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Kvadrat Holding A/S

Lundbergsvej 10
8400 Ebeltoft
Central Business Registration
No 15120002

Annual report 2018

The Annual General Meeting adopted the annual report on 05.04.2019

Chairman of the General Meeting

Name: Bendt Fredberg Jensen

Contents

Entity details

Entity
Kvadrat Holding A/S
Lundbergsvej 10
8400 Ebeltoft

Central Business Registration No (CVR): 15120002
Registered in: Syddjurs
Financial year: 01.01.2018 - 31.12.2018

Board of Directors
Bendt Fredberg Jensen, chairman
Anders Byriel
Erling Vestergaard Rasmussen
Jesper Rønn Rasmussen
Mette Rønn Bendix
Morten Rønn Rasmussen
Poul Erik Byriel
Rasmus Byriel
Søren Byriel

Executive Board
Erling Vestergaard Rasmussen

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Kvadrat Holding A/S for the financial year 01.01.2018 - 31.12.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Ebeltoft, 05.04.2019

Executive Board

Erling Vestergaard Rasmussen

Board of Directors

Bendt Fredberg Jensen chairman	Anders Byriel	Erling Vestergaard Rasmussen
Jesper Rønn Rasmussen	Mette Rønn Bendix	Morten Rønn Rasmussen
Poul Erik Byriel	Rasmus Byriel	Søren Byriel

Independent auditor's report

To the shareholders of Kvadrat Holding A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Kvadrat Holding A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2018, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the consolidated financial statements and the parent financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements

Independent auditor's report

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Aarhus, 05.04.2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Michael Bach	Jens Lauridsen
State Authorised Public Accountant	State Authorised Public Accountant
Identification No (MNE) mne19691	Identification No (MNE) mne34323

Management commentary

	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000	2014 DKK'000
Financial highlights					
Key figures					
Revenue	1.407.752	1.177.914	1.029.597	938.069	782.303
Gross profit/loss	494.189	397.670	352.311	320.501	260.399
Operating profit/loss	117.469	108.459	108.597	100.850	62.390
Net financials	3.209	(8.573)	(4.334)	5.691	1.431
Profit/loss for the year	86.207	77.753	80.764	81.274	46.769
Profit/loss excl minority interests	80.573	76.751	78.038	79.314	44.654
Total assets	1.038.731	846.927	692.190	549.771	497.943
Investments in property, plant and equipment	31.424	49.149	103.392	23.361	18.550
Equity	403.188	333.004	280.974	262.452	198.977
Equity excl minority interests	392.443	326.847	274.643	257.661	195.630
Average numbers of employees	693	562	484	453	413
Ratios					
Gross margin (%)	35,1	33,8	34,2	34,2	33,3
Return on equity (%)	22,4	25,5	29,3	35,0	26,5
Equity ratio (%)	37,8	38,6	39,7	46,9	39,3

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Gross margin (%)	$\frac{\text{Gross profit/loss x 100}}{\text{Revenue}}$	The entity's operating gearing.
Return on equity (%)	$\frac{\text{Profit/loss excl minority interests x 100}}{\text{Average equity excl minority interests}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity excl minority interests x 100}}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities
Kvadrat has been leading the field in textile innovation since 1968 when our company was founded.

We develop, produce and sell contemporary high-quality textiles and textile-related products for architects, designers and private consumers to specify in public spaces and domestic interiors.

Development in activities and finances
Group revenue for 2018 amounted to DKK 1,408m compared to DKK 1,177m in 2017. Profit before tax amounted to DKK 120.7m compared to DKK 99.9m in 2017.

The Parent Company's revenue for 2018 amounted to DKK 6.7m compared to DKK 5.9m in 2017. Profit before tax amounted to DKK 77.6m compared to DKK 74.5m in 2017.

The annual report of Kvadrat Holding A/S for 2018 has been affected by the acquisition of the SAHCO brand from SAHCO GmbH in May 2018, the FEBRIK brand from FEBRIK BV in June 2018 as well as the increase in ownership in Dutch textile manufacturer Gaudium BV from 10 % to 87 % in May 2018.

The development in Group and Parent Company revenue and profits must be compared to the overall positive expectations in the annual report of Kvadrat Holding A/S for 2017. The Executive Board and the Board of Directors consider the results for 2018 to be satisfactory.

Uncertainty relating to recognition and measurement
Recognition and measurement in the consolidated financial statements and parent company financial statement are not subject to any material uncertainties.

Unusual circumstances affecting recognition and measurement
No particular circumstances exert material influence on the consolidated financial statements and parent financial statements.

Outlook
We expect a continued positive development in the coming financial year with a growth in revenue between 10-15 % as well as an overall improvement of EBITDA.

We expect to continue investing in our current business and subsidiaries in 2019 and strive to integrate and streamline the acquisitions we made in 2018 thus beginning to reap the associated economies of scale.

As in previous years, any uncertainty is primarily related to developments in exchange rates and commodity prices as well as the rather uncertain effects related to the United Kingdom's exit from the European Union.

Particular risks
Neither the Group nor the Parent Company is exposed to particular risks apart from those generally occurring in our line of business.

Intellectual capital resources
At Kvadrat, we have established systematic data collection procedures to provide us with knowledge and a

Management commentary

valid data base to make our decisions from. So the basis for Management of Kvadrat A/S to make its decisions on is supported by our data-driven and KPI-driven approach to business operations. This approach ensures that we will have perspective and documentation to enable us to make the best decisions possible based on data that illustrates for example where profitability is generated at all levels of the Group. As a supplement to its primary corporate reporting, Kvadrat generates knowledge through an ABC model that creates an overview of the earnings capacity by segment, brand, customer and product.

We do not consider only the financial information valuable to our business but also consider it highly essential to support this information with our knowledge and overview of internal resources and competencies. This is to meet the objectives of our strategy as well as to fulfil our stakeholders' expectations for the Group. Our knowledge of internal resources and competencies concerns subjects such as: Innovation, learning, processes, finances and staff as well as external matters concerning the Group's stakeholders – primarily customers and suppliers. Our financial information combined with our knowledge of internal resources and competencies serve as a basis for Kvadrat's vision and strategy. The first year of our 2018-2020 strategy is over, under which we work with a balanced portfolio of strategic growth initiatives that are rooted primarily in top-line growth in our three main segments yet also involve projects for acquisitions, culture, digital readiness and business models adapted to both private and professional end users. The ambition is to have these different projects create value for Kvadrat and to have the targeted initiatives contribute to growth that is beyond what the ordinary operations on their own can contribute in knowledge, value and growth for the Group. Already early in the strategy period, we acquired growth that we had estimated to be necessary to realise our revenue target of EUR 240m in 2020. This was done by acquiring SAHCO (2018), FEBRIK (2018) and VEROSOL (in early 2019).

To future-proof the Group in terms of expected growth and staff expansion, we are working proactively and continuously on developing all of the human resources in the organisation so as to be geared for the future demands by stakeholders and to produce the results that are our ambition and goals in our strategy. At management level, we have launched what we call "Next level leadership" which is the headline of the transition that Kvadrat is about to embark on. For many years now, we have continuously been able to establish the management platform that has enabled us to grow. However, it has become clear that, through our increasing and more global business, there are things we need to learn as well as unlearn to deal with the "new" Kvadrat. Also, we are working with leadership funnel in a formalised process for new managers and a programme for High Potentials that we believe could be future senior management. Finally, we are proceeding to build the necessary competencies through our Kvadrat Academy, which serves as a training forum for all of Kvadrat's employees. This training conveys tasks and challenges across the organisation and helps people better understand various processes, synergy effects through collaboration and improved communication across departments. In addition to Kvadrat Academy, training plans are developed for all employees.

In 2018, we carried out a customer survey to have specific feedback from our customers, and every year we carry out an employee survey involving all staff – both surveys are in the form of an electronic web-based questionnaire. Customers are asked about loyalty-generating areas and their satisfaction in general. We had close on 8,000 responses to our 2018 survey, which provides strong input on markets, segments and internal departments as to how we can strengthen our customer relationships and give us a stronger position compared to our competitors. The model displays our CX Index (mix between satisfaction and loyalty), and on a scale from 1-100, we recorded a score of 89, the highest result so far for Kvadrat. Another metric for customer loyalty is the NPS score, which in 2018 was 70 (75% promoters, 19% neutral and 6% detractors).

Management commentary

The most influential contributors to loyalty in our industry across segments are product and process.

It is Kvadrat's goal to have increasing customer satisfaction and loyalty and to continuously enhance activities that customers find significant. Among them, activities that may add value to Kvadrat, such as our focus on sustainable innovation to ensure our reason for being and contribute to a strong brand that can meet the global challenges of tomorrow. We aspire to have a responsible approach to our business that creates value for our stakeholders and the Group.

In Kvadrat's employee surveys, the employees are also asked about their general satisfaction and specific matters related to their everyday life. The questions focus on organisation, closest manager, own department, the individual, financial performance, perception of customers as well as an assessment of processes. Finally, it is important for Kvadrat to know to which extent the employees know, possess and act out Kvadrat's values, Kvadrat's strategy and Kvadrat's learning ambitions. In 2018, we once again recorded a high score for our employees on a par with that for 2017. Our acquisitions will be included in the 2019 survey, which is why it will be even more challenging to maintain this consistently high score.

Environmental performance
Kvadrat is very environmentally conscious and continuously strives to reduce the environmental impact from our operations.

More detailed information regarding our environmental performance can be found in our sustainability report below.

Research and development activities
The development of our products takes place in close collaboration between external affiliated designers and our internal product development team.

The costs related to research activities are expensed in the income statement. The costs related to development activities are either expensed in the income statement or capitalised in the balance sheet depending on the viability and economic return of the specific development project and whether the criteria for recognition in the balance sheet have been fulfilled.

The costs of research and development activities in 2018 exceed the costs incurred in 2017 as well as the budgeted costs for 2018.

Statutory report on corporate social responsibility
Our attitudes and initiatives regarding environmental issues, social responsibility and gender composition in management are described in our sustainability report "Our commitment to sustainability" and can be found on our website at: https://kvadrat.dk/about/our-environment/sustainability-applied/united-universal

The report focuses on the four main areas of our work on sustainability - Environment, Employees, Culture and Compliance.

Management commentary

As Kvadrat has been a member of the UN Global Compact since 2013, our sustainability report is based on the UN Global Compact's 10 principles, which we evaluate and communicate annually in terms of status, risks, development, and objectives. In addition, Kvadrat supports the UN's 17 World Objectives which are also addressed in our sustainability report.

Statutory report on the underrepresented gender
Kvadrat is subject to the rules on target figures and policies for the gender composition of management.

The statutory report on the underrepresented gender is included in our sustainability report for 2018 which is available at the above-mentioned link.

Events after the balance sheet date
No events materially affecting the financial position of the Group nor the parent company have occurred after the balance sheet date.

Kvadrat acquired the Dutch manufacturer of roller blinds – VEROSOL Holding BV with 11 fully owned subsidiaries – in the beginning of 2019. VEROSOL is a specialist in the design and manufacture of functional indoor solar shading fabrics and blinds. VEROSOL is the inventor of metallised fabric and pleated blinds and continuously innovates to offer the highest performance in heat and daylight control to create a more sustainable building environment.

Consolidated income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue	1	1.407.752	1.177.914
Other operating income		0	12.673
Cost of sales		(637.524)	(555.394)
Other external expenses	2	(276.039)	(237.523)
Gross profit/loss		**494.189**	**397.670**
Staff costs	3	(326.215)	(261.474)
Depreciation, amortisation and impairment losses	4	(50.505)	(27.737)
Operating profit/loss		**117.469**	**108.459**
Income from investments in associates		11.234	7.313
Other financial income		10.271	5.819
Other financial expenses		(18.296)	(21.705)
Profit/loss before tax		**120.678**	**99.886**
Tax on profit/loss for the year	5	(34.471)	(22.133)
Profit/loss for the year	6	**86.207**	**77.753**

Consolidated balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Completed development projects		2.086	4.142
Acquired trademarks		16.192	7.201
Goodwill		70.093	75.263
Development projects in progress		19.780	2.794
Intangible assets	7	**108.151**	**89.400**
Land and buildings		146.331	147.506
Other fixtures and fittings, tools and equipment		71.230	66.673
Leasehold improvements		30.320	27.120
Property, plant and equipment in progress		1.050	1.050
Property, plant and equipment	8	**248.931**	**242.349**
Investments in associates		64.836	64.109
Receivables from associates		4.600	0
Other investments		0	2.084
Other receivables		5.423	6.795
Fixed asset investments	9	**74.859**	**72.988**
Fixed assets		**431.941**	**404.737**
Manufactured goods and goods for resale		241.602	172.939
Inventories		**241.602**	**172.939**
Trade receivables		200.834	117.069
Contract work in progress	12	3.943	11.346
Receivables from associates		11.940	10.974
Deferred tax	14	4.106	3.045
Other receivables		17.928	11.184
Prepayments	13	12.426	8.234
Receivables		**251.177**	**161.852**
Cash		**114.011**	**107.399**
Current assets		**606.790**	**442.190**
Assets		**1.038.731**	**846.927**

Consolidated balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital		100.000	100.000
Retained earnings		237.443	202.847
Proposed dividend		55.000	24.000
Equity attributable to the Parent's owners		**392.443**	**326.847**
Share of equity attributable to minority interests		**10.745**	**6.157**
Equity		**403.188**	**333.004**
Deferred tax	14	19.724	10.095
Provisions		**19.724**	**10.095**
Mortgage debt		40.569	43.935
Bank loans		145.800	128.750
Finance lease liabilities		16.498	18.134
Non-current liabilities other than provisions	15	**202.867**	**190.819**
Current portion of long-term liabilities other than provisions	15	39.093	33.006
Bank loans		126.003	64.254
Prepayments received from customers		3.369	0
Trade payables		74.962	51.654
Payables to associates		100	1.103
Income tax payable		16.066	7.564
Other payables	16	153.359	155.428
Current liabilities other than provisions		**412.952**	**313.009**
Liabilities other than provisions		**615.819**	**503.828**
Equity and liabilities		**1.038.731**	**846.927**
Associates	10		
Joint ventures	11		
Financial instruments	18		
Unrecognised rental and lease commitments	19		
Assets charged and collateral	20		
Transactions with related parties	21		
Subsidiaries	22		

Consolidated statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000
Equity beginning of year	100.000	0	202.847	24.000
Ordinary dividend paid	0	0	0	(24.000)
Exchange rate adjustments	0	(288)	0	0
Fair value adjustments of hedging instruments	0	0	12.960	0
Other entries on equity	0	0	29	0
Tax of entries on equity	0	0	(3.678)	0
Dividends from associates	0	(10.397)	10.397	0
Profit/loss for the year	0	10.685	14.888	55.000
Equity end of year	**100.000**	**0**	**237.443**	**55.000**

	Share of equity attributable to minority interests DKK'000	Total DKK'000
Equity beginning of year	6.157	333.004
Ordinary dividend paid	(1.018)	(25.018)
Exchange rate adjustments	0	(288)
Fair value adjustments of hedging instruments	0	12.960
Other entries on equity	(28)	1
Tax of entries on equity	0	(3.678)
Dividends from associates	0	0
Profit/loss for the year	5.634	86.207
Equity end of year	**10.745**	**403.188**

Consolidated cash flow statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Operating profit/loss		117.087	108.459
Amortisation, depreciation and impairment losses		50.505	27.737
Working capital changes	17	(123.351)	17.258
Cash flow from ordinary operating activities		**44.241**	**153.454**
Financial income received		10.271	5.819
Financial expenses paid		(18.296)	(21.705)
Income taxes refunded/(paid)		(15.139)	(22.160)
Other cash flows from operating activities		(6.034)	(12.673)
Cash flows from operating activities		**15.043**	**102.735**
Acquisition etc of intangible assets		(28.348)	(3.908)
Acquisition etc of property, plant and equipment		(31.423)	(49.283)
Sale of property, plant and equipment		(88)	49
Acquisition of fixed asset investments		(13.835)	(88.118)
Sale of fixed asset investments		0	15.000
Dividends received from associates		10.397	10.160
Plant recognised in the income statement in 2017 paid in 2016		0	4.989
Cash flows from investing activities		**(63.297)**	**(111.111)**
Loans raised		18.135	153.155
Dividend paid		(25.018)	(28.766)
Cash flows from financing activities		**(6.883)**	**124.389**
Increase/decrease in cash and cash equivalents		**(55.137)**	**116.013**
Cash and cash equivalents beginning of year		43.145	(72.871)
Currency translation adjustments of cash and cash equivalents		0	3
Cash and cash equivalents end of year		**(11.992)**	**43.145**
Cash and cash equivalents at year-end are composed of:			
Cash		114.011	107.399
Short-term debt to banks		(126.003)	(64.254)
Cash and cash equivalents end of year		**(11.992)**	**43.145**

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
1. Revenue		
Other EU countries	1.142.428	933.784
Other countries	265.324	244.130
	1.407.752	**1.177.914**

The Company's business is divided into business segments and geographical markets.

The Company's primary segment comprises development and sale of design textiles and textile-related products. Secondary business areas are irrelevant. Referring to S. 96 of the Danish Financial Statements Act, Management does not want to provide additional information on the geographical distribution of revenue since a detailed distribution of revenue by geographical market will be highly detrimental to the Company's competitive situation.

	2018 DKK'000	2017 DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	1.736	970
Tax services	376	147
Other services	500	152
	2.612	**1.269**

	2018 DKK'000	2017 DKK'000
3. Staff costs		
Wages and salaries	293.770	230.040
Pension costs	16.402	14.021
Other staff costs	16.043	17.413
	326.215	**261.474**
Average number of employees	**693**	**562**

	Remuneration of management 2018 DKK'000	Remuneration of management 2017 DKK'000
Executive Board	7.871	7.418
Board of Directors	540	600
	8.411	**8.018**

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	25.522	12.411
Depreciation of property, plant and equipment	24.993	15.348
Profit/loss from sale of intangible assets and property, plant and equipment	(10)	(22)
	50.505	**27.737**

	2018 DKK'000	2017 DKK'000
5. Tax on profit/loss for the year		
Current tax	23.781	21.905
Change in deferred tax	10.690	228
	34.471	**22.133**

	2018 DKK'000	2017 DKK'000
6. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	55.000	24.000
Transferred to reserve for net revaluation according to the equity method	10.685	10.929
Retained earnings	14.888	41.822
Minority interests' share of profit/loss	5.634	1.002
	86.207	**77.753**

Notes to consolidated financial statements

	Completed develop-ment projects DKK'000	Acquired trademarks DKK'000	Goodwill DKK'000	Develop-ment projects in progress DKK'000
7. Intangible assets				
Cost beginning of year	12.327	19.456	169.265	2.794
Addition through business combinations etc	0	0	1.095	0
Exchange rate adjustments	0	0	209	0
Transfers	0	0	(51.354)	0
Additions	0	11.363	14.805	16.986
Cost end of year	**12.327**	**30.819**	**134.020**	**19.780**
Amortisation and impairment losses beginning of year	(8.185)	(12.255)	(94.002)	0
Exchange rate adjustments	0	0	(185)	0
Transfers	0	0	51.354	0
Amortisation for the year	(2.056)	(2.372)	(21.094)	0
Amortisation and impairment losses end of year	**(10.241)**	**(14.627)**	**(63.927)**	**0**
Carrying amount end of year	**2.086**	**16.192**	**70.093**	**19.780**

Development projects

The development projects consists of a new ERP-system as well as a digital trading platform as part of a substantial digital strategic plan towards 2020. The ERP-system is scheduled for launch during 2019/2020 while the digital trading platform is expected to be ready for use in 2019. Management expects a significant potential from the optimization and digitalization of the business, as future cash flows will ensure repayment of investments in the development projects, and so Management does not find any indication of impairment to exist.

Notes to consolidated financial statements

	Land and buildings DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improvements DKK'000	Property, plant and equipment in progress DKK'000
8. Property, plant and equipment				
Cost beginning of year	181.861	124.129	56.224	1.050
Addition through business combinations etc	0	6.107	2.125	0
Exchange rate adjustments	0	(55)	(22)	0
Transfers	(228)	(47)	109	0
Additions	2.491	12.575	8.126	0
Disposals	0	(415)	(2.475)	0
Cost end of year	**184.124**	**142.294**	**64.087**	**1.050**
Depreciation and impairment losses beginning of year	(34.355)	(57.456)	(29.104)	0
Exchange rate adjustments	0	19	122	0
Transfers	227	53	(115)	0
Depreciation for the year	(3.665)	(14.258)	(7.070)	0
Reversal regarding disposals	0	578	2.400	0
Depreciation and impairment losses end of year	**(37.793)**	**(71.064)**	**(33.767)**	**0**
Carrying amount end of year	**146.331**	**71.230**	**30.320**	**1.050**

Certain other fixtures and fittings, tools and equipment are financed by finance leases. The carrying amount of assets held under finance leases is DKK 17.8m.

Notes to consolidated financial statements

	Investments in associates DKK'000	Receivables from associates DKK'000	Other investments DKK'000	Other receivables DKK'000
9. Fixed asset investments				
Cost beginning of year	68.559	0	2.084	6.795
Transfers	(3.637)	0	0	0
Additions	19	4.850	0	0
Disposals	(91)	0	(2.084)	(1.372)
Cost end of year	**64.850**	**4.850**	**0**	**5.423**
Revaluations beginning of year	(4.450)	0	0	0
Exchange rate adjustments	(288)	0	0	0
Transfers	3.636	0	0	0
Amortisation of goodwill	(2.900)	0	0	0
Share of profit/loss for the year	13.601	0	0	0
Adjustment of intra-group profits	534	0	0	0
Dividend	(10.397)	0	0	0
Investments with negative equity value depreciated over receivables	250	(250)	0	0
Revaluations end of year	**(14)**	**(250)**	**0**	**0**
Carrying amount end of year	**64.836**	**4.600**	**0**	**5.423**

Investments in associates comprise unamortised goodwill of DKK 12.7m at 31.12.2018.

	Registered in	Equity interest %
10. Associates		
Wooltex UK Ltd.	England	46,0
3 Days Of Design ApS	Denmark	20,0
Innvik AS	Norway	30,0
Convert A/S	Denmark	40,0
Ejendomsselskabet Convert ApS	Denmark	40,0

Notes to consolidated financial statements

	Registered in	Equity interest %
11. Joint ventures		
Kvadrat Maharam Pty. Ltd.	Australia	50,0
Kvadrat Maharam Arabia Ltd.	United Arab Emirates	50,0
Kvadrat Maharam Tekstil Ticaret A.S.	Turkey	50,0
Danskina BV	The Netherlands	50,0

	2018 DKK'000	2017 DKK'000
12. Contract work in progress		
Contract work in progress	22.294	45.937
Progress billings regarding contract work in progress	(18.351)	(34.591)
	3.943	**11.346**

13. Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

	2018 DKK'000	2017 DKK'000
14. Deferred tax		
Intangible assets	6.342	2.640
Property, plant and equipment	9.135	9.773
Receivables	1.180	3.400
Equity	(1.142)	(6.977)
Tax losses carried forward	(46)	(1.941)
Other taxable temporary differences	149	155
	15.618	**7.050**

Changes during the year	
Beginning of year	7.050
Recognised in the income statement	2.608
Recognised directly in equity	5.960
End of year	**15.618**

Deferred tax assets consist primarily of timing differences on depreciation of fixed assets as well as tax-loss carryforwards from foreign subsidiaries, which are expected to use the losses within 1-3 years as a result of future positive operations.

Notes to consolidated financial statements

15. Liabilities other than provisions	Due within 12 months 2018 DKK'000	Due within 12 months 2017 DKK'000	Due after more than 12 months 2018 DKK'000	Outstanding after 5 years DKK'000
Mortgage debt	3.449	2.790	40.569	30.757
Bank loans	33.428	28.000	145.800	44.850
Finance lease liabilities	2.216	2.216	16.498	9.432
	39.093	**33.006**	**202.867**	**85.039**

16. Other short-term payables	2018 DKK'000	2017 DKK'000
VAT and duties	16.753	19.640
Wages and salaries, personal income taxes, social security costs, etc payable	62.611	50.016
Holiday pay obligation	24.709	21.239
Derivative financial instruments	19.792	45.776
Other costs payable	29.494	18.757
	153.359	**155.428**

Derivative financial intruments are described in note 18.

17. Change in working capital	2018 DKK'000	2017 DKK'000
Increase/decrease in inventories	(68.663)	(13.355)
Increase/decrease in receivables	(91.493)	13.365
Increase/decrease in trade payables etc	36.805	17.248
	(123.351)	**17.258**

18. Financial instruments

The Company hedges currency risks on expected future transactions in GBP (principal amount with an obligation to buy GBP 10.8m) and NOK (principal amount with an obligation to buy NOK 49.5m). The term of the forward exchange contracts is 1 to 24 months. The negative fair value of the concluded contracts amounts to DKK 6.3m and is recognised under other payables.

Other payables include the negative fair value of an interest rate swap of DKK 12.4m and DKK 1.1m, respectively. The interest rate swap was made to hedge a fixed interest rate on the Company's floating-rate mortgage loan. The interest swap has a principal amount of DKK 20.0m and 18.1m, respectively and ensures a fixed interest rate of 4.82% and 5.18% in the remaining term of 19 years and 5 years.

Notes to consolidated financial statements

	2018 DKK'000	2017 DKK'000
19. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**71.896**	**56.779**

20. Assets charged and collateral

Mortgage debt is secured by way of mortgage on properties. The carrying amount of mortgaged buildings is DKK 108m recognised under land and buildings as well as DKK 1m recognised under property, plant and equipment in progress.

21. Transactions with related parties

The Group does not disclose any transactions with related parties in pursuance of S. 98(7) of the Danish Financial Statements Act. There have not been any transactions with the Group's Executive Board and Board of Directors apart from management remuneration etc., which is disclosed in note 3.

Notes to consolidated financial statements

	Registered in	Equity interest %
22. Subsidiaries		
Kvadrat AB	Sweden	100,0
Kvadrat AG	Switzerland	95,0
Kvadrat Asia Investment Ltd.	Hong Kong	50,5
Kvadrat B.V.	The Netherlands	95,1
Kvadrat GmbH	Germany	95,0
Kvadrat Iberia S.L.	Spain	95,0
Kvadrat Japan Co. Ltd.	Japan	80,0
Kvadrat Korea Co. Ltd.	Korea	100,0
Kvadrat Ltd.	England	95,0
Kvadrat Norge AS	Norway	100,0
Kvadrat S.A.	France	95,0
Kvadrat S.P.A.	Italy	95,0
Kvadrat Soft Cells A/S	Denmark	79,0
Kvadrat Soft Cells A/S Inc.	USA	79,0
Kinnasand GmbH	Germany	100,0
Really ApS	Denmark	56,0
Kvadrat A/S	Denmark	100,0
Kvadrat China Co. Ltd.	China	50,5
Kvadrat Singapore Pte. Ltd.	Singapore	50,5
Kvadrat Soft Cells SP. Z.O.O.	Poland	79,0
Personal Design S.R.L.	Italy	100,0
Kvadrat Properties Ltd.	England	100,0
Tinghuset Ebeltoft A/S	Denmark	100,0
Kvadrat Properties SCI	France	100,0
Uniggardin A/S	Denmark	80,0
Fabric Systems Ltd.	England	79,0
Sahco GmbH	Germany	100,0
Febrik B.V.	The Netherlands	51,7
Sahco Hesslein UK Ltd.	England	95,0
Kvadrat Soft Cells Hong Kong Ltd.	Hong Kong	79,0
Kvadrat Soft Cells Production Inc.	USA	100,0
Gaudium B.V.	The Netherlands	87,0
ASA B.V.	The Netherlands	87,0
de Pol B.V.	The Netherlands	87,0

Parent income statement for 2018

	Notes	2018 DKK'000	2017 DKK'000
Revenue		6.660	5.868
Cost of sales		(6.227)	(5.867)
Other external expenses		(10.777)	(9.389)
Gross profit/loss		**(10.344)**	**(9.388)**
Staff costs	1	(320)	(320)
Operating profit/loss		**(10.664)**	**(9.708)**
Income from investments in group enterprises		90.631	85.705
Income from investments in associates		(270)	0
Other financial income	2	535	434
Other financial expenses	3	(2.604)	(1.954)
Profit/loss before tax		**77.628**	**74.477**
Tax on profit/loss for the year	4	2.777	2.273
Profit/loss for the year	5	**80.405**	**76.750**

Parent balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Other fixtures and fittings, tools and equipment		2.830	2.830
Property, plant and equipment	6	**2.830**	**2.830**
Investments in group enterprises		396.133	320.227
Investments in associates		0	0
Receivables from associates		4.600	0
Other investments		0	2.084
Fixed asset investments	7	**400.733**	**322.311**
Fixed assets		**403.563**	**325.141**
Receivables from group enterprises		41.273	25.572
Other receivables		94	79
Receivables		**41.367**	**25.651**
Cash		**0**	**2.317**
Current assets		**41.367**	**27.968**
Assets		**444.930**	**353.109**

Parent balance sheet at 31.12.2018

	Notes	2018 DKK'000	2017 DKK'000
Contributed capital	8	100.000	100.000
Reserve for net revaluation according to the equity method		233.617	227.711
Retained earnings		3.826	(24.864)
Proposed dividend		55.000	24.000
Equity		**392.443**	**326.847**
Bank loans		25.924	0
Payables to group enterprises		846	0
Income tax payable		8.720	5.775
Other payables	9	16.997	20.487
Current liabilities other than provisions		**52.487**	**26.262**
Liabilities other than provisions		**52.487**	**26.262**
Equity and liabilities		**444.930**	**353.109**

Contingent liabilities	10
Assets charged and collateral	11
Related parties with controlling interest	12
Transactions with related parties	13

Parent statement of changes in equity for 2018

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000
Equity beginning of year	100.000	227.711	(24.864)	24.000
Ordinary dividend paid	0	0	0	(24.000)
Exchange rate adjustments	0	(1.533)	(24)	0
Other entries on equity	0	10.748	0	0
Dividends from group enterprises	0	(24.000)	24.000	0
Profit/loss for the year	0	20.691	4.714	55.000
Equity end of year	**100.000**	**233.617**	**3.826**	**55.000**

	Total DKK'000
Equity beginning of year	326.847
Ordinary dividend paid	(24.000)
Exchange rate adjustments	(1.557)
Other entries on equity	10.748
Dividends from group enterprises	0
Profit/loss for the year	80.405
Equity end of year	**392.443**

Notes to parent financial statements

	2018 DKK'000	2017 DKK'000
1. Staff costs		
Wages and salaries	320	320
	320	**320**
Average number of employees	**0**	**0**

	2018 DKK'000	2017 DKK'000
2. Other financial income		
Financial income arising from group enterprises	267	268
Financial income from associates	70	0
Other financial income	198	166
	535	**434**

	2018 DKK'000	2017 DKK'000
3. Other financial expenses		
Financial expenses from group enterprises	1.214	208
Other financial expenses	1.390	1.746
	2.604	**1.954**

	2018 DKK'000	2017 DKK'000
4. Tax on profit/loss for the year		
Current tax	(2.799)	(2.470)
Adjustment concerning previous years	22	197
	(2.777)	**(2.273)**

	2018 DKK'000	2017 DKK'000
5. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	55.000	24.000
Transferred to reserve for net revaluation according to the equity method	20.691	60.847
Retained earnings	4.714	(8.097)
	80.405	**76.750**

Notes to parent financial statements

	Other fixtures and fittings, tools and equipment DKK'000
6. Property, plant and equipment	
Cost beginning of year	2.830
Cost end of year	**2.830**
Carrying amount end of year	**2.830**

	Invest-ments in group enterprises DKK'000	Investments in associates DKK'000	Receivables from associates DKK'000	Other investments DKK'000
7. Fixed asset investments				
Cost beginning of year	92.516	0	0	2.084
Additions	0	20	4.850	0
Disposals	0	0	0	(2.084)
Cost end of year	**92.516**	**20**	**4.850**	**0**
Revaluations beginning of year	227.711	0	0	0
Exchange rate adjustments	(1.533)	0	0	0
Adjustments on equity	10.463	0	0	0
Share of profit/loss for the year	90.691	(270)	0	0
Dividend	(24.000)	0	0	0
Investments with negative equity value depreciated over receivables	285	250	(250)	0
Revaluations end of year	**303.617**	**(20)**	**(250)**	**0**
Carrying amount end of year	**396.133**	**0**	**4.600**	**0**

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

	Number	Nominal value DKK'000
8. Contributed capital		
The shares are not divided into classes	1.000	100.000
	1.000	**100.000**

Notes to parent financial statements

	2018 DKK'000	2017 DKK'000
9. Other payables		
VAT and duties	336	768
Other costs payable	16.661	19.719
	16.997	**20.487**

	2018 DKK'000	2017 DKK'000
10. Contingent liabilities		
Recourse and non-recourse guarantee commitments	227.760	198.875
Contingent liabilities to group enterprises	**227.760**	**198.875**

The Entity serves as the administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for these entities.

11. Assets charged and collateral

The Company has guaranteed the subsidiaries' bank debt. The guaranteed bank debt amounts to DKK 228m at 31.12.2018, which consists of the subsidiaries' drawing on credit facilities.

12. Related parties with controlling interest

Related parties with a controlling interest comprise the Company's Executive Board and Board of Directors. The Company does not disclose any transactions with related parties in pursuance of S. 92c(7) of the Danish Financial Statements Act.

13. Transactions with related parties

The Group does not disclose any transactions with related parties in pursuance of S. 98(7) of the Danish Financial Statements Act. There have not been any transactions with the Group's Executive Board and Board of Directors apart from management remuneration etc.

Accounting policies

Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

A few reclassifications of the comparative figures have been made in the consolidated financial statements as well as in the parent financial statements to make the figures comparable with this year. The changes have not had any impact on neither profit nor equity in the consolidated and parent financial statements.

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

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

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

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

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

Consolidated financial statements
The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting rights and exercises significant, but not controlling influence are regarded as associates.

Basis of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Accounting policies

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements. Minority interests' proportionate share of profit or loss is presented as a separate item in Management's proposal for distribution of profit or loss, and their share of subsidiaries' net assets is presented as a separate item in group equity.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Business combinations
Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Divested or wound-up enterprises are recognised in the consolidated income statement up to the time of their divestment or winding-up.

The purchase method is applied at the acquisition of new enterprises, under which identifiable assets and liabilities of these enterprises are measured at fair value at the acquisition date. Provisions for costs of restructuring of the enterprise acquired are only made in so far as such restructuring was decided by the enterprise acquired prior to acquisition. Allowance is made for the tax effect of restatements.

Positive differences in amount (goodwill) between cost of the acquired share and fair value of the assets and liabilities taken over are recognised under intangible assets, and they are amortised systematically over the income statement based on an individual assessment of their useful life. If the useful life cannot be estimated reliably, it is fixed at 10 years. Useful life is reassessed annually. Negative balances (negative goodwill) are recognised as income in the income statement.

Profits or losses from divestment of equity investments
Profits or losses from divestment or winding-up of subsidiaries are calculated as the difference between selling price or settlement price and the carrying amount of the net assets at the time of divestment or winding-up, inclusive of non-amortised goodwill and estimated divestment or winding-up expenses.

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

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of

Accounting policies

income statements from average rates to the exchange rates at the balance sheet date are recognised directly in equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries which are considered part of the total investment in the subsidiary in question are classified directly as equity.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on the stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Other operating income
Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Cost of sales
Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Other external expenses
Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for

Accounting policies

premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs
Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses
Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises
Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Income from investments in associates
Income from investments in associates comprises the pro rata share of the individual associates' profit/loss after elimination of internal profits or losses.

Other financial income
Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet
Goodwill
Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. For amounts of goodwill, useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed annually. The amortisation periods used are 10 years.

Accounting policies

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights and acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred less deferred tax is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries, external costs and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. The amortisation periods used are 10 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment
Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Accounting policies

Buildings	30-40 years
Plant and machinery	5 years
Other fixtures and fittings, tools and equipment	5 years
Leasehold improvements	contract period

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
In the parent financial statements, investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits and losses. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in group enterprises.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these en-terprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. For amounts of goodwill, useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed annually. The amortisation periods used are 10 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Investments in associates
Investments in associates are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity values plus unamortised goodwill and plus or minus unrealised pro rata intra-group profits and losses. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in associates.

Accounting policies

Associates with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant associate, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in associates is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. For one amount of goodwill, it has not been possible to estimate useful life reliably, for which reason such useful life has been set at 10 years. For other amounts of goodwill, useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed annually. The amortisation periods used are 10 years.

Investments in associates are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Other investments
Other investments comprise listed securities which are measured at fair value (market price) at the balance sheet date and unlisted investments measured at the lower of cost and net realisable value.

Inventories
Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price, design fees plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Contract work in progress
Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

Accounting policies

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts as well as finance costs are recognised in the income statement as incurred.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Dividend
Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity. Extraordinary dividend adopted in the financial year is recognised directly in equity when distributed and disclosed as a separate item in Management's proposal for distribution of profit/loss.

Minority interests
Minority interests consist of non-controlling interests' share of equity in subsidiaries not 100% owned by the Parent.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability. However, no deferred tax is recognised for amortisation of goodwill disallowed for tax purposes and temporary differences arising at the date of acquisition that do not result from a business combination and that do not have any effect on profit or loss or on taxable income.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Deferred tax relating to retaxation of previously deducted losses in foreign subsidiaries is recognised on the basis of an actual assessment of the purpose of each subsidiary.

Accounting policies

Mortgage debt
At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Finance lease liabilities
Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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

Prepayments received from customers
Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Income tax receivable or payable
Current tax receivable or payable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares and payment of dividend.

Accounting policies

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.