Tia Technology A/S

Bredevej 2, DK-2830 Virum

Annual Report for 1 January - 31 December 2020

CVR No 19 98 93 48

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 8 /7 2021

Ron Al Dor
Chairman of the General Meeting

Contents

Management's Statement

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

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Company and of the results of the Company operations for 2020.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 8 July 2021

Executive Board

Anders Svanholm Rosenbeck
Executive Officer

Board of Directors

Ron Al-Dor	Roni Giladi	Anders Svangholm Rosenbeck

Independent Auditor's Report

To the Shareholder of Tia Technology A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Tia Technology A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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 Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for 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.

Statement on Management's Review
Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

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

Independent Auditor's Report

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hellerup, 8 July 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Henrik Aslund Pedersen
State Authorised Public Accountant
mne17120

Company Information

The Company	Tia Technology A/S Bredevej 2 DK-2830 Virum Telephone: + 45 7022 7620 E-mail: info@tia.dk Website: www.tia.dk CVR No: 19 98 93 48 Financial period: 1 January - 31 December Municipality of reg. office: Lyngby-Taarbæk
Board of Directors	Ron Al-Dor Roni Giladi Anders Svangholm Rosenbeck
Executive Board	Anders Svanholm Rosenbeck
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2020	2019	2018 *)	2017 *)	2016 *)
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	172,503	190,338	184,211	131,404	98,328
Gross profit/loss	86,033	104,127	124,259	75,666	57,738
Operating profit/loss	-9,621	-17,767	13,844	-8,375	-24,161
Profit/loss before financial income and expenses	-9,621	-17,767	10,161	-8,375	-24,159
Net financials	-2,851	-415	285	-988	-896
Net profit/loss for the year	-14,222	-16,627	9,096	-7,877	-19,782
Balance sheet					
Balance sheet total	94,830	119,092	186,372	184,186	113,725
Equity	-48,834	-35,437	23,556	14,460	-8,101
Investment in property, plant and equipment	35	1,076	24,065	18,405	25,700
Number of employees	93	112	71	51	90
Ratios					
Gross margin	49.9%	54.7%	67.5%	57.6%	58.7%
Profit margin	-5.6%	-9.3%	5.5%	-6.4%	-24.6%
Return on equity	33.8%	279.9%	47.9%	-247.7%	228.3%

In connection with changes to accounting policies, the comparative figures back to 2016 *) have not been restated and are stated under IFRS. See the description under accounting policies.

Management's Review

Key activities

Tia Technology (Tia) delivers standard insurance software to the general global insurance industry.

TIA's core insurance platform is developed in close cooperation with customers and partners over the past 30 years. It is offered both through a serviced cloud offering or on premise.

Development in the year

The income statement of the Company for 2020 shows a loss of TDKK 14,222, and at 31 December 2020 the balance sheet of the Company shows negative equity of TDKK 48,834.

2020 highlights for the group

Tia achieved a reduction in costs in 2020 due to the organizational structure introduced late in 2019. Revenue and result after tax were lower than expected, however, driven by two fixed price professional service projects that had significant scope increases. The fixed price projects will also impact the results in 2021

2020 highlights for the Tia

Acquisition by Sapiens

On 30 November 2020 Tia was acquired by Sapiens Software Solutions Denmark ApS ("Sapiens"). The acquisition was backed by Tia management and in line with the strategic focus on designing and developing best-in-class standard software and delivering Tia's professional services to safeguard quality and best practices to the benefit of Tia's valued customer base. With the backing of Sapiens, Tia is strengthened in terms of software development, professional services and managed services, which will benefit the customer base. Finally, Tia will continue to focus on developing as a workplace and community where people thrive.

Digital and data solutions

Development of Tia Designers, world-class APIs and BI Suite continued in 2020 and will be further strengthened by the Sapiens acquisition and will be a strong focus area for the future.

Tia Cloud

In 2020 Tia maintained it's two Cloud customers in production and advanced on other key customers set to go live in 2021, with advanced and fully operated Cloud solutions. The cloud offer has been hardened and matured and Tia is in a strong position to offer customers a high-performance seamless Cloud experience.

Management’s Review

Strategy and objectives

Special risks

Tia has no significant exposure to business risks other than what is usual for the industry and type of business.

Research and development

Tia maintains a focus on delivering a leading value proposition to the insurance software industry. Only a smaller fraction of Tia’s total investment goes to maintaining the existing solution. The main focus is developing new solutions or new functionality to existing solutions.

In 2020 Tia had a total R&D cost of DKK 46m.

Expected development

Throughout the year, Tia continued to invest in expanding employee knowledge of both technology and insurance-related fields, to ensure the best possible utilisation of the new technological opportunities that cater specifically to insurance market needs. There is an ongoing effort to ensure that Tia employees have a long-term professional development path and remain motivated, committed, and involved in the execution of Tia's strategy.

Corporate Social Responsibility

CSR is important for Tia and its stakeholders. The Group has adopted the Sapiens Code of Conduct, to secure that employees are committed to being socially responsible while carrying out their work. Although Tia’s activities have a limited impact on the environment, the company focuses on improving where possible. For example, by having optimal facilities to support a virtual working environment, Tia is reducing the number of flights between its main offices in Denmark, Lithuania and South Africa. Tia also encourages employees to exercise, offering training facilities and running events.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2020	2019
		TDKK	TDKK
Revenue		**172,503**	**190,338**
Consultants		-16,396	-10,903
Other external expenses		-70,074	-75,308
Gross profit/loss		**86,033**	**104,127**
Staff expenses	1	-77,594	-103,605
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-18,060	-18,289
Profit/loss before financial income and expenses	3	**-9,621**	**-17,767**
Financial income	4	1,207	1,356
Financial expenses	5	-4,058	-1,771
Profit/loss before tax		**-12,472**	**-18,182**
Tax on profit/loss for the year	6	-1,750	1,555
Net profit/loss for the year		**-14,222**	**-16,627**

Balance Sheet 31 December

Assets

	Note	2020	2019
		TDKK	TDKK
Completed development projects		0	0
Software		0	87
Acquired other similar rights		3,498	7,698
Goodwill		30,193	43,617
Development projects in progress		0	0
Intangible assets	7	**33,691**	**51,402**
Land and buildings		0	0
Other fixtures and fittings, tools and equipment		158	435
Leasehold improvements		39	74
Property, plant and equipment	8	**197**	**509**
Investments in subsidiaries	9	693	693
Other investments	10	98	98
Deposits	10	983	995
Fixed asset investments		**1,774**	**1,786**
Fixed assets		**35,662**	**53,697**
Trade receivables		21,768	33,037
Receivables from group enterprises		11,404	20,325
Other receivables		0	1,794
Corporation tax		2,722	2,492
Prepayments	11	1,557	1,287
Receivables		**37,451**	**58,935**
Cash at bank and in hand		**21,717**	**6,460**
Currents assets		**59,168**	**65,395**
Assets		**94,830**	**119,092**

Balance Sheet 31 December

Liabilities and equity

	Note	2020	2019
		TDKK	TDKK
Share capital		1,500	1,500
Retained earnings		-50,334	-36,937
Equity		**-48,834**	**-35,437**
Provision for deferred tax	13	634	649
Provisions		**634**	**649**
Credit institutions		0	40,000
Other payables		6,943	1,872
Long-term debt	14	**6,943**	**41,872**
Trade payables		2,314	9,678
Payables to group enterprises		45,758	14,819
Other payables	14	19,763	33,768
Deferred income	15	68,252	53,743
Short-term debt		**136,087**	**112,008**
Debt		**143,030**	**153,880**
Liabilities and equity		**94,830**	**119,092**

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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	1,500	53,063	-22,894	31,669
Net effect from change of accounting policy	0	-53,063	-14,044	-67,107
Adjusted equity at 1 January	1,500	0	-36,938	-35,438
Other equity movements	0	0	826	826
Net profit/loss for the year	0	0	-14,222	-14,222
Equity at 31 December	**1,500**	**0**	**-50,334**	**-48,834**

Notes to the Financial Statements

		2020	2019
		TDKK	TDKK
1	**Staff expenses**		
	Wages and salaries	68,239	91,561
	Pensions	8,806	11,201
	Other social security expenses	549	843
		77,594	**103,605**
	Including remuneration to the Executive Board and Board of Directors of:		
	Executive Board	5,851	4,693
	Supervisory Board	750	747
		6,601	**5,440**
	Average number of employees	**93**	**112**

2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	17,711	17,049
	Depreciation of property, plant and equipment	349	1,240
		18,060	**18,289**

3	**Special items**		
	South-east asia, shutdown	0	1,888
	Strategic projects	0	5,359
	Restructuring cost	0	7,807
	Settlement of earn-out	-550	-11,657
		-550	**3,397**

4	**Financial income**		
	Interest received from group enterprises	19	20
	Other financial income	2	27
	Exchange gains	1,186	1,309
		1,207	**1,356**

Notes to the Financial Statements

		2020	2019
		TDKK	TDKK
5	**Financial expenses**		
	Other financial expenses	1,576	744
	Exchange loss	2,482	1,027
		4,058	**1,771**

6	**Tax on profit/loss for the year**		
	Current tax for the year	1,803	-1,401
	Deferred tax for the year	-15	-154
	Adjustment of deferred tax concerning previous years	-38	0
		1,750	**-1,555**

7 Intangible assets

	Completed development projects	Software	Acquired other similar rights	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	259,516	5,180	12,600	57,041	20,513
Net effect from change of accounting policy	-259,516	0	0	0	-20,513
Cost at 31 December	0	5,180	12,600	57,041	0
Impairment losses and amortisation at 1 January	214,479	5,093	1,404	0	0
Net effect from change of accounting policy	-214,479	0	3,498	13,424	0
Amortisation for the year	0	87	4,200	13,424	0
Impairment losses and amortisation at 31 December	0	5,180	9,102	26,848	0
Carrying amount at 31 December	**0**	**0**	**3,498**	**30,193**	**0**

Notes to the Financial Statements

8 Property, plant and equipment

	Land and buildings	Other fixtures and fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK	TDKK
Cost at 1 January	13,812	3,733	1,347
Net effect from change of accounting policy	-13,812	-869	0
Additions for the year	0	35	0
Cost at 31 December	0	2,899	1,347
Impairment losses and depreciation at 1 January	2,583	2,833	1,272
Net effect from change of accounting policy	-2,583	-405	0
Depreciation for the year	0	313	36
Impairment losses and depreciation at 31 December	0	2,741	1,308
Carrying amount at 31 December	**0**	**158**	**39**

9 Investments in subsidiaries

	2020	2019
	TDKK	TDKK
Cost at 1 January	693	84,690
Net effect from merger and acquisition	0	-84,077
Additions for the year	0	80
Cost at 31 December	693	693
Value adjustments at 1 January	0	0
Value adjustments at 31 December	0	0
Carrying amount at 31 December	**693**	**693**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
TIA Technology UAB	Lithuania	100%	14,540	1,942
TIA South Afria (Pty) Ltd.	South Africa	100%	-14,676	-25,900

Notes to the Financial Statements

10 Other fixed asset investments

	Other investments	Deposits
	TDKK	TDKK
Cost at 1 January	98	995
Disposals for the year	0	-12
Cost at 31 December	98	983
Carrying amount at 31 December	**98**	**983**

11 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

12 Distribution of profit

	2020	2019
	TDKK	TDKK
Retained earnings	-14,222	-16,627
	-14,222	**-16,627**

13 Provision for deferred tax

Provision for deferred tax at 1 January	649	803
Amounts recognised in the income statement for the year	-15	-154
Provision for deferred tax at 31 December	**634**	**649**

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Credit institutions

Between 1 and 5 years	0	40,000
Long-term part	0	40,000
Within 1 year	0	0
	0	**40,000**

Notes to the Financial Statements

14 Long-term debt (continued)

	2020	2019
	TDKK	TDKK
Other payables		
Between 1 and 5 years	6,943	1,872
Long-term part	6,943	1,872
Other short-term payables	19,763	33,768
	26,706	**35,640**

15 Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

16 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

The Company has entered into a lease on office premises		
The lease is non-cancellable for 63 months		
Lease commitment	9,807,396	11,737,457

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Sapiens Software Solutions Denmark ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

17 Related parties

	Basis
Controlling interest	
THOR Denmark Holding ApS	Principal shareholder

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

THOR Denmark Holding ApS, Bredevej 2, DK-2830 Virum.

Consolidated Financial Statements

TIA Technology A/S is included in the consolidated Financial Statements of

Name	Place of registered office
Sapiens International Corporation N.V	Cayman Islands

The Group Annual Report of Sapiens International Corporation N.V may be obtained at the following address: https://www.sapiens.com/na/investor-relations/

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of Tia Technology A/S for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2020 are presented in TDKK.

Changes in accounting policies

The Company has chosen to change its accounting policies, by adopting the Danish Financial Statement Act, and from here on no longer recognizes development costs calculated as an asset and leasing assets and liabillities will no longer be reconized in accordance with IFRS 16.

The change in accounting policies will entail, that goodwill will be subject to depreciation.

The change in accounting policies has had the following impact on the figures:
Profit for the year has been decreased by TDKK 8.280 (2019: DKK 22.374)
Fixed assets have been decreased by TDKK 94.166
Provision for deferred tax has been decreased by TDKK 15.141
Lease obligations have been decreased by TDKK 11.918
The equity has been decreased by TDKK 8.197 (2019: TDKK 69.410)

The comparable figures have been changed accordingly.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Sapiens Technologies (1982) Ltd., the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Sapiens International Corporation N.V, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable

Notes to the Financial Statements

18 Accounting Policies (continued)

to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Business combinations

Pooling of interests

Intragroup business combinations are accounted for under the pooling-of-interests method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. Any consideration which exceeds the carrying amount of the acquired enterprise is recognised directly in equity. The pooling-of-interests method is applied as if the two enterprises had always been combined by restating comparative figures.

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

18 Accounting Policies (continued)

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Consultants

Cost of goods sold comprise external consulting fees.

Other external expenses

Other external expenses comprise espenses for distribution, sale, marketing, administration premises, bad debts and office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish Companies. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

18 Accounting Policies (continued)

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 3-5 years.

Software and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 3-5 years.

Development projects that are clearly defined and identifiable products and processes in respect of which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the product or process in question are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred.

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

Development projects are amortised on of straight-line basis over its useful life, which is assesed at 3-5 years.

Profits and losses from the sale of intangible assets are calculated as the difference between the selling price minus selling costs and the carrying amount at the time of sale. Profits or losses are recognised in the income statement as an adjustment to amortisation and impairment losses, or in other operating income if the selling price exceeds original cost.

Property, plant and equipment

Other fixtures and fittings, tools and equipment and leasehold are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3-5	years
Leasehold improvements	3-5	years

The fixed assets' residual values are determined at nil.

Notes to the Financial Statements

18 Accounting Policies (continued)

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Fixed asset investments

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legisla-

Notes to the Financial Statements

18 Accounting Policies (continued)

tion at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Financial Highlights

Explanation of financial ratios

Gross margin	$\dfrac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\dfrac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\dfrac{\text{Profit before financials x 100}}{\text{Total assets}}$
Return on equity	$\dfrac{\text{Net profit for the year x 100}}{\text{Average equity}}$