash balances and bank deposits.

# Income Statement Group

January 1 - December 31, 2005 - all amounts in EUR '000

	Note	2005	2004
Net sales	1	686,310	551,831
Cost of goods sold	2,3	(409,566)	(326,598)
<b>Gross profit</b>		<b>276,744</b>	<b>225,233</b>
Selling and distribution expenses	2,3	(134,119)	(112,376)
Product development expenses	2,3	(18,661)	(14,200)
Administrative expenses	2,3,4	(80,389)	(65,037)
Other operating income	6	6,589	1,480
Result of investments in associates	9	693	804
Amortisation of trademarks and customers lists	7	(1,329)	(995)
Restructuring costs		(4,700)	(24,386)
<b>Total expenses</b>		<b>(231,916)</b>	<b>(214,710)</b>
<b>Income from operations</b>		<b>44,828</b>	<b>10,523</b>
Financial income	5	1,849	1,360
Financial expenses	5	(8,842)	(6,819)
<b>Financial items</b>		<b>(6,993)</b>	<b>(5,459)</b>
<b>Income before tax</b>		<b>37,835</b>	<b>5,064</b>
Tax on the year's income	10	(3,765)	(1,391)
<b>Net income</b>		<b>34,070</b>	<b>3,673</b>
Attributable to:			
Equity holders of the parent		34,275	3,734
Minority interests' share		(205)	(61)
<b>Net income</b>		<b>34,070</b>	<b>3,673</b>

# Balance Sheet Group

January 1 - December 31, 2005 - all amounts in EUR '000

	Note	2005	2004
<b>Assets</b>			
Goodwill		104,002	93,473
Development projects		12,835	9,943
Trademarks and customer lists		3,737	4,697
Development projects in progress		5,774	5,109
<b>Intangible assets</b>	7	<b>126,348</b>	<b>113,222</b>
Land and buildings		19,085	20,369
Technical plant and machinery		5,632	6,424
Other plant, operating equipment, furniture, etc.		24,619	20,510
Plant assets in process		1,473	3,824
<b>Property, plant and equipment</b>	8	<b>50,809</b>	<b>51,127</b>
Investments in associated companies	9	2,743	2,162
Other investments		1,908	1,237
Deferred tax assets	10	22,721	22,099
<b>Investments</b>		<b>27,372</b>	<b>25,498</b>
<b>Total non current assets</b>		<b>204,529</b>	<b>189,847</b>
<b>Inventories</b>	11	<b>128,098</b>	<b>102,947</b>
Trade accounts receivable	12	130,398	113,550
Group companies		74	3,550
Other receivables		11,140	7,651
Prepaid expenses		12,478	10,227
<b>Receivables</b>		<b>154,090</b>	<b>134,978</b>
Marketable securities		128	15
<b>Cash</b>		<b>16,539</b>	<b>15,156</b>
<b>Total current assets</b>		<b>298,855</b>	<b>253,096</b>
<b>Total assets</b>		<b>503,384</b>	<b>442,943</b>

	Note	2005	2004
<b>Equity and liabilities</b>			
Capital stock		67,221	67,221
Exchange rate adjustments		9,309	(9,862)
Hedge reserves		839	1,254
Proposed dividends		17,000	4,000
Retained earnings		73,088	57,493
<b>Total equity attributable to equity holders of the parent</b>		<b>167,457</b>	<b>120,106</b>
Minority interests		(107)	203
<b>Total equity</b>		<b>167,350</b>	<b>120,309</b>
<b>Non current Liabilities</b>			
Subordinated loan		-	60,499
Bank debt	18	85,362	93,783
Mortgage debt	18	2,360	-
Other non current liabilities		113	711
Pension plans	15	10,158	10,351
Deferred tax	10	922	993
<b>Non current Liabilities</b>		<b>98,915</b>	<b>166,337</b>
<b>Current Liabilities</b>			
Bank debt		3,029	2,454
Current portion of non current liabilities	13	4,832	6,065
Trade accounts payable		51,227	56,482
Corporate income tax	10	4,597	3,619
Accruals		2,416	1,379
Group companies		79,268	3,777
Other liabilities		64,824	51,046
Provisions	14	26,926	31,475
<b>Current Liabilities</b>		<b>237,119</b>	<b>156,297</b>
<b>Total Liabilities</b>		<b>336,034</b>	<b>322,634</b>
<b>Total liabilities and shareholders' equity</b>		<b>503,384</b>	<b>442,943</b>
Contingent liabilities, mortgages and pledges	17		
Financial instruments	18		
Share option plan	19		

# Consolidated Statement of Cash Flow Group

All amounts in EUR '000

	Note	2005	2004
Income from operations		44,828	10,523
Adjustments for:			
Depreciation		16,725	13,797
Amortization of trademarks and customer lists		1,329	995
Provisions and restructuring		(14,211)	18,615
Inventory movements		(20,143)	(7,673)
Change in accounts receivable		(18,892)	5,468
Change in trade accounts payable and other payables		2,467	6,517
<b>Cash flow from primary activities</b>		<b>12,103</b>	<b>48,242</b>
Financial items		(6,992)	(5,459)
Corporate income tax paid		(2,915)	(3,385)
<b>Cash flow from operating activities</b>		<b>2,196</b>	<b>39,398</b>
Purchase of intangible assets		(7,870)	(5,869)
Purchase of property, plant and equipment		(10,505)	(14,187)
Sale of property, plant and machinery		7,247	1,577
Acquisition of companies	16	(2,466)	(51,002)
Other investments		(1,250)	578
<b>Cash flow from investing activities</b>		<b>(14,844)</b>	<b>(68,903)</b>
<b>Free cash flow</b>		<b>(12,648)</b>	<b>(29,505)</b>
Issuance of share capital		-	26,889
Redemption of subordinated loan		(60,306)	-
Change in non current liabilities		(6,403)	127,152
Change in current liabilities		85,573	(109,676)
Minority interests		(333)	(214)
Share option exercised		(1,716)	-
Dividends paid		(4,000)	(4,030)
<b>Cash flow from financing activities</b>		<b>12,815</b>	<b>40,121</b>
<b>The year's cash flows from operating, investing and financing activities</b>		<b>167</b>	<b>10,616</b>
Net cash and cash equivalents at beginning of year		15,171	6,261
Foreign exchange gains/losses		1,328	(1,706)
<b>The year's cash flows from operating, investing and financing activities</b>		<b>167</b>	<b>10,616</b>
<b>Net cash and cash equivalents at end of year</b>		<b>16,666</b>	<b>15,171</b>

# Consolidated Statement of Change in Equity Group

All amounts in EUR '000

	Capital stock	Exchange rate ad- justment	Hedging reserve	Proposed dividends	Retained earnings	Total parent equity	Minority interst	Total
<b>2004</b>								
Balance at the beginning of the year	53,877	-	616	4,030	50,622	109,145		109,145
Change of accounting practice	-	-	-	-	(6,343)	(6,343)	485	(5,858)
<b>Equity after IFRS implementation 1. January</b>	<b>53,877</b>	<b>-</b>	<b>616</b>	<b>4,030</b>	<b>44,279</b>	<b>102,802</b>	<b>485</b>	<b>103,287</b>
Exchange rate adjustments in subsidiaries	-	(9,687)	-	-	-	(9,688)	(221)	(9,909)
Exchange rate adjustments other	(100)	(175)	-	-	-	(275)	-	(275)
Deferred (gain)/loss on cash flow hedges at the beginning of the year	-	-	(616)	-	-	(616)	-	(616)
Deferred (gain)/loss on cash flow hedges at the end of the year	-	-	1,254	-	-	1,254	-	1,254
Shared-based payment	-	-	-	-	35	35	-	35
Net income recognised directly in equity	(100)	(9,862)	638	-	35	(9,290)	(221)	(9,510)
Net profit of the year	-	-	-	4,000	(266)	3,734	(61)	3,673
<b>Total recognised income and expense</b>	<b>(100)</b>	<b>(9,862)</b>	<b>638</b>	<b>4,000</b>	<b>(231)</b>	<b>(5,556)</b>	<b>(285)</b>	<b>-</b>
Dividends distributed	-	-	-	(4,030)	-	(4,030)	-	(4,030)
Issuance of share capital	13,444	-	-	-	13,445	26,889	-	26,889
Change in equity	13,344	(9,862)	638	(30)	13,214	17,304	(285)	22,859
<b>Balance at the end of the year</b>	<b>67,221</b>	<b>(9,862)</b>	<b>1,254</b>	<b>4,000</b>	<b>57,493</b>	<b>120,106</b>	<b>203</b>	<b>120,309</b>
<b>2005</b>								
Balance at he beginning of the year	67,221	(9,862)	1,254	4,000	57,493	120,106	203	120,309
Exchange rate adjustments in subsidiaries	-	14,237	-	-	-	14,237	(105)	14,132
Exchange rate adjustments other	-	6,171	-	-	-	6,171	-	6,171
Deferred (gain)/loss on cash flow hedges at the beginning of the year	-	-	(1,254)	-	-	(1,254)	-	(1,254)
Deferred (gain)/loss on cash flow hedges at the end of the year	-	-	839	-	-	839	-	839
Shared-based payment	-	-	-	-	35	35	-	35
Tax on changes in equity	-	(1,236)	-	-	-	(1,236)	-	(1,236)
Net income recognised directly in equity	-	19,172	(415)	-	35	18,791	(105)	18,686
Net profit of the year	-	-	-	17,000	17,275	34,275	(205)	34,070
<b>Total recognised income and expense</b>	<b>-</b>	<b>19,172</b>	<b>(415)</b>	<b>17,000</b>	<b>13,310</b>	<b>53,066</b>	<b>(310)</b>	<b>52,756</b>
Dividends distributed	-	-	-	(4,000)	-	(4,000)	-	(4,000)
Share option exercised	-	-	-	-	(1,716)	(1,716)		(1,716)
Change in equity	-	19,172	(415)	13,000	15,594	47,351	(310)	47,042
<b>Balance at the end of the year</b>	<b>67,221</b>	<b>9,309</b>	<b>839</b>	<b>17,000</b>	<b>73,088</b>	<b>167,457</b>	<b>(107)</b>	<b>167,350</b>

The capital stock consists of 5,000,000 class A shares at DKK 100.  
NKT Holding A/S owns 100% of the shares.

# Notes Group

Amounts in EUR '000

Note	2005	2004
<b>1 Net sales</b>		
Net sales broken down by region, product category and currency are shown by the charts on pages 11.		
<b>2 Depreciation</b>		
The year's depreciation of property, plant and equipment is included in the following costs and expenses as follows:		
Cost of goods sold, etc.	7,832	7,127
Selling and distribution expenses	667	732
Product development expenses	4,795	2,261
Administrative expenses	3,430	3,712
<b>Total depreciation for the year</b>	<b>16,724</b>	<b>13,832</b>
<b>3 Employee expenses</b>		
Wages and salaries	151,775	135,867
Defined benefit plan	703	488
Defined contribution plan	7,435	6,777
Social security expenses	23,700	14,925
Share based payment	35	35
<b>Total employee expenses</b>	<b>183,648</b>	<b>158,092</b>
Employee expenses are recognized as:		
Production costs	37,226	36,414
Sale and distribution costs	93,122	80,094
Administration costs	53,300	41,584
<b>Total employee expenses</b>	<b>183,648</b>	<b>158,092</b>
<b>4 Fees to the auditors appointed by the Annual Shareholders' Meeting</b>		
Auditing services	900	940
Other services	809	1,166
<b>Total</b>	<b>1,709</b>	<b>2,106</b>
<b>5 Financial items</b>		
Interest on bank deposits, etc.	794	476
Other financial income	1,055	884
<b>Total financial income</b>	<b>1,849</b>	<b>1,360</b>
Interest on loan from parent company	3,120	2,453
Interest on bank debt	3,591	2,815
Other interest and net exchange losses	2,131	1,551
<b>Total financial expenses</b>	<b>8,842</b>	<b>6,819</b>
<b>6 Other operating income</b>		
Gain of disposal of buildings	5,754	-
Other	835	1,480
<b>Total other operating income</b>	<b>6,589</b>	<b>1,480</b>

## Note

### 7 Intangible assets

	<i>Goodwill</i>	<i>Development projects</i>	<i>Trademarks and customer lists</i>	<i>Development projects in progress</i>
<b>Cost:</b>				
Cost at January 1, 2004	70,982	3,806	2,321	2,100
Exchange adjustment of opening value	(2,344)	(83)	16	(19)
Additions from acquisitions of companies	24,835	4,494	4,018	1,536
Additions during the year	-	-	-	6,222
Disposals during the year	-	-	-	-
Transfer to/from other items	-	4,730	-	(4,730)
<b>Cost at December 31, 2004</b>	<b>93,473</b>	<b>12,947</b>	<b>6,355</b>	<b>5,109</b>
<b>Amortization and impairment losses:</b>				
Amortization and impairment at January 1, 2004	-	493	657	-
Exchange adjustment of opening value	-	(8)	5	-
Disposals during the year	-	407	-	-
Amortization and impairments for the year	-	2,112	995	-
<b>Amortization and impairments at December 31, 2004</b>	<b>-</b>	<b>3,004</b>	<b>1,657</b>	<b>-</b>
<b>Book value at December 31, 2004</b>	<b>93,473</b>	<b>9,943</b>	<b>4,697</b>	<b>5,109</b>
<b>Cost at January 1, 2005</b>	<b>93,473</b>	<b>12,947</b>	<b>6,355</b>	<b>5,109</b>
Exchange adjustment of opening value	9,432	2,362	(94)	88
Additions from acquisitions of companies	1,097	-	388	-
Additions during the year	-	753	25	7,570
Disposals during the year	-	(5,121)	-	-
Transfer to/from other items	-	6,693	-	(6,993)
<b>Cost at December 31, 2005</b>	<b>104,002</b>	<b>17,634</b>	<b>6,674</b>	<b>5,774</b>
<b>Amortization and impairment losses:</b>				
Amortization and impairment at January 1, 2005	-	3,004	1,657	-
Exchange adjustment of opening value	-	2,064	(49)	-
Disposals during the year	-	(5,004)	-	-
Amortization and impairments for the year	-	4,735	1,329	-
Transfer to/from other items	-	-	-	-
<b>Amortization and impairments at December 31, 2005</b>	<b>-</b>	<b>4,799</b>	<b>2,937</b>	<b>-</b>
<b>Book value at December 31, 2005</b>	<b>104,002</b>	<b>12,835</b>	<b>3,737</b>	<b>5,774</b>

#### Impairment of goodwill

As a result of the impairment tests there is no basis for writing down goodwill. Nilfisk-Advance is judged as one 'Cash Generating Units' (CGU) as the business structure of the group does not allow segregation of segments, production flow and reporting. Goodwill is allocated to this CGU.

Impairment tests are conducted annually in connection with the Board of Directors' and the Management's strategy review. In the impairment test, the discounted values of future cash flows are compared against the carrying amounts. Future cash flows are based on the budget for 2006, strategy plans for the years 2007 – 2009. Important parameters are net sales, EBIT, working capital, tangible assets and growth assumptions subsequent to the indicated 5-year period. Budget and strategy plans build on specific commercial assessments of the business areas while projections that go beyond 2009 build on general parameters.

The terminal value for the period after 2009 is set with the assumption of 2% growth. The rate of discount is corresponding to a WACC of 9% after tax. The tax rate payable is assumed to be 34%.

## Note

## 8 Property plants and equipment

	<i>Land and buildings</i>	<i>Technical plant and machinery</i>	<i>Other plant equipment furniture</i>	<i>Plant assets in process</i>
<b>Cost:</b>				
Cost at January 1, 2004	18,793	28,432	39,558	1,423
Exchange adjustment of opening value	(809)	(597)	(797)	(22)
Additions from acquisitions of companies	11,608	2,997	8,539	277
Additions during the year	189	1,623	8,598	3,812
Disposals during the year	-	(2,168)	(5,860)	(104)
Transfer to/from other items	(203)	90	1,675	(1,562)
<b>Cost at December 31, 2004</b>	<b>29,578</b>	<b>30,377</b>	<b>51,713</b>	<b>3,824</b>
<b>Depreciation</b>				
Accumulated depreciation at January 1, 2004	8,190	23,781	29,990	-
Exchange adjustment of opening value	(313)	(468)	(668)	-
Disposals during the year	-	(1,965)	(5,531)	-
Depreciation for the year	1,421	2,900	7,028	-
Transfer to/from other items	(89)	(295)	384	-
<b>Accumulated depreciation at December 31, 2004</b>	<b>9,209</b>	<b>23,953</b>	<b>31,203</b>	<b>-</b>
<b>Book value at December 31, 2004</b>	<b>20,369</b>	<b>6,424</b>	<b>20,510</b>	<b>3,824</b>
<b>Cost at January 1, 2005</b>	<b>29,578</b>	<b>30,377</b>	<b>51,713</b>	<b>3,824</b>
Exchange adjustment of opening value	2,084	1,060	1,223	62
Additions from acquisitions of companies	-	-	561	-
Additions during the year	1,362	2,232	6,425	2,870
Disposals during the year	(3,810)	(2,656)	959	(3,524)
Transfer to/from other items	12	(884)	2,630	(1,759)
<b>Cost at December 31, 2005</b>	<b>29,226</b>	<b>30,129</b>	<b>63,512</b>	<b>1,473</b>
<b>Depreciation</b>				
Accumulated depreciation at January 1, 2005	9,209	23,953	31,203	-
Exchange adjustment of opening value	639	662	1,169	-
Disposals during the year	(1,336)	(1,605)	(2,442)	-
Depreciation for the year	1,650	2,355	8,073	-
Transfer to/from other items	(21)	(868)	890	-
<b>Accumulated depreciation at December 31, 2005</b>	<b>10,142</b>	<b>24,496</b>	<b>38,893</b>	<b>-</b>
<b>Book value at December 31, 2005</b>	<b>19,085</b>	<b>5,632</b>	<b>24,619</b>	<b>1,473</b>

Leased assets of EUR 0.6 million is included in other plant, equipment and furniture.

## Note

### 9 Investments in associated companies

Name	Ownership	Share capital	Revenue	(Profit/loss) for the year EUR '000	Assets EUR '000	Liabilities EUR '000	The Group share	
							Equity EUR '000	(Profit/loss) for the year EUR '000
<b>2005</b>								
M2H S.A.	34%	1,000	42,035	2,038	22,809	15,224	2,579	693
CFM Lombardia	33%	99	1,615	-	972	872	33	-
							2,612	693
Goodwill at 31 December 2005							131	-
							2,743	693
<b>2004</b>								
M2H S.A.	34%	1,000	39,460	2,364	21,518	15,680	1,946	804
CFM Lombardia	33%	99	1,717	3	1,086	831	85	-
							2,031	804
Goodwill at 31 December 2004							131	-
							2,162	804

Equity interest in associated companies are recognised in accordance with the past equity method in the Group accounts.  
In the Parent accounts equity interest are recognised at cost.

# Notes Group

Amounts in EUR '000

Note	2005	2004
<b>10 Tax</b>		
The income tax on the net income for the year may be specified as follows:		
Income before tax	37,835	5,064
Less profit before tax for jointly taxed danish companies	-	(10,390)
<b>Adjusted Group income before tax</b>	<b>37,835</b>	<b>(5,326)</b>
Calculated income tax at 28% (2004: 30%) on income before tax	10,594	(1,598)
Adjustment of calculated income tax of foreign subsidiaries	3,113	2,318
<b>Tax impact of:</b>		
Non-taxable revenue	(1,199)	(733)
Other non-deductible expenses	309	1,084
Change and capitalised tax loss carry forward	(10,060)	(5,541)
Other adjustments	1,008	5,861
	<b>3,765</b>	<b>1,391</b>

Tax payable	Payable income tax	Deferred tax assets	Deferred tax liabilities	Income tax charged to income
Group				
Balance at January 1, 2005	3,619	22,099	993	-
Exchange adjustment of opening value	98	800	(7)	-
Equity movement	-	(1,236)	-	-
Income tax paid during the year	(4,851)	-	-	-
Tax on the net income for the year	4,887	1,058	(64)	3,765
Prepaid income tax transferred to other receivables	844	-	-	-
<b>Balance at December 31, 2005</b>	<b>4,597</b>	<b>22,721</b>	<b>922</b>	<b>3,765</b>

The parent company and its Danish subsidiaries are jointly taxed with NKT Holding A/S as prescribed under the compulsory Danish tax consolidation rules applicable from 2005. Under joint taxation each company is charged with 28% tax payable to or refundable. Deferred tax is accrued based on the tax position of each company at the end of the year. Any deviation compared to the position at the beginning at the year is booked via the income statement. This also applies for 2005 where no deferred tax was accrued.

As a consequence of the present Danish tax legislation a deferred tax asset on a amount of EUR 6.4 million has been allocated from parent company NKT Holding A/S to the Nilfisk-Advance Group. The deferred tax asset has been taken to income in 2005.

	2005	2004
<b>Deferred tax</b>		
Deferred tax 1. January	21,106	3,669
Exchange adjustments of opening value	807	41
Deferred tax in the year	1,122	(1,065)
Deferred tax on equity in the year	(1,236)	-
Additions from acquisitions of companies	-	18,461
<b>Deferred tax 31. December</b>	<b>21,799</b>	<b>21,106</b>
<b>Deferred tax is recognised as following:</b>		
Deferred tax asset	22,721	22,099
Provision for deferred tax	922	993
<b>Deferred tax net</b>	<b>21,799</b>	<b>21,106</b>

Note	2005	2004
Deferred tax divided on balance sheet items		
Intangibles	8,139	4,271
Property, plant and equipment	577	6,383
Investments	2,472	(202)
Current assets	1,620	2,615
Provisions	869	(178)
Long-term debt	(38)	(93)
Short-term debt	2,380	5,736
Tax loss carryforward	21,553	28,168
Value adjustments	(15,774)	(25,594)
<b>Deferred tax assets and liabilities</b>	<b>21,799</b>	<b>21,106</b>

#### Movement in temporary items in the year

	1. January	Exchange adjustments of opening value	Acquisitions of companies	Recognised in the profit and loss statement	Recognised on equity	31. December
<b>2005</b>						
Intangibles	4,271	96	-	3,772	-	8,139
Property, plant and equipment	6,383	143	-	(5,949)	-	577
Investments	(202)	(5)	-	2,679	-	2,472
Current assets	2,615	59	-	183	-	1,620
Provisions	(178)	(4)	-	1,051	-	869
Long-term debt	(93)	(2)	-	57	-	(38)
Short-term debt	5,736	128	-	(3,484)	-	2,380
Tax loss carryforward	28,168	631	-	(7,246)	(1,236)	21,553
Value adjustments	(25,594)	(239)	-	10,060	-	(15,774)
<b>Deferred tax assets and liabilities</b>	<b>21,106</b>	<b>807</b>	<b>-</b>	<b>1,122</b>	<b>(1,236)</b>	<b>21,799</b>
<b>2004</b>						
Intangibles	(1,542)	(41)	11,934	(544)	-	4,271
Property, plant and equipment	(1,483)	(40)	7,355	551	-	6,383
Investments	-	-	(202)	-	-	(202)
Current assets	(570)	(15)	2,801	399	-	2,615
Provisions	595	16	(1,152)	363	-	(178)
Long-term debt	-	-	(93)	-	-	(93)
Short-term debt	1,157	32	3,265	1,283	-	5,736
Tax loss carryforward	12,929	346	23,551	(8,658)	-	28,168
Value adjustments	(7,417)	(256)	(28,998)	5,540	-	(25,594)
<b>Deferred tax assets and liabilities</b>	<b>3,669</b>	<b>41</b>	<b>18,461</b>	<b>(1,065)</b>	<b>-</b>	<b>21,106</b>

#### 11 Inventories

	2005	2004
Raw materials and consumables	42,124	36,389
Goods in process	711	634
Finished products and merchandise	85,263	65,924
<b>Total inventories</b>	<b>128,098</b>	<b>102,947</b>
<b>The carrying amount of inventories carried at fair value less cost to sell</b>	<b>10,584</b>	<b>11,523</b>

Amounts of writedowns of inventory recognized as expence during the year was EUR 1,108 thousand (EUR 795 thousand in 2004).

# Notes Group

Amounts in EUR '000

Note	2005	2004
<b>12 Trade receivables</b>		
Trade receivables (gross)	136,727	121,390
Allowances for doubtful trade receivables:		
Balance in the beginning of the year	(7,840)	(8,563)
Change in allowances during the year	1,511	723
Balance in the end of the year	(6,329)	(7,840)
<b>Total trade receivables</b>	<b>130,398</b>	<b>113,550</b>
<b>Realised losses during the year</b>	<b>(1,841)</b>	<b>(1,876)</b>

The average credit period for trade receivables are in accordance with management expectation.  
The carrying amount of trade receivables approximates their fair value.

<b>13 Current portion of non current liabilities</b>		
Bank borrowing	4,222	5,184
Mortgage debt	133	348
Other	477	533
<b>Current debt falling due within one year total</b>	<b>4,832</b>	<b>6,065</b>

Bank loans and other secured loans with terms to maturity between 2007-2010. The loan are handled after "arms length principle".

14 Provisions	Restructuring	Maintenance warranties	Other provisions	Total
1. January 2005	18,362	10,504	2,609	31,475
Additional provisions	4,700	8,416	1,705	14,821
Used during the year	(12,010)	(8,064)	-	(20,074)
Exchange rate adjustments	411	235	58	704
<b>31. December 2005</b>	<b>11,463</b>	<b>11,091</b>	<b>4,372</b>	<b>26,926</b>
Non-current	-	-	-	-
Current	11,463	11,091	4,372	26,926
<b>Total provision</b>	<b>11,463</b>	<b>11,091</b>	<b>4,372</b>	<b>26,926</b>

#### Provision for restructuring

This restructuring provision was effective as to the business combination and relates principally to the elimination of certain administrative functions and other integration cost in respect of the business combination with Alto International A/S. The restructuring plan was drawn up and announced to the employee of Alto International A/S during 2004 when the provision was recognized in the acquiree's financial statements. The restructuring is expected to be complete by year-end 2006. In 2005 has there been set up a provision of 4,700 K EUR to cover the movement of the production of vaccum cleaners in Aamaal in Sweden to Hungary.

#### Provision for maintenance warranties

A provision is recognised for expected warranty clams on products sold during the last three years, based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year and all will have incurred within the next three years of the balance sheet date. Assumptions used to calculate the provision for warranties ware based on current sales level and current information available about returns on the three-year warranty period for all products sold.

#### Other provisions

Other provisions consist of various different types of provisions, witch represents managements best estimate.

Note	2005	2004
<b>15 Provision for pensions</b>		
Pension obligations for Danish companies and certain companies outside of Denmark are covered through insurance and are recognised as defined contribution plans. Companies outside of Denmark that are not or only partially covered through insurance recognise pension liabilities, defined benefit plans, in accordance with IAS 19.		
Present value of funded obligations, defined benefit plans	(16,818)	(14,519)
Fair value of plan assets	9,868	7,906
	(6,950)	(6,613)
Present value of unfunded obligations, defined benefit plans	(4,244)	(3,789)
Unrecognised actuarial (gains) losses	1,036	51
	(3,208)	(3,738)
<b>Net liability</b>	<b>(10,158)</b>	<b>(10,351)</b>
<b>Expense recognised in the income statement</b>		
Expected current service cost	388	199
Expected interest cost on obligations	779	693
Expected return on plan assets	(464)	(404)
<b>Effect from curtailment or settlement</b>	<b>703</b>	<b>488</b>
<b>Actual return on plan assets, (gain) loss</b>	<b>1,719</b>	<b>676</b>
The group expects to contribute EUR 576 thousand to defined benefit plan in 2006.		
<b>Change in the present value of the defined benefit obligation</b>		
1 January	(18,308)	(16,704)
Expected current service cost	(368)	(376)
Expected interest cost on obligations	(779)	(720)
Contribution by plan participants	(91)	-
Addition from business combinations (at the acquisition date)	(48)	-
Curtailments	280	23
Settlements	310	(27)
Actuarial (gains) and losses	(2,058)	(505)
<b>31. December</b>	<b>(21,062)</b>	<b>(18,308)</b>

# Notes Group

Amounts in EUR '000

Note	2005	2004
<b>Provision for pensions (continued)</b>		
<b>Changes in the value of plan assets</b>		
1 January	7,906	6,928
Expected return on plan assets	464	404
Contribution by the employer	523	338
Benefit paid	(280)	(36)
Actuarial (gains) and losses	1,255	272
<b>31. December</b>	<b>9,868</b>	<b>7,906</b>
<b>The major categories of plan assets are as follows</b>		
Equity	8,213	6,402
Bonds	1,065	891
Property	588	611
Cash	2	2
	<b>9,868</b>	<b>7,906</b>
<b>Principal actuarial assumptions at the balance sheet date</b>		
Discount rate at 31 December	5.10%	5.10%
Expected rates of return on plan assets at 31. December	4.87%	4.37%
Future salary increases	3.20%	3.20%
Present value defined benefit obligation	(21,062)	(18,308)
Fair value of plan assets	9,868	7,906
<b>Surplus/deficit</b>	<b>(11,194)</b>	<b>(7,209)</b>
Experience adjustments on plan liabilities	(130)	(231)
Experience adjustments on plan assets	1,271	292

The Group operates several funded and unfunded defined benefit plans. Most material funded pension scheme is based in United Kingdom. Unfunded defined benefit plans are operated in Norway, Italy, Germany and France.

Defined benefit plans in the United Kingdom are managed by external pension funds, and contributions paid by Nilfisk-Advance are invested to offset pension obligations. Unrecognized actuarial loss is EUR 425 thousand (2004 EUR 46 thousand). The amount is calculated as the actuarial present value of the pension obligations EUR 16.6 million (2004 EUR 14.4 million) less fair value of plan assets EUR 9.8 million (2004 EUR 7.8 million). Actuarial losses exceeding the 10% corridor as defined in IAS 19 are recognized over the remaining working years of the staff.

The stated assumptions on the defined benefit plans are calculated as an average based on the relative portion of pension obligation from each country.

Note	2005		ALTO – 2004		OTHER – 2004	
16 Acquisition of companies	<i>Fair value at the time of acquisition</i>	<i>Book value at the time of acquisition</i>	<i>Fair value at the time of acquisition</i>	<i>Book value at the time of acquisition</i>	<i>Fair value at the time of acquisition</i>	<i>Book value at the time of acquisition</i>
Goodwill	1,097	-	18,396	13,523	6,439	437
Development projects	388	-	10,029	14,214	175	959
Property, plant and equipment	561	571	25,159	29,172	527	259
Financial fixed assets	-	-	16,468	7,328	3	3,971
Inventories	654	1,012	42,937	44,951	3,353	4,406
Accounts receivable	196	254	54,634	55,298	2,722	4,290
Cash and cash equivalents	371	371	5,562	5,562	437	437
Provisions	(82)	(64)	(8,911)	(8,755)	(644)	(417)
Non current debt	(14)	(10)	(28,799)	(30,633)	(119)	(119)
Current bank borrowing	(2)	(2)	(40,599)	(41,363)	(3,049)	(529)
Current debt	(332)	(382)	(42,576)	(38,984)	(5,146)	(8,858)
<b>Total</b>	<b>2,837</b>	<b>1,750</b>	<b>52,300</b>	<b>50,314</b>	<b>4,700</b>	<b>4,835</b>
Of which cash and cash equivalents	(371)	(371)	(5,562)	(5,562)	(437)	(437)
<b>Total acquisitions of companies</b>	<b>2,466</b>	<b>1,379</b>	<b>46,738</b>	<b>44,752</b>	<b>4,263</b>	<b>4,398</b>

In 2005 Nilfisk-Advance A/S acquired 100% of the voting shares in Kvantor Kft. The company is unlisted in Hungary and is specialized in sales of industrial cleaners. In addition to the above mentioned business combination Nilfisk-Advance A/S acquired all activities from the unlisted Finish company, Karkone OY. The company is specialized in sales of industrial cleaners.

Due to the acquirement of Kvantor Kft. and the activities from Karkone OY, Nilfisk-Advance A/S has recognized intangible assets, including trademarks, development projects and development projects in progress, to fair value at the time of acquisition.

Goodwill is recognized as the residual of all identified assets, liabilities and contingent liabilities at fair value and amounts to 1,097 thousand EUR. Goodwill represent expected synergy effects due to the combination of the businesses of Kvantor Kft., activities from Karkone OY and Nilfisk-Advance A/S. Contribution to net sales from acquired companies to the Group in 2005 was 3,557 thousand EUR. Resulting in a profit after tax amounting to (182) thousand EUR.

The acquisition of kvantor kft. was effective from 1. January 2005. The aquisition of the activities in Karvone OY was effective from 1. January 2005.

#### 2004

In 2004 Nilfisk-Advance A/S acquired companies for a total amount of 51.0 Million EUR. Of this amount 46.8 million are relating to the acquisition of Alto Group. Goodwill relating to the acquisition of Alto Group amounts to 48.3 Million. Contribution to net sales from Alto International A/S in 2004 was 166.6 million EUR.

# Notes Group

Amounts in EUR '000

Note	2005	2004
<b>17 Contingent liabilities, mortgages and pledges</b>		
<b>Payable within one year</b>		
Rent and leasing commitments for other premises, machinery, computer equipment and automobiles	11,653	10,291
Other contingent liabilities	1,065	1,102
<b>Total payables within one year</b>	<b>12,718</b>	<b>11,393</b>
<b>Payable between one and five years</b>		
Rent and leasing commitments for other premises, machinery, computer equipment and automobiles	20,185	12,174
Other contingent liabilities	687	398
<b>Total payables after one year</b>	<b>20,872</b>	<b>12,572</b>
<b>Payable more than five years</b>		
Rent and leasing commitments for other premises, machinery, computer equipment and automobiles	5,082	3,897
Other contingent liabilities	15	12
<b>Total payables after one year</b>	<b>5,097</b>	<b>3,909</b>

The Group is party to certain legal actions etc., the outcome of which is not expected to significantly affect the net income for the year or the Group's financial position. The company is taxed jointly with NKT Holding A/S and is jointly liable to pay corporation taxes. As stated in note 10, certain deferred tax assets and liabilities may not be shown in the balance sheet.

Amounts of rent and leasing commitments recognised, as expense during the year was EUR 3,931 thousand. Amounts of other contingent liabilities recognised, as expense during the year was 60 thousand.

## Note

### 18 Financial instruments

The major part of Nilfisk-Advance's sales is in GBP, HUF, USD, AUD, and NOK while a predominant part of production costs are carried in HUF, USD and RMB. As a consequence Nilfisk-Advance's foreign exchange risk is most significant in GBP and HUF. Nilfisk-Advance hedges future expected cash flow up to 16 months forward. During the last year the hedging level has been higher than previous years due to an increase in cash flow.

The overall objectives and policies for Nilfisk-Advance's financial risk management are outlined in Nilfisk-Advance treasury policy that is approved by the board of Directors.

The table below shows the fair value of cash-flow hedging activities for 2005 and 2004 specified by hedging instrument and major currencies. The fair value of the financial instruments qualifying for hedge accounting under IAS 39 are recognized directly under equity until the hedge items are recognised in the income statement. At year-end EUR 839 thousand (2004 EUR 1,254 thousand) are deferred via equity. The fair value of the financial instruments not qualifying for hedge accounting under IAS 39 are recognised directly in the income statement.

	<i>Equivalent in EUR. 31 December</i>	<i>Unrealized gain/loss net</i>	<i>Of which taken to income</i>	<i>Of which taken to equity</i>
<b>2005</b>				
GBP	(17,486)	(111)	(47)	(65)
HUF	24,318	422	-	422
USD	16,954	1,174	-	1,174
AUD	(18,151)	(1,085)	(562)	(522)
NOK	(11,759)	230	-	230
Other currencies	(23,748)	(651)	(251)	(400)
<b>Total</b>	<b>(29,872)</b>	<b>(21)</b>	<b>(860)</b>	<b>839</b>
<b>2004</b>				
SEK	(8,311)	161	176	(15)
GBP	(12,123)	538	52	486
AUD	(13,245)	210	76	135
NOK	(9,713)	(162)	(20)	(143)
Other currencies	(18,404)	896	104	791
<b>Total</b>	<b>(61,796)</b>	<b>1,644</b>	<b>388</b>	<b>1,254</b>

#### GROUP AND PARENT

<i>Loan</i>	<i>Expiration</i>		<i>Effective interest 2005</i>	<i>Effective interest 2004</i>	<i>Fair value 2005</i>	<i>Fair value 2004</i>
DKK (5-year)	2010	Variable	2,74%	3,05%	89,584	98,967
DKK	2005	Variable	-	3,22%	-	60,499
EUR (20-year)	2008	Variable	3,09%	3,24%	2,493	-

The amounts are recognised in the balance sheet as EUR 87.7 million under non current liabilities and as EUR 4.3 million under current liabilities.

# Notes Group

Amounts in EUR '000

Note			2005	2004
<b>19 Share option plan</b>				
The market value of the share options has been calculated using the Black-Scholes option pricing-model. The assumptions used are shown in the table below:				
Expected volatility			30	35
Expected dividend per share			-	-
Risk free interest rate			3.70%	3.50%
<b>Outstanding share options in Nilfisk Advance A/S</b>				
	<i>Share option</i>	<i>Average exercise price per option</i>	<i>Market value per option at distribution/ exercise</i>	<i>Market value at distribution/ exercise</i>
Outstanding at 1. January 2004	74,500	18	-	-
Distributed	18,000	35	11	205
Exercised in 2004	-	-	-	-
Expired/cancelled in 2004	-	-	-	-
<b>Outstanding at 31. December 2004</b>	<b>92,500</b>	<b>22</b>	<b>-</b>	<b>-</b>
Outstanding at 1. January 2005	92,500	-	-	-
Distributed	9,000	52	12	108
Exercised in 2005	(36,000)	16	48	(1,716)
Expired/cancelled in 2005	(18,000)	-	-	-
<b>Outstanding at 31. December 2005</b>	<b>47,500</b>	<b>34</b>	<b>-</b>	<b>-</b>
	<i>Share option</i>	<i>Average exercise price per option</i>	<i>Exercise period</i>	
2001	56,500	15	- 31. March 2007	
2002	9,000	16	1. April 2006 - 31. March 2008	
2003	9,000	37	1. April 2007 - 31. March 2009	
<b>End of year 2003 total</b>	<b>74,500</b>	<b>18</b>		
2001	56,500	15	- 31. March 2007	
2002	9,000	17	1. April 2006 - 31. March 2008	
2003	9,000	38	1. April 2007 - 31. March 2009	
Distributed 2004	18,000	36	1. April 2008 - 31. March 2010	
<b>End of year 2004 total</b>	<b>92,500</b>	<b>22</b>		
2001	8,500	16	- 31. March 2007	
2002	9,000	17	1. April 2006 - 31. March 2008	
2003	9,000	39	1. April 2007 - 31. March 2009	
Distributed 2004	12,000	37	1. April 2008 - 31. March 2010	
Distributed 2005	9,000	55	1. April 2009 - 31. March 2011	
<b>End of year 2005 total</b>	<b>47,500</b>	<b>34</b>		

Nilfisk Advance has established share option schemes with the purpose of motivating and retaining qualified management and to ensure common goals for management and the shareholders. Each option gives the right to purchase Nilfisk Advance shares.

The strike price is indexed over time, and the program outstanding is open for exercise in the period April 2005 to April 2010. Exercise entitlements depend on employment (not under notice) at the time of exercise.

# Income Statement Parent company

January 1 - December 31, 2005 - all amounts in EUR '000

	Note	2005	2004
Net sales		279,052	169,502
Cost of goods sold	20, 21	(219,220)	(126,109)
<b>Gross profit</b>		<b>59,832</b>	<b>43,393</b>
Selling and distribution expenses	20, 21	(25,510)	(17,955)
Product development expenses	20, 21	(6,276)	(3,315)
Administrative expenses	20, 21, 22	(17,109)	(12,378)
Depreciation of trademarks	24	(649)	(467)
Other operating income/ (expenses)		(1,490)	7,875
Restructuring costs		(4,700)	-
<b>Total expenses</b>		<b>(55,734)</b>	<b>(26,240)</b>
<b>Income from operations</b>		<b>4,098</b>	<b>17,153</b>
Dividends from subsidiaries		1,869	4,423
Financial income	23	5,426	4,316
Financial expenses	23	(7,255)	(4,704)
Financial items		40	4,035
<b>Income before tax</b>		<b>4,138</b>	<b>21,188</b>
Tax on the year's income	26	2,166	-
<b>Net income</b>		<b>6,304</b>	<b>21,188</b>
Distribution of net income:			
Proposed dividends		17,000	4,000
Retained earnings		(10,696)	17,188
		<b>6,304</b>	<b>21,188</b>

# Balance Sheet Parent company

January 1 - December 31, 2005 - all amounts in EUR '000

	Note	2005	2004
<b>Assets</b>			
Goodwill		15,693	16,086
Development projects		4,179	1,889
Trademarks		442	1,207
Development projects in progress		2,000	1,343
<b>Intangibles</b>	24	<b>22,314</b>	<b>20,525</b>
Land and buildings		472	1,550
Technical plant and machinery		1,902	2,034
Other plant, operating equipment, furniture, etc.		4,739	5,655
Plant assets in process		187	2,753
<b>Property plant and equipment</b>	25	<b>7,300</b>	<b>11,992</b>
Subsidiaries	27	277,714	266,819
Advances to subsidiaries		35,247	45,689
Investments in associates	27	889	889
Other investments		862	35
Deferred tax assets	26	930	-
<b>Investments</b>		<b>315,642</b>	<b>313,432</b>
<b>Total non current assets</b>		<b>345,256</b>	<b>345,949</b>
<b>Inventories</b>	28	<b>51,979</b>	<b>24,475</b>
Trade accounts receivable	29	11,885	9,778
Subsidiaries		82,372	68,756
Group companies		22,304	56,812
Other receivables		3,850	3,779
Prepaid expenses		2,417	3,247
<b>Receivables</b>		<b>122,828</b>	<b>142,372</b>
<b>Cash</b>		<b>4,964</b>	<b>1,540</b>
<b>Total current assets</b>		<b>179,771</b>	<b>168,387</b>
<b>Total assets</b>		<b>525,027</b>	<b>514,336</b>

	Note	2005	2004
<b>Equity and liabilities</b>			
Capital stock		67,221	67,221
Exchange rate adjustments		1,738	(3,447)
Hedge reserves		839	1,254
Proposed dividends		17,000	4,000
Retained earnings		138,428	152,041
<b>Total shareholders' equity</b>		<b>225,226</b>	<b>221,069</b>
Subordinated loan		-	60,499
Bank borrowing	18	85,336	89,875
Other long-term debt	18	19	453
<b>Non current liabilities</b>		<b>85,355</b>	<b>150,827</b>
Bank borrowing		51	-
Current portion of non current liabilities	30	4,648	4,832
Trade accounts payable		15,502	15,702
Subsidiaries		80,291	76,765
Group companies		88,807	33,240
Other liabilities		20,226	9,795
Accruals		40	54
Provisions	31	4,881	2,052
<b>Current liabilities</b>		<b>214,446</b>	<b>142,440</b>
<b>Total liabilities</b>		<b>299,801</b>	<b>293,267</b>
<b>Total liabilities and shareholders' equity</b>		<b>525,027</b>	<b>514,336</b>

# Consolidated Statement of Cash Flow Parent company

All amounts in EUR '000

Note	2005	2004
Income from operations	3,561	17,153
Adjustments for:		
Depreciation	3,468	4,022
Amortization of trademarks	1,186	467
Provisions	2,829	(455)
Inventory movements	(27,504)	(3,049)
Change in accounts receivable	(14,963)	(5,155)
Change in trade accounts payable and other payables	13,957	31,194
<b>Cash flow from primary activities</b>	<b>(17,466)</b>	<b>(44,177)</b>
Financial items	40	4,035
Corporate income tax paid	2,648	-
<b>Cash flow from operating activities</b>	<b>(14,778)</b>	<b>(48,212)</b>
Purchase of intangible assets	(2,439)	660
Purchase of property, plant and equipment	(2,390)	(6,704)
Sale of property, plant and machinery	3,613	-
Acquisition of companies	(10,896)	(152,352)
Other investments	12,824	4,114
<b>Cash flow from investing activities</b>	<b>713</b>	<b>(154,282)</b>
<b>Free cash flow</b>	<b>(14,065)</b>	<b>(106,070)</b>
Issuance of share capital	-	26,889
Redemption of subordinated loan	(60,306)	-
Change in non current liabilities	(5,166)	149,794
Change in current liabilities	89,942	(69,686)
Share option exercised	(1,716)	-
Dividends paid	(4,000)	(4,030)
<b>Cash flow from financing activities</b>	<b>18,754</b>	<b>102,967</b>
<b>The year's cash flows from operating, investing and financing activities</b>	<b>4,688</b>	<b>(3,103)</b>
Net cash and cash equivalents at beginning of year	1,540	695
Foreign exchange gains/losses	(1,264)	3,948
The year's cash flows from operating, investing and financing activities	4,688	(3,103)
<b>Net cash and cash equivalents at end of year</b>	<b>4,964</b>	<b>1,540</b>

# Statement of Change in Equity Parent company

All amounts in EUR '000

	Capital stock	Exchange rate ad- justments	Hedging reserve	Proposed dividends	Retained earnings	Total parent equity
<b>2004</b>						
Balance at the beginning of the year	53,877	403	616	4,030	50,219	109,145
Change of accounting practice	-	-	-	-	71,289	71,289
<b>Equity after IFRS implementation 1. January</b>	<b>53,877</b>	<b>403</b>	<b>616</b>	<b>4,030</b>	<b>121,508</b>	<b>180,434</b>
Exchange rate adjustments other	(100)	(3,850)	-	-	-	(3,950)
Deferred (gain)/loss on cash flow hedges at the beginning of the year	-	-	(616)	-	-	(616)
Deferred (gain)/loss on cash flow hedges at the end of the year	-	-	1,254	-	-	1,254
Cost of shared-based payment	-	-	-	-	35	35
Revaluation in subsidiaries	-	-	-	-	(135)	(135)
Net income recognised directly in equity	(100)	(3,850)	638	-	(100)	(3,412)
Net profit of the year	-	-	-	4,000	17,188	21,188
<b>Total recognised income and expense</b>	<b>(100)</b>	<b>(3,850)</b>	<b>638</b>	<b>4,000</b>	<b>17,088</b>	<b>17,776</b>
Dividends distributed	-	-	-	(4,030)	-	(4,030)
Issuance of share capital	13,444	-	-	-	13,445	26,889
Change in equity	13,344	(3,850)	638	(30)	30,533	40,635
<b>Balance at the end of the year</b>	<b>67,221</b>	<b>(3,447)</b>	<b>1,254</b>	<b>4,000</b>	<b>152,041</b>	<b>221,069</b>
<b>2005</b>						
<b>Balance at the beginning of the year</b>	<b>67,221</b>	<b>(3,447)</b>	<b>1,254</b>	<b>4,000</b>	<b>152,041</b>	<b>221,069</b>
Exchange rate adjustments other	-	5,185	-	-	-	4,703
Deferred (gain)/loss on cash flow hedges at the beginning of the year	-	-	(1,254)	-	-	(1,254)
Deferred (gain)/loss on cash flow hedges at the end of the year	-	-	839	-	-	839
Cost of shared-based payment	-	-	-	-	35	35
Tax on changes in equity	-	-	-	-	(1,236)	(1,236)
Net income recognised directly in equity	-	5,185	(415)	-	(1,201)	3,569
Net profit of the year	-	-	-	17,000	(10,696)	6,304
<b>Total recognised income and expense</b>	<b>-</b>	<b>5,185</b>	<b>(415)</b>	<b>17,000</b>	<b>(11,897)</b>	<b>9,873</b>
Dividends distributed	-	-	-	(4,000)	-	(4,000)
Share option exercised	-	-	-	-	(1,716)	(1,716)
Change in equity	-	5,185	(415)	13,000	(13,613)	4,157
<b>Balance at the end of the year</b>	<b>67,221</b>	<b>1,738</b>	<b>839</b>	<b>17,000</b>	<b>138,428</b>	<b>225,226</b>

The capital stock consists of 5,000,000 class A shares at DKK 100.  
NKT Holding A/S owns 100% of the shares.

# Notes Parent company

Amounts in EUR '000

Note	2005	2004
<b>20 Depreciation</b>		
Cost of goods sold, etc.	2,496	3,185
Selling and distribution expenses	54	259
Product development expenses	116	63
Administrative expenses	802	515
<b>Total depreciation for the year</b>	<b>3,468</b>	<b>4,022</b>
<b>21 Employee expenses</b>		
Wages and salaries	34,362	18,790
Defined contribution plan	1,515	725
Social security expenses	4,257	2,801
Shared based payment	35	35
<b>Total employee expenses</b>	<b>40,169</b>	<b>22,351</b>
Employee expenses are recognized as:		
Production costs	12,340	6,828
Sale and distribution costs	15,541	8,165
Administration costs	12,287	7,358
<b>Total employee expenses</b>	<b>40,169</b>	<b>22,351</b>
Average number of full time employees	813	519
<b>22 Fees to the auditors appointed by the Annual Shareholders' Meeting</b>		
Auditing services	273	105
Other services	70	973
<b>Total</b>	<b>343</b>	<b>1,078</b>
<b>23 Financial items</b>		
Interest on bank deposits, etc.	643	-
Interest receivable from subsidiaries	3,153	3,653
Other financial income	1,630	663
<b>Total financial income</b>	<b>5,426</b>	<b>4,316</b>
Interest on loan from parent company	1,966	1,481
Interest on loan from subsidiaries	845	9
Interest on bank debt	2,970	1,668
Other interest and net exchange losses	1,474	1,546
<b>Total financial expenses</b>	<b>7,255</b>	<b>4,704</b>

## Note

### 24 Intangible assets

	<i>Goodwill</i>	<i>Development projects</i>	<i>Trademarks</i>	<i>Development projects in progress</i>
<b>Cost:</b>				
Cost at January 1, 2004	16,090	703	2,321	1,042
Exchange adjustment of opening value	(4)	5	16	7
Additions during the year	-	-	-	1,736
Disposals during the year	-	-	-	-
Transfer to/from other items	-	1,442	-	(1,442)
<b>Cost at December 31, 2004</b>	<b>16,086</b>	<b>2,150</b>	<b>2,337</b>	<b>1,343</b>
<b>Amortization:</b>				
Accumulated amortization at January 1, 2004	-	43	657	-
Exchange adjustment of opening value	-	1	6	-
Disposals during the year	-	-	-	-
Amortization for the year	-	217	467	-
Transfer to/from other items	-	-	-	-
<b>Accumulated amortization at December 31, 2004</b>	<b>-</b>	<b>261</b>	<b>1,130</b>	<b>-</b>
<b>Book value at December 31, 2004</b>	<b>16,086</b>	<b>1,889</b>	<b>1,207</b>	<b>1,343</b>
<b>Cost at January 1, 2005</b>				
Cost at January 1, 2005	16,086	2,150	2,337	1,343
Exchange adjustment of opening value	(393)	(295)	(93)	(54)
Additions during the year	-	4,330	-	2,427
Disposals during the year	-	(2,121)	-	-
Transfer to/from other items	-	1,716	-	(1,716)
<b>Cost at December 31, 2005</b>	<b>15,693</b>	<b>5,780</b>	<b>2,244</b>	<b>2,000</b>
<b>Amortization:</b>				
Accumulated amortization at January 1, 2005	-	261	1,130	-
Exchange adjustment of opening value	-	371	23	-
Disposals during the year	-	(381)	-	-
Amortization for the year	-	1,350	649	-
<b>Accumulated amortization at December 31, 2005</b>	<b>-</b>	<b>1,601</b>	<b>1,802</b>	<b>-</b>
<b>Book value at December 31, 2005</b>	<b>15,693</b>	<b>4,179</b>	<b>442</b>	<b>2,000</b>

Impairment of goodwill are disclosed in note 7 on page 33.

# Notes Parent company

Amounts in EUR '000

## Note

### 25 Property plants and equipment

	<i>Land and buildings</i>	<i>Technical plant and machinery</i>	<i>Other plant equipment furniture</i>	<i>Plant assets in process</i>
<b>Cost:</b>				
Cost at January 1, 2004	3,131	19,754	11,929	967
Exchange adjustment of opening value	(57)	(1,427)	58	6
Additions from acquisitions of companies	-	-	-	-
Additions from purchase group companies	-	-	-	-
Additions during the year	-	469	3,626	2,707
Disposals during the year	-	-	(1,301)	(104)
Transfer to/from other items	-	313	510	(823)
<b>Cost at December 31, 2004</b>	<b>3,074</b>	<b>19,109</b>	<b>14,822</b>	<b>2,753</b>
<b>Depreciation</b>				
Accumulated depreciation at January 1, 2004	1,423	17,101	7,947	-
Exchange adjustment of opening value	(62)	(1,437)	45	-
Disposals during the year	-	-	(1,273)	-
Depreciation for the year	163	1,411	2,448	-
Transfer to/from other items	-	-	-	-
<b>Accumulated depreciation at December 31, 2004</b>	<b>1,524</b>	<b>17,075</b>	<b>9,167</b>	<b>-</b>
<b>Book value at December 31, 2004</b>	<b>1,550</b>	<b>2,034</b>	<b>5,655</b>	<b>2,753</b>
<b>Cost at January 1, 2005</b>	<b>3,074</b>	<b>19,109</b>	<b>14,822</b>	<b>2,753</b>
Exchange adjustment of opening value	(31)	(198)	(130)	(106)
Additions from acquisitions of companies	-	-	-	-
Additions from purchase group companies	-	-	-	-
Additions during the year	-	993	3,720	259
Disposals during the year	(2,133)	(137)	(4,077)	(2,076)
Transfer to/from other items	-	14	(629)	(643)
<b>Cost at December 31, 2005</b>	<b>910</b>	<b>19,780</b>	<b>14,964</b>	<b>187</b>
<b>Depreciation</b>				
Accumulated depreciation at January 1, 2005	1,524	17,075	9,167	-
Exchange adjustment of opening value	(10)	(145)	423	-
Disposals during the year	(1,225)	(7)	(1,707)	-
Depreciation for the year	149	955	2,342	-
Transfer to/from other items	-	-	-	-
<b>Accumulated depreciation at December 31, 2005</b>	<b>438</b>	<b>17,877</b>	<b>10,225</b>	<b>-</b>
<b>Book value at December 31, 2005</b>	<b>472</b>	<b>1,902</b>	<b>4,739</b>	<b>187</b>

## Note

### 26 Tax payable

	<i>Payable income tax</i>	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Income tax charged to income</i>
Balance at January 1, 2005	-	-	-	-
Exchange adjustment of opening value	-	-	-	-
Equity movement	-	(1,236)	-	-
Income tax paid during the year	-	-	-	-
Tax on the net income for the year	-	2,166	-	2,166
Prepaid income tax transferred to other receivables	-	-	-	-
Balance at December 31, 2005	-	930	-	-

	2005	2004
<b>Deferred tax</b>		
Deferred tax 1. January	-	-
Exchange adjustments of opening value	-	-
Deferred tax in the year	2,166	-
Deferred tax on equity in the year	(1,236)	-
Additions from acquisitions of companies	-	-
Deferred tax 31. December	930	-
<b>Deferred tax is recognised as following</b>		
Deferred tax asset	930	-
Provision for deferred tax	-	-
Deferred tax net	930	-
<b>Deferred tax divided on balancesheet items</b>		
Intangibles	2,929	3,813
Property, plant and equipment	(17)	(233)
Investments	2,832	5,217
Current assets	(90)	2,595
Provisions	530	-
Long-term debt	-	-
Short-term debt	-	-
Tax loss carryforward	566	647
Value adjustments	(5,820)	(12,039)
Deferred tax assets and liabilities	930	-

# Notes Parent company

Amounts in EUR '000

## Note

### 26 Tax payable (continued)

Movement in temporary items in the year	1. January	Exchange adjustments of opening value	Recognised in the profit and loss statement	Recognised on equity	31. December
<b>2005</b>					
Intangibles	3,813	85	(968)	-	2,929
Property, plant and equipment	(233)	(5)	221	-	(17)
Investments	5,217	117	(2,502)	-	2,832
Current assets	2,595	58	(1,508)	(1,236)	(90)
Provisions	-	-	530	-	530
Long-term debt	-	-	-	-	-
Short-term debt	-	-	-	-	-
Tax loss carryforward	647	14	(95)	-	566
Value adjustments	(12,039)	(269)	6,488	-	(5,820)
Deferred tax assets and liabilities	-	-	2,166	(1,236)	930
<b>Movements in temporary differences 2004</b>					
Intangibles	1,217	(8)	2,603	-	3,813
Property, plant and equipment	(270)	2	35	-	(233)
Investments	4,060	(26)	1,184	-	5,217
Current assets	1,698	(11)	909	-	2,595
Provisions	-	-	-	-	-
Long-term debt	-	-	-	-	-
Short-term debt	21	-	(21)	-	-
Tax loss carryforward	646	(4)	5	-	647
Value adjustments	(7,372)	47	(4,715)	-	(12,039)
Deferred tax assets and liabilities	-	-	-	-	-

### 27 Investments in subsidiaries

	Subsidiaries	Associated companies
<b>Cost:</b>		
Cost at January 1, 2004	124,155	990
Exchange adjustment of opening value	-	-
Additions during the year	145,361	-
Disposals during the year	2,697	(101)
Cost at December 31, 2004	266,819	889
<b>Book value at December 31, 2004</b>	266,819	889
<b>Cost:</b>		
Cost at January 1, 2005	266,819	889
Exchange adjustment of opening value	-	-
Additions during the year	10,895	-
Cost at December 31, 2005	277,714	889
<b>Book value at December 31, 2005</b>	277,714	889

Note	2005	2004
<b>28 Inventories</b>		
Raw materials and consumables	10,252	18,486
Goods in process	611	477
Finished products and merchandise	41,116	5,512
<b>Total inventories</b>	<b>51,979</b>	<b>24,475</b>
The carrying amount of inventory carried at fair value less cost to sell	3,399	3,302
Amounts of writedowns of inventory recognized as expence during the year was EUR 14 thousand (EUR 353 thousand, in 2004)		
<b>29 Trade receivables</b>		
Trade receivables (gross)	12,448	10,450
Allowances for doubtful trade receivables:		
Balance in the beginning of the year	(672)	(836)
Change in allowances during the year	109	164
Balance in the end of the year	(563)	(672)
<b>Total trade receivables</b>	<b>11,885</b>	<b>9,778</b>
Realised losses during the year	(220)	(187)
<b>30 Current portion of non current liabilities</b>		
Bank borrowing	4,222	4,235
Mortgage debt	-	151
Other non current liabilities	426	46
<b>Long-term debt falling due within one year total</b>	<b>4,648</b>	<b>4,832</b>

### 31 Provisions

	Restructuring	Maintenance warranties	Provisions	Total
At the beginning of the year	-	1,449	603	2,052
Additional provisions	4,700	3,847	2,326	10,873
Used during the year	(2,807)	(2,460)	(2,776)	(8,044)
Exchange rate adjustments	-	-	-	-
<b>At the year end</b>	<b>1,893</b>	<b>2,836</b>	<b>153</b>	<b>4,881</b>
Non current	-	-	-	-
Current	1,893	2,836	153	4,881
	<b>1,893</b>	<b>2,836</b>	<b>153</b>	<b>4,881</b>

#### Provision for restructuring

In 2005 has there been set up a provision of 4,700 K EUR to cover the movement of the production of vaccum cleaners in Aamaal in Sweden to Hungary.

#### Provision for Maintenance warranties

A provision is recognised for expected warranty clams on products sold during the last three years, based on past experience of the level of repairs and returns. It is expected that most of these costs will be incurred in the next financial year and all will have incurred within the next three years of the balance sheet date. Assumptions used to calculate the provision for warranties ware based on current sales level and current information available about returns on the three-year warranty period for all products sold.

#### Other provisions

Other provisions consist of various different types of provisions, witch represents managements best estimate.

# Notes Parent company

Amounts in EUR '000

## Note

### 32 Effect on financial statement from transition to IFRS

As stated, these are the group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Danish GAAP.

An explanation of how the transition from Danish GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Ref.	1 January 2004			2004	31 December 2004		
	Assets	Liabilities	Equity	Profit and loss	Assets	Liabilities	Equity
<b>In accordance to previous GAAP</b>							
	250,337	141,192	109,145	15,321	454,457	316,087	138,370
<b>GROUP</b>							
Goodwill	1	-	-	8,802	8,802	-	8,802
Restructuring	2	-	-	(24,386)	(24,386)	-	(24,386)
Tax	3	-	-	4,032	4,032	-	4,032
Defined benefit plans	4	-	6,343	(6,343)	-	6,751	(6,751)
Shared based payment	5	-	-	(35)	35	-	35
Minority interest	6	-	(485)	485	(61)	(203)	203
<b>Total adjustments</b>		-	5,858	(5,858)	(11,648)	6,548	(18,064)
<b>In accordance to IFRS</b>							
	250,337	147,050	103,287	3,673	442,943	322,634	120,309
<b>PARENT COMPANY</b>							
<b>In accordance to previous GAAP</b>							
	185,868	76,723	109,145	15,321	431,423	293,053	138,370
Goodwill	1	-	-	1,288	1,288	-	1,288
Shared based payment	5	-	-	(35)	-	-	-
Equity interest in subsidiaries	7	71,289	-	71,289	77,425	-	77,425
Equity interest in associated	7	-	-	-	(1,208)	-	(1,208)
Share of income from subsidiaries	7	-	-	(4,413)	-	-	-
Share of income from associated		-	-	(801)	-	-	-
Dividends from subsidiaries	8	-	-	4,423	-	-	-
Tax in subsidiaries	4	-	-	5,408	5,408	-	5,408
Other		-	-	-	-	214	214
<b>Total adjustments</b>		71,289	-	71,289	5,867	-	82,913
<b>In accordance to IFRS</b>							
	257,157	76,723	180,434	21,188	514,336	293,267	221,069

## 1 Goodwill

The Group has applied IFRS 3 to all business combinations that have occurred since 1 January 2005. In addition, the Group has elected to apply IFRS retrospectively to all business combinations that have occurred between 1 January 2004 and the date of transition to IFRS. Accordingly, the group has revised the measurements of certain assets to fair value at the date of business combination in which they were acquired. Additionally, from 1 January 2004, goodwill is no longer amortized under IFRS, but is tested annually for impairment.

As a result of the above adjustments, the carrying amount of goodwill is increased by 8.802 thousand EUR in the Group balance sheet and by 1.288 in Parent companies balance sheet, as goodwill amortization charge was written back at 31. December 2004.

## 2 Restructuring

The effect of adopting IFRS 3 upon the groups accounting policies has impacted the recognition of restructuring provision arising upon acquisitions. IFRS 3 only permits recognition of existing liabilities contained in the acquiree's financial statements on acquisitions. Previously, restructuring provisions could be recognized by the acquirer regardless of previous recognition in the acquiree's financial statement, thus effecting goodwill in the acquirer's financial statement.

Under previous GAAP provision for restructuring was recognized. As a result of the above adjustments, the carrying amount of goodwill is decreased by 24.387 thousand EUR and is expensed in the group profit and loss statement under restructuring cost.

## 3 Tax

As a consequence of the recognition of restructuring cost, income taxes in subsidiaries are affected thus effecting the Group profit and loss statement. Tax effects are recognized in accordance in local taxation in subsidiaries acquired in the financial year 2004.

Recognized effect on income tax in the Group profit and loss statement is an amount of 4.032 thousand EUR, thus affecting an increase in goodwill.

## 4 Defined benefit plans

Under previous GAAP certain pension obligations were recognized on a cash basis. In accordance with IFRS 1, the cumulative actuarial gains and losses existing at 1 January 2004 have been recognized for all defined benefit plans.

The effect is to increase liabilities for Pensions by 6.343 thousand EUR at 1 January 2004; to decrease retained earnings, thus equity by the same amounts at 1 January 2004 and 31 December 2004 respectively.

## 5 Shared based payment

The Group applied IFRS 2 to its shared based payment arrangements at 1 January 2004. The group accounted for these shared based payment arrangement at intrinsic value under previous GAAP. This has been adjusted to fair value to be consistent with group policies.

The effect of accounting for equity-settled share-based payment transactions at fair value is to increase administration cost by 35 thousand EUR for the year ended 31 December 2004. The adoption of IFRS 2 is equity-neutral for equity-settled transactions. The expense recognized for the consumption of employee service received as consideration for share options granted will be deductible for tax purpose when the share options are exercised.

## 6 Minority interests

The minority interests share of profit and equity is recognized as integrated part of the total group profit and equity. Under previously GAAP the minority interests shares of profit and equity has been deducted prior to the parent companies share of the group result, while minority interests share of equity has been recognized as a separate line outside the equity.

## 7 Equity interests

In the Group profit and loss statement share of tax from associated companies are not recognized as "tax on year income", but are recognized under "Share of income from associated companies (net of tax)". In the Parent's financial statement equity interest in associated companies are recognized at cost price. Under previous GAAP equity interest was recognized under the past-equity method. In the profit and loss statement for the Parent company "share of income from subsidiaries" has been reverted.

The effect is an increase in equity interest by 71.289 thousand EUR and 77.425 thousand EUR at 1 January 2004 and 31 December 2004 respectively. Additionally effect on equity interest is an increase due to reversion on negative equity set off against advances in subsidiaries by 1.927 thousand EUR. The effect on the profit and loss statement due reversion of income from subsidiaries are 4.413 EUR. Equity interest in associated has been recognised to cost. The consequence of this is a reduction of 1.208 million EUR.

## 8 Dividend from subsidiaries

Dividends from subsidiaries are recognized in the Parent profit and loss statement under financial items. The effect on the profit and loss statement is an increase by an amount of 4.423 thousand EUR.

## Note

### 33 Related party transactions

Nilfisk-Advance A/S is 100% owned and controlled by NKT Holding A/S. NKT Holding A/S has granted Nilfisk-Advance A/S a subordinated loan of 60.3 Million EUR. The loan has in 2005 been converted to a current loan. The loan is handled after arms length principle.

Other related parties include all group enterprises and associates. A list of these companies is included on page 61.

The members of the Board of Directors and the Management of Nilfisk-Advance A/S are also considered as related parties.

Former president and CEO Johan Molin have commenced the Board of Directors as per 1. December 2005. The Group has employed no other members of the Board of Directors during the 2005 financial year, with the exception of the members of the Board of Directors elected by the employees of the company.

None of the members of the Board of Directors have been paid separate consulting fees or the like, as no member of the Board of Directors has provided the Group with any additional services.

There were no other transactions in the financial year with members of the Board of Directors and Management of Nilfisk-Advance A/S.

Material inter group transactions during the financial year 2005 have been sale and purchases of produced good between production- and sales companies. Trade accounts and receivables due to group transactions are interest bearing in accordance with arms length principle.

Some Group enterprises pay a yearly management fee to Nilfisk-Advance A/S for providing IT- and other services. The volume of the group enterprise determines the amount of management fee.

	2005	2004
<b>Transaktion wich associated companies</b>		
Sale of goods	2,783	2,607
Purchase of goods	8	-
Other services	12	11
Receivables	931	991
Payables	10	-
<b>Remuneration – Group</b>		
Remuneration of the board	60	64
Remuneration of the management	1,418	1,387
Payment from option plan	1,716	-
<b>Remuneration – Parent</b>		
Remuneration of the board	60	64
Remuneration of the management	1,107	1,089
Payment from option plan	1,716	-

### 34 Events after the balance sheet date

No significant non-adjusted events have arisen after the date of approval of the annual report.

As at 1 January 2006, Nilfisk Advance A/S acquired Altscher GmbH, the leading distributor of cleaning machines in the Rhein/Main area near Frankfurt. Altscher supplies machines and services to cleaning companies and municipalities. Altscher has annual revenues of approximately EUR 4 million.

### 35 Significant accounting judgements and estimates

#### Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Goodwill


Goodwill acquired in a business combination in initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events changes in circumstances indicate that the carrying amount value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the Group's Cash generating unit, that are expected to benefit from synergies of the combination, irrespective of whether assets or liabilities of the Group are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment is determined by assessing the recoverable amounts of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms a part of the cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determine the gains and loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generated unit retained.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in the use of the cash-generated unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an esti-



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mate of the expected future cash flow from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of this cash flow. The carrying amount of goodwill at 31 December 2005 was 104,002. thousand EUR. More details are given in note 8.

#### Pensions

The Group operates defined benefit plans and has also agreed to provide certain additional post-employment benefits. These benefits are unfunded. The costs of providing benefits under the defined benefit plans are determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of the assets at that date. These gains and losses are recognised over the expected average remaining working lives of the employees participating in the plans.

The past service cost are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost are recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognised reduced by past service cost not yet recognised and the fair value of the plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the assets are measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognised immediately to the extent that they exceed any reduction in the present value of those economic benefit. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognised immediately.

Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognised immediately in the asset measured at the aggregate of cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefit available in the form of refunds from the plan or reduction in the future contributions to the plan. If there is no change or a

decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognised immediately.

### 36 New International Financial Reporting Standards and IFRIC Interpretations

The IASB has adopted the following new International Financial Reporting Standards that are not compulsory for the Nilfisk-Advance Group in the preparation of the annual report for 2005. Unless otherwise stated, the standards have also been adopted by the EU:

#### IAS 21

The Effects of Changes in Foreign Exchange Rates (amendments) should be applied for financial years beginning on or after 1 January 2006. The Nilfisk-Advance group has not granted any loans to/received loans from foreign entities that are covered by the amendments to IAS 21. The amendments to IAS 21 have not yet been adopted by the EU.

#### IAS 39

Financial Instruments (amendments) should be applied for financial years beginning on or after 1 January 2006. The Nilfisk-Advance Group does not expect to use the option for voluntary measurement of financial assets and liabilities at fair value. Accordingly, the new standard will not affect the recognition and measurement of financial instruments.

#### IFRS 4

Insurance Contracts (amendments). The Nilfisk-Advance Group has no financial guarantee contracts.

#### IFRS 6

Exploration for and Evaluation of Mineral Resources and the related amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards should be applied for financial years beginning on or after 1 January 2006. The Nilfisk-Advance Group does not carry out activities subject to IFRS 6.

In addition, the IASB has adopted the following new IFRIC interpretations that are not expected to affect recognition and measurement for the Nilfisk-Advance Group.

IFRIC Interpretation 4 Determining whether an Arrangement contains a Lease, IFRIC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC Interpretation 6 Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment, IFRIC Interpretation 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies and IFRIC Interpretation 8 Scope of IFRS 2, Share-based payment.

IFRIC Interpretations 7 and 8 have not yet been adopted by the EU.

# Board of Directors and Management

## Group Management



Christian Cornelius-Knudsen  
Executive Vice President  
Appointed 1997

Jørgen Jensen  
President and CEO  
Appointed 2005

Claus Michelsen  
Executive Vice President and CFO  
Appointed 2000

Anders Terkildsen  
Executive Vice President  
Appointed 2005

### Board of directors

Thomas Hofman-Bang  
President and CEO, NKT Holding A/S  
Member of the Board 2000  
Chairman 2005

Chairman of the Board of: NKT Flexibles I/S

Member of the Board of: Crystal Fibre A/S

Christian Kjær, Vice-Chairman  
Attorney  
Vice-Chairman of the Board 1995

Chairman of the Boards of: NKT Holding A/S  
A/S Segalit af 1/4 1987  
Sankt Gjertruds Stræde 10 A/S

Member of the Boards of: Nye Kommercielle Aktiviteter Holding A/S  
Ejendomsselskabet D.F.K. A/S  
Potagua FLS A/S

Johan Molin  
President and CEO, ASSA ABLOY AB  
Member of the Board 2005

### Employee members of the board of directors

Arne Dan Kjærulff  
Tool maker  
Member of the Board 2000

Ole Leicht Madsen  
Machine Tool Operator  
Member of the Board 2002

Christian Ussing-Nielsen  
Head of Industrial vacuum cleaner production  
Member of the Board 2002

### Auditors

KPMG C. Jespersen

J. Skovbæk Johansen  
State authorized public accountant

Søren P. Krejler  
State authorized public accountant

### Shareholders' meeting

Annual Shareholders' Meeting  
April 5, 2006

# Nilfisk-Advance Group Structure

## NKT Holding A/S 100%

Nilfisk-Advance A/S 100%	Country	Ownership
Nilfisk-Advance Nordic A/S	Denmark	100%
ALTO International A/S	Denmark	100%
* ALTO Danmark A/S	Denmark	100%
* ALTO Sverige AB	Sweden	100%
* ALTO(Ningbo)Mechanical Manufacturing Co. Ltd.	China	100%
* Nilfisk-Advance Bellenberg GmbH	Germany	100%
* ALTO Ceská Republika s.r.o.	Czech Republic	100%
Nilfisk-Advance AS	Norway	100%
Tennab AB	Sweden	100%
Nilfisk-Advance Oy Ab	Finland	100%
Nilfisk-Advance AG	Germany	100%
Nilfisk-Advance Limited	United Kingdom	100%
Nilfisk-Advance Limited	Ireland	100%
Nilfisk-Advance B.V.	The Netherlands	100%
Nilfisk-Advance S.A.	Belgium	100%
* Nilfisk-Advance S.A.S	France	100%
Nilfisk-Advance Lda	Portugal	100%
Nilfisk-Advance S.A.	Spain	100%
CFM S.p.A.	Italy	100%
* CFM Reitek GmbH	Germany	100%
* CFM France S.A.	France	100%
Nilfisk-Advance AG	Switzerland	100%
Nilfisk-Advance GmbH	Austria	100%
Nilfisk-Advance Production Kft.	Hungary	100%
Nilfisk-Advance Commercial Kft.	Hungary	100%
Nilfisk-Advance Pte. Ltd	Singapore	100%
Nilfisk-Advance Inc.	Japan	100%
Nilfisk-Advance Ltd.	Hong Kong	100%
* Nilfisk-Advance Ltd.	China	100%
* Nilfisk-Advance Ltd.	Taiwan	100%
Nilfisk-Advance Sdn. Bhd.	Malaysia	100%
Nilfisk-Advance Co. Ltd.	Thailand	100%
Nilfisk-Advance Limited	New Zealand	100%
Nilfisk-Advance Pty. Ltd.	Australia	95%
Nilfisk-Advance Inc.	USA	100%
* Nilfisk-Advance America Inc.	USA	100%
* Nilfisk-Advance Canada Company	Canada	100%
* ALTO Cleaning Systems Inc.	USA	100%
* ALTO U.S. Inc.	USA	100%
* ALTO Canada Company	Canada	100%
Nilfisk Advance S.de R.L. de C.V.	Mexico	100%
Nilfisk-Advance A.E.	Greece	67%
Nilfisk-Advance Sp.z.o.o.	Poland	100%
Nilfisk-Advance LLC	Russia	100%
Nilfisk-Advance s.r.o.	Czech Republic	68%
Nilfisk-Advance Professional A.S.	Turkey	100%
Nilfisk-Advance Professional Cleaning Equipment (Suzhou) Co. Ltd.	China	100%

\* Sub group subsidiary

In addition to the above Nilfisk-Advance A/S owns 7 dormant companies.

Affiliated companies:  
M2H S.A. - France (34%)  
CFM Lombardia S.r. l.  
- Italy (33.3 %)

# Companies and Branches

## EUROPE

### Austria

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CVR no. 62 57 22 13  
Member of the NKT Group

