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Kvadrat Holding A/S

Lundbergsvej 10
8400 Ebeltoft
Central Business Registration
No 15120002

Annual report 2019

The Annual General Meeting adopted the annual report on 27.03.2020

Chairman of the General Meeting

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Name: Nikolaj Otto Bjørnholm

Contents

Entity details

Entity
Kvadrat Holding A/S
Lundbergsvej 10
8400 Ebeltoft

Central Business Registration No (CVR): 15120002
Registered in: Syddjurs
Financial year: 01.01.2019 - 31.12.2019

Board of Directors
Nikolaj Otto Bjørnholm
Anders Byriel
Erling Vestergaard Rasmussen
Jesper Rønn Rasmussen
Mette Rønn Bendix
Morten Rønn Rasmussen
Poul Erik Byriel
Rasmus Byriel
Søren Byriel

Executive Board
Anders Byriel
Mette Rønn Bendix

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 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019.

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, 27.03.2020

Executive Board

Anders Byriel	Mette Rønn Bendix

Board of Directors

Nikolaj Otto Bjørnholm	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 01.01.2019 - 31.12.2019, 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 31.12.2019, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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, 27.03.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

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

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

Management commentary

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
Financial highlights					
Key figures					
Revenue	1.722.654	1.407.752	1.177.914	1.029.597	938.069
Gross profit/loss	593.922	494.189	397.670	352.311	320.501
Operating profit/loss	94.826	117.469	108.459	108.597	100.850
Net financials	4.446	3.209	(8.573)	(4.334)	5.691
Profit/loss for the year	80.170	86.207	77.753	80.764	81.274
Profit/loss excl minority interests	72.964	80.573	76.751	78.038	79.314
Total assets	1.250.952	1.038.731	846.927	692.190	549.771
Investments in property, plant and equipment	92.412	31.424	49.149	103.392	23.361
Equity	429.997	403.188	333.004	280.974	262.452
Equity excl minority interests	416.506	392.443	326.847	274.643	257.661
Average numbers of employees	981	693	562	484	453
Ratios					
Gross margin (%)	34,5	35,1	33,8	34,2	34,2
Return on equity (%)	18,0	22,4	25,5	29,3	35,0
Equity ratio (%)	33,3	37,8	38,6	39,7	46,9

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 (%)	Gross profit/loss x 100 Revenue	The entity's operating gearing.
Return on equity (%)	Profit/loss excl minority interests x 100 Average equity excl minority interests	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	Equity excl minority interests x 100 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
The revenue for the Group for 2019 amounted to DKK 1.723m compared to DKK 1.408m in 2018. Profit before tax amounted to DKK 99,3m compared to DKK 120,7m in 2018.

The revenue for the parent company for 2019 amounted to DKK 7,8m compared to DKK 6,7m in 2018. Profit before tax amounted to DKK 72,3m compared to DKK 77,6m in 2018.

The annual report for both the Group and the parent company has been significantly affected by a higher than usual level of investments in strategic projects with the purpose of streamlining internal processes as well as venturing into new product categories and geographical markets. The strategic projects are as of the balance sheet date still ongoing and are expected to be completed and implemented during FY 2020 to 2021. The investments in the strategic projects consists of both newly hired employees specific to the strategic agenda and existing employees being dedicated partially or completely to one or more strategic projects as well as external purchases such as consultancy assistance, IT-software etc. The investments – while higher than usual in Kvadrat – will pay off over a short period of years once the strategic projects have been completed and are fully operational.

Finally, the annual report for both the Group and the parent company has been affected by the acquisition of 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 metallized fabric and pleated blinds and continuously innovates to offer the highest performance in heat and daylight control to create a more sustainable building environment.

The development in Group and parent company revenue and profits must be compared to the overall positive expectations in the annual report for Kvadrat Holding A/S for 2018. The Executive Board and Board of Directors considers the results for 2019 to be satisfactory taking the high level of investments into account that was not fully planned and reflected in the outlook for 2019 in the annual report for 2018.

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.

Management commentary

Outlook

We expect to continue investing in our current business and subsidiaries in 2020 and strive to integrate and streamline the acquisitions we made in 2019 thus beginning to reap the associated economies of scale. Furthermore, we expect to see the finalization and implementation of the first phases of the strategic projects mentioned above.

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

Finally, the recent outbreak and continued spreading of the COVID-19 virus, in most of the geographies in which Kvadrat is present, will undoubtedly have a negative effect on the outlook for 2020 for the Group. Management will closely monitor the situation and adapt appropriate measures required for the Group to steer through these difficult and challenging times.

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 are gearing up on our approach to systems and data collection procedures via an upgrade of our existing ERP-system to Dynamics 365, an end to end thinking on Sales & Operations Planning (S&OP), our newly formed digital department and employment of highly specialized people on data and business analytics. These things have been in the planning in 2019 and will be fully executed in 2020. The basis for the Management of Kvadrat to make its decisions is 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 in terms of both operations, cash flow and the increased focus on the balance sheet.

However, we do not only consider the financial information valuable to our business in the decision making process as we find it highly essential to supplement purely financial information and data with our knowledge and overview of internal resources and competencies. This will enable us to meet the objectives of our strategy as well as to fulfil our stakeholders' expectations for Kvadrat. Our knowledge of internal resources and competencies concerns subjects such as: Innovation, learning, processes, finances and staff as well as external matters concerning the Kvadrat's stakeholders – primarily customers and suppliers. Our financial information combined with our knowledge of internal resources and competencies serve as the basis for Kvadrat's vision and strategy going forward. The second year of our 2018-2020 strategy is over and we are now entering the final year of the current strategy period. During 2019 we decided to change our focus from a balanced portfolio of strategic growth initiatives rooted in topline growth across our three main segments to a 'Simplify to Grow' agenda.

Management commentary

This alternative – and now in force - agenda means that we are operating with a more focused strategy on growth comprising geographical focus on Asia and North America, a product offering focus on our roller blinds solutions via 'Kvadrat Shade' as well as our new 'Direct to Consumer' channel that will be launched during FY 2020. Concurrently, we have allocated a substantial amount of resources into improving our internal systems with the ERP-upgrade to Dynamics 365 and introducing end to end customer centric planning with S&OP.

To future-proof the Group in terms of the expected growth and expansion of the number of employees we are working proactively and continuously on developing all human resources in the organization to be able meet the future demands by our stakeholders and to achieve the results defined in our Group strategy. The Senior Management level of Kvadrat and management levels just below have during the past 2 years developed their competencies in leadership transition with the overall purpose to ensure the existence, development and nurturing of the right kind of leadership that is compatible to what Kvadrat has become and can evolve to in the future. For many years now, Kvadrat has continuously been able to establish the management platform that has enabled us to grow. However, it has become clear that, though our increasing and more global business, there are things we need to learn as well as unlearn to deal with the "New" Kvadrat going forward. We are currently more than 100 managers at Kvadrat meaning that we are working with the leadership pool, funnel, assessment and succession in a more formalized process for all managers, not only the new managers. Simultaneously, we are developing new managers via an internal program for High Potentials that we believe could be a part of the Senior Management in the future. This program has generated 21 new managers during the last 3 years. 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 organization and helps people better understand internal processes, synergy effects through collaboration and improved communication across departments. In addition to the Kvadrat Academy, training plans are developed for all employees which is increasingly performed via our digital platform called 'Learn' that is integrated in our internal communication platform TALK.

It is one of our goals to be able to increase the customer satisfaction and loyalty and to continuously enhance activities that customers find significant and value accordingly. Among the activities that may add value to Kvadrat is our focus on sustainable innovation that will contribute to a strong brand capable of meeting 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 our employee surveys, the employees are asked about their general satisfaction and specific matters related to their everyday working life. The questions focus on organization, closest manager, own department, the individual, financial performance, perception of customers as well as an assessment of processes. 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 par with the score for 2017. Our new acquisitions were included in the 2019 survey resulting in a minor decrease from 79 to 77. The ambition is to maintain this level in 2020.

Management commentary

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 happens in a 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 capitalized 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 to research and development activities in 2019 exceeds the incurred costs in 2018 as well as the budgeted costs for 2019.

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 "Textile design that moves the world" 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.

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 2019 which is available at the above-mentioned link.

Management commentary

Events after the balance sheet date
Except for the mentioned uncertainties in the previous section Outlook, no events materially affecting the financial position of the Group nor the parent company have occurred after the balance sheet date.

Kvadrat has entered into a newly established joint-venture – Magniberg Design AB – with the purpose of designing and developing bed linen as well as other textiles intended for residential purposes. The Magniberg product range will be integrated into and sold via the Kvadrat distribution network.

Consolidated income statement for 2019

	Notes	2019 DKK'000	2018 DKK'000
Revenue	1	1.722.654	1.407.752
Other operating income		3.027	0
Cost of sales		(781.973)	(637.524)
Other external expenses	2	(349.786)	(276.039)
Gross profit/loss		**593.922**	**494.189**
Staff costs	3	(445.184)	(326.215)
Depreciation, amortisation and impairment losses	4	(53.912)	(50.505)
Operating profit/loss		**94.826**	**117.469**
Income from investments in associates		12.806	11.234
Other financial income	5	15.226	10.271
Other financial expenses	6	(23.586)	(18.296)
Profit/loss before tax		**99.272**	**120.678**
Tax on profit/loss for the year	7	(19.102)	(34.471)
Profit/loss for the year	8	**80.170**	**86.207**

Consolidated balance sheet at 31.12.2019

	Notes	2019 DKK'000	2018 DKK'000
Completed development projects		12.925	2.086
Acquired trademarks		13.347	16.192
Goodwill		59.540	70.093
Development projects in progress		57.956	19.780
Intangible assets	9	**143.768**	**108.151**
Land and buildings		180.695	146.331
Other fixtures and fittings, tools and equipment		85.667	71.230
Leasehold improvements		43.617	30.320
Property, plant and equipment in progress		1.050	1.050
Property, plant and equipment	10	**311.029**	**248.931**
Investments in associates		75.122	64.836
Receivables from associates		4.507	4.600
Other receivables		6.197	5.423
Fixed asset investments	11	**85.826**	**74.859**
Fixed assets		**540.623**	**431.941**
Manufactured goods and goods for resale		323.299	241.602
Inventories		**323.299**	**241.602**
Trade receivables		194.288	200.834
Contract work in progress	14	3.943	3.943
Receivables from associates		5.663	11.940
Deferred tax	16	17.990	4.106
Other receivables		31.823	17.928
Income tax receivable		6.678	0
Prepayments	15	11.828	12.426
Receivables		**272.213**	**251.177**
Cash		**114.817**	**114.011**
Current assets		**710.329**	**606.790**
Assets		**1.250.952**	**1.038.731**

Consolidated balance sheet at 31.12.2019

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital		100.000	100.000
Reserve for net revaluation according to the equity method		10.272	0
Retained earnings		271.234	237.443
Proposed dividend		35.000	55.000
Equity attributable to the Parent's owners		**416.506**	**392.443**
Share of equity attributable to minority interests		**13.491**	**10.745**
Equity		**429.997**	**403.188**
Deferred tax	16	24.783	19.724
Provisions		**24.783**	**19.724**
Mortgage debt		38.107	40.569
Bank loans		193.010	145.800
Finance lease liabilities		18.533	16.498
Other payables	17	18.679	7.928
Non-current liabilities other than provisions	18	**268.329**	**210.795**
Current portion of long-term liabilities other than provisions	18	61.898	39.093
Bank loans		165.212	126.003
Prepayments received from customers		5.912	3.369
Trade payables		76.609	74.962
Payables to associates		67.344	100
Payables to shareholders and management		16.344	6.244
Income tax payable		6.463	16.066
Other payables	19	128.061	139.187
Current liabilities other than provisions		**527.843**	**405.024**
Liabilities other than provisions		**796.172**	**615.819**
Equity and liabilities		**1.250.952**	**1.038.731**
Associates	12		
Joint ventures	13		
Financial instruments	21		
Unrecognised rental and lease commitments	22		
Assets charged and collateral	23		
Transactions with related parties	24		
Subsidiaries	25		

Consolidated statement of changes in equity for 2019

	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	237.443	55.000
Ordinary dividend paid	0	0	0	(55.000)
Exchange rate adjustments	0	1.783	0	0
Fair value adjustments of hedging instruments	0	0	3.111	0
Other entries on equity	0	0	1.890	0
Tax of entries on equity	0	0	(685)	0
Dividends from associates	0	(1.152)	1.152	0
Profit/loss for the year	0	9.641	28.323	35.000
Equity end of year	**100.000**	**10.272**	**271.234**	**35.000**

	Share of equity attributable to minority interests DKK'000	Total DKK'000
Equity beginning of year	10.745	403.188
Ordinary dividend paid	(4.460)	(59.460)
Exchange rate adjustments	0	1.783
Fair value adjustments of hedging instruments	0	3.111
Other entries on equity	0	1.890
Tax of entries on equity	0	(685)
Dividends from associates	0	0
Profit/loss for the year	7.206	80.170
Equity end of year	**13.491**	**429.997**

Consolidated cash flow statement for 2019

	Notes	2019 DKK'000	2018 DKK'000
Operating profit/loss		94.826	117.469
Amortisation, depreciation and impairment losses		53.912	50.505
Working capital changes	20	(81.994)	(123.351)
Changes in intercompany balances		73.614	0
Cash flow from ordinary operating activities		**140.358**	**44.623**
Financial income received		15.226	10.271
Financial expenses paid		(23.586)	(18.296)
Income taxes refunded/(paid)		(34.695)	(15.139)
Other cash flows from operating activities		(4.038)	(6.416)
Cash flows from operating activities		**93.265**	**15.043**
Acquisition etc of intangible assets		(59.067)	(42.183)
Sale of intangible assets		1.161	0
Acquisition etc of property, plant and equipment		(92.412)	(31.423)
Sale of property, plant and equipment		682	(88)
Dividends received from associates		1.152	10.397
Cash flows from investing activities		**(148.484)**	**(63.297)**
Loans raised		76.275	18.135
Dividend paid		(59.459)	(25.018)
Cash flows from financing activities		**16.816**	**(6.883)**
Increase/decrease in cash and cash equivalents		**(38.403)**	**(55.137)**
Cash and cash equivalents beginning of year		(11.992)	43.145
Cash and cash equivalents end of year		**(50.395)**	**(11.992)**
Cash and cash equivalents at year-end are composed of:			
Cash		114.817	114.011
Short-term debt to banks		(165.212)	(126.003)
Cash and cash equivalents end of year		**(50.395)**	**(11.992)**

Notes to consolidated financial statements

	2019 DKK'000	2018 DKK'000
1. Revenue		
Other EU countries	1.222.817	1.142.428
Other countries	499.837	265.324
	1.722.654	**1.407.752**

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

The Group'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 Group's competitive situation.

	2019 DKK'000	2018 DKK'000
2. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	1.276	861
Tax services	610	99
Other services	115	402
	2.001	**1.362**

	2019 DKK'000	2018 DKK'000
3. Staff costs		
Wages and salaries	393.608	295.319
Pension costs	22.992	16.402
Other staff costs	31.482	16.043
Staff costs classified as assets	(2.898)	(1.549)
	445.184	**326.215**
Average number of employees	**981**	**693**

	Remuneration of management 2019 DKK'000	Remuneration of management 2018 DKK'000
Total amount for management categories	11.019	8.191
	11.019	**8.191**

Notes to consolidated financial statements

	2019 DKK'000	2018 DKK'000
4. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	22.290	25.522
Depreciation of property, plant and equipment	31.615	24.993
Profit/loss from sale of intangible assets and property, plant and equipment	7	(10)
	53.912	**50.505**

	2019 DKK'000	2018 DKK'000
5. Other financial income		
Financial income from associates	173	70
Other interest income	15.053	10.201
	15.226	**10.271**

	2019 DKK'000	2018 DKK'000
6. Other financial expenses		
Other interest expenses	23.586	18.296
	23.586	**18.296**

	2019 DKK'000	2018 DKK'000
7. Tax on profit/loss for the year		
Current tax	18.844	23.781
Change in deferred tax	258	10.690
	19.102	**34.471**

	2019 DKK'000	2018 DKK'000
8. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	35.000	55.000
Transferred to reserve for net revaluation according to the equity method	9.641	10.685
Retained earnings	28.323	14.888
Minority interests' share of profit/loss	7.206	5.634
	80.170	**86.207**

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
9. Intangible assets				
Cost beginning of year	12.327	30.819	134.020	19.780
Exchange rate adjustments	0	0	136	0
Transfers	0	0	4.203	0
Additions	16.433	190	4.268	38.176
Disposals	0	0	(2.903)	0
Cost end of year	**28.760**	**31.009**	**139.724**	**57.956**
Amortisation and impairment losses beginning of year	(10.241)	(14.627)	(63.927)	0
Exchange rate adjustments	0	0	(135)	0
Transfers	0	0	(4.203)	0
Amortisation for the year	(5.594)	(3.035)	(13.661)	0
Reversal regarding disposals	0	0	1.742	0
Amortisation and impairment losses end of year	**(15.835)**	**(17.662)**	**(80.184)**	**0**
Carrying amount end of year	**12.925**	**13.347**	**59.540**	**57.956**

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 2020 while the digital trading platform is expected to be ready for use in 2020. 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

10. Property, plant and equipment	Land and buildings DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve-ments DKK'000	Property, plant and equipment in progress DKK'000
Cost beginning of year	184.124	142.294	64.087	1.050
Exchange rate adjustments	2.008	147	391	0
Transfers	(471)	38.974	2.960	0
Additions	36.445	33.000	22.967	0
Disposals	0	(3.013)	(1.137)	0
Cost end of year	**222.106**	**211.402**	**89.268**	**1.050**
Depreciation and impairment losses beginning of year	(37.793)	(71.064)	(33.767)	0
Exchange rate adjustments	(276)	(83)	(185)	0
Transfers	471	(39.084)	(2.862)	0
Depreciation for the year	(3.813)	(18.356)	(9.446)	0
Reversal regarding disposals	0	2.852	609	0
Depreciation and impairment losses end of year	**(41.411)**	**(125.735)**	**(45.651)**	**0**
Carrying amount end of year	**180.695**	**85.667**	**43.617**	**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 15,4m.

Notes to consolidated financial statements

	Investments in associates DKK'000	Receivables from associates DKK'000	Other receivables DKK'000
11. Fixed asset investments			
Cost beginning of year	64.850	4.850	5.423
Additions	0	173	774
Cost end of year	**64.850**	**5.023**	**6.197**
Revaluations beginning of year	(14)	(250)	0
Exchange rate adjustments	1.783	0	0
Transfers	(250)	0	0
Amortisation of goodwill	(2.900)	0	0
Share of profit/loss for the year	15.187	0	0
Adjustment of intra-group profits	(2.382)	0	0
Dividend	(1.152)	0	0
Investments with negative equity value depreciated over receivables	0	(266)	0
Revaluations end of year	**10.272**	**(516)**	**0**
Carrying amount end of year	**75.122**	**4.507**	**6.197**

Investments in associates comprise unamortised goodwill of DKK 9,8m at 31.12.2019.

	Registered in	Equity inte-rest %
12. 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

	Registered in	Equity inte-rest %
13. 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 B.V.	The Netherlands	50,0
Kvadrat Shade B.V.	The Netherlands	50,0

Notes to consolidated financial statements

14. Contract work in progress	2019 DKK'000	2018 DKK'000
Contract work in progress	22.294	22.294
Progress billings regarding contract work in progress	(18.351)	(18.351)
	3.943	**3.943**

15. Prepayments

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

16. Deferred tax	2019 DKK'000	2018 DKK'000
Intangible assets	7.154	6.342
Property, plant and equipment	14.258	9.135
Receivables	1.180	1.180
Equity	(32)	(1.142)
Liabilities other than provisions	1.701	0
Tax losses carried forward	(17.636)	(46)
Other taxable temporary differences	168	149
	6.793	**15.618**

Changes during the year	
Beginning of year	15.618
Recognised in the income statement	257
Recognised directly in equity	1.110
Acquisitions from investments	(10.192)
End of year	**6.793**

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 1-5 years as a result of future positive operations.

17. Other long-term payables	2019 DKK'000	2018 DKK'000
Holiday pay obligation	4.064	0
Other costs payable	14.615	7.928
	18.679	**7.928**

Notes to consolidated financial statements

	Due within 12 months 2019 DKK'000	Due within 12 months 2018 DKK'000	Due after more than 12 months 2019 DKK'000	Outstanding after 5 years DKK'000
18. Liabilities other than provisions				
Mortgage debt	3.449	3.449	38.107	28.001
Bank loans	45.748	33.428	193.010	51.222
Finance lease liabilities	2.216	2.216	18.533	6.272
Other payables	10.485	0	18.679	0
	61.898	**39.093**	**268.329**	**85.495**

	2019 DKK'000	2018 DKK'000
19. Other short-term payables		
VAT and duties	6.281	16.753
Wages and salaries, personal income taxes, social security costs, etc payable	16.330	62.611
Holiday pay obligation	26.611	24.709
Derivative financial instruments	15.576	19.792
Other costs payable	63.263	15.322
	128.061	**139.187**

Derivative financial intruments are described in note 21.

	2019 DKK'000	2018 DKK'000
20. Change in working capital		
Increase/decrease in inventories	(81.697)	(68.663)
Increase/decrease in receivables	(7.525)	(91.493)
Increase/decrease in trade payables etc	7.228	36.805
	(81.994)	**(123.351)**

21. Financial instruments

The Company hedges currency risks on expected future transactions in GBP (principal amount with an obligation to buy GBP 3,0m) and NOK (principal amount with an obligation to buy NOK 8,0m). The term of the forward exchange contracts is 1 to 2 months. The negative fair value of the concluded contracts amounts to DKK 0,1m and is recognised under other payables.

Other payables include the negative fair value of an interest rate swap of DKK 14,7m and DKK 0,7m, 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 18 years and 4 years.

Notes to consolidated financial statements

	2019 DKK'000	2018 DKK'000
22. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**132.889**	**71.896**

23. Assets charged and collateral

Mortgage debt is secured by way of mortgage on properties. The carrying amount of mortgaged buildings is DKK 142m recognised under land and buildings as well as DKK 1m recognised under property, plant and equipment in progress.

24. Transactions with related parties

The annual report only dislose transactions with related parties that have not been completed on market terms. No such transactions have been completed during the financial year.

Notes to consolidated financial statements

	Registered in	Equity interest %
25. 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
Kvadrat Finland Oy	Finland	100,0
Kvadrat Soft Cells Hong Kong Ltd.	Hong Kong	79,0
Kvadrat 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

Notes to consolidated financial statements

	Registered in	Equity interest %
25. Subsidiaries (continued)		
Verosol Holding B.V.	The Netherlands	100,0
Verosol Group B.V.	The Netherlands	100,0
Tecnologia de Control Solar Espana Holding SLU	Spain	100,0
Verosol Iberica SAU	Spain	100,0
Verosol Holding Pty	Australia	100,0
Verosol Australia Pty Ltd	Australia	100,0
Verosol Services B.V.	The Netherlands	100,0
Verosol Nederland B.V.	The Netherlands	100,0
Verosol Fabrics B.V.	The Netherlands	100,0
Tecnologia de Control Solar Mexicana de Servicios, SA de CV	Mexico	100,0
Tecnologia de Control Solar Mexicana, SA de CV	Mexico	100,0
VW Solarflex, SA de CV	Mexico	100,0

Parent income statement for 2019

	Notes	2019 DKK'000	2018 DKK'000
Revenue		7.833	6.660
Cost of sales		(7.852)	(6.227)
Other external expenses		(1.048)	(10.777)
Gross profit/loss		**(1.067)**	**(10.344)**
Staff costs	1	(490)	(320)
Operating profit/loss		**(1.557)**	**(10.664)**
Income from investments in group enterprises		75.963	90.631
Income from investments in associates		(266)	(270)
Other financial income	2	445	535
Other financial expenses	3	(2.275)	(2.604)
Profit/loss before tax		**72.310**	**77.628**
Tax on profit/loss for the year	4	656	2.777
Profit/loss for the year	5	**72.966**	**80.405**

Parent balance sheet at 31.12.2019

	Notes	2019 DKK'000	2018 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		418.744	396.133
Investments in associates		0	0
Receivables from associates		4.507	4.600
Fixed asset investments	7	**423.251**	**400.733**
Fixed assets		**426.081**	**403.563**
Receivables from group enterprises		32.116	41.273
Other receivables		0	94
Joint taxation contribution receivable		6.678	0
Receivables		**38.794**	**41.367**
Current assets		**38.794**	**41.367**
Assets		**464.875**	**444.930**

Parent balance sheet at 31.12.2019

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital	8	100.000	100.000
Reserve for net revaluation according to the equity method		276.237	233.617
Retained earnings		5.269	3.826
Proposed dividend		35.000	55.000
Equity		**416.506**	**392.443**
Bank loans		31.140	25.924
Payables to group enterprises		0	846
Payables to shareholders and management		16.344	6.244
Income tax payable		0	8.720
Other payables	9	885	10.753
Current liabilities other than provisions		**48.369**	**52.487**
Liabilities other than provisions		**48.369**	**52.487**
Equity and liabilities		**464.875**	**444.930**
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 2019

	Contributed capital DKK'000	Reserve for net revaluation according to the equity method DKK'000	Retained earnings DKK'000
Equity beginning of year	100.000	233.617	3.826
Ordinary dividend paid	0	0	0
Exchange rate adjustments	0	(229)	908
Other entries on equity	0	5.418	0
Profit/loss for the year	0	37.431	535
Equity end of year	**100.000**	**276.237**	**5.269**

	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	55.000	392.443
Ordinary dividend paid	(55.000)	(55.000)
Exchange rate adjustments	0	679
Other entries on equity	0	5.418
Profit/loss for the year	35.000	72.966
Equity end of year	**35.000**	**416.506**

Notes to parent financial statements

	2019 DKK'000	2018 DKK'000
1. Staff costs		
Wages and salaries	490	320
	490	**320**
Average number of employees	**0**	**0**

	Remuneration of management 2019 DKK'000	Remuneration of management 2018 DKK'000
Total amount for management categories	490	320
	490	**320**

	2019 DKK'000	2018 DKK'000
2. Other financial income		
Financial income arising from group enterprises	266	267
Financial income from associates	173	70
Other financial income	6	198
	445	**535**

	2019 DKK'000	2018 DKK'000
3. Other financial expenses		
Financial expenses from group enterprises	263	546
Other interest expenses	2.012	2.058
	2.275	**2.604**

	2019 DKK'000	2018 DKK'000
4. Tax on profit/loss for the year		
Adjustment concerning previous years	0	22
Refund in joint taxation arrangement	(656)	(2.799)
	(656)	**(2.777)**

Notes to parent financial statements

	2019 DKK'000	2018 DKK'000
5. Proposed distribution of profit/loss		
Retained earnings	72.966	80.405
	72.966	**80.405**

	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
7. Fixed asset investments			
Cost beginning of year	92.516	20	4.850
Additions	14.991	0	173
Cost end of year	**107.507**	**20**	**5.023**
Revaluations beginning of year	303.617	(20)	(250)
Exchange rate adjustments	(229)	0	0
Adjustments on equity	5.418	0	0
Share of profit/loss for the year	75.965	(266)	0
Dividend	(70.000)	0	0
Investments with negative equity value depreciated over receivables	(3.534)	266	(266)
Revaluations end of year	**311.237**	**(20)**	**(516)**
Carrying amount end of year	**418.744**	**0**	**4.507**

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

Notes to parent 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**

	2019 DKK'000	2018 DKK'000
9. Other payables		
VAT and duties	351	336
Other costs payable	534	10.417
	885	**10.753**

	2019 DKK'000	2018 DKK'000
10. Contingent liabilities		
Recourse and non-recourse guarantee commitments	294.267	227.760
Contingent liabilities to group enterprises	**294.267**	**227.760**

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 294m at 31.12.2019, 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.

13. Transactions with related parties

The annual report only dislose transactions with related parties that have not been completed on market terms. No such transactions have been completed during the financial year.

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, 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
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 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 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 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.

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.

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

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.

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.

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