
Bolia International A/S

Værkmestergade 11, 1., DK-8000 Aarhus C

Annual Report for 1 September 2021 - 31 August 2022

CVR No 25 45 19 96

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
17/01 2023

Jan Bøgh
Chairman of the General
Meeting



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Bolia International A/S for the financial year 1 September 2021 - 31 August 2022.

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 August 2022 of the Company and of the results of the Company operations for 2021/22.

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.

Aarhus, 17 January 2023

Executive Board

Lars Lyse Hansen
CEO

Board of Directors

Jan Bøgh
Chairman

Henrik Naundrup

Peter Dornonville de la Cour
Andsager

Niels Veien

Independent Auditor's Report

To the Shareholders of Bolia International A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 August 2022 and of the results of the Company's operations for the financial year 1 September 2021 - 31 August 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Bolia International A/S for the financial year 1 September 2021 - 31 August 2022, 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 misstate-

Independent Auditor's Report

ment, whether due to fraud or error.

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.

Independent Auditor's Report

- 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.

Aarhus, 17 January 2023

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Henrik Kragh

statsautoriseret revisor

mne26783

Company Information

The Company

Bolia International A/S
Værkmestergade 11, 1.
DK-8000 Aarhus C

CVR No: 25 45 19 96
Financial period: 1. september - 31. august
Municipality of reg. office: Aarhus

Board of Directors

Jan Bøgh, Chairman
Henrik Naundrup
Peter Dornonville de la Cour Andsager
Niels Veien

Executive Board

Lars Lyse Hansen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Nobelparken
Jens Chr. Skous Vej 1
DK-8000 Aarhus C

Bankers

Nordea A/S
Skt. Clemens Torv 2-6
8000 Aarhus C

Financial Highlights

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

	2021/22	2020/21	2019/20	2018/19	2017/18
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Revenue	1.315.078	1.176.422	1.039.331	902.527	874.723
Gross profit/loss	328.826	334.719	292.480	219.410	206.682
Profit/loss before financial income and expenses	50.031	96.696	80.174	19.109	18.487
Net financials	-6.363	-8.206	-4.232	-899	2.387
Net profit/loss for the year	35.805	65.738	60.012	15.703	23.029
Balance sheet					
Balance sheet total	537.964	494.169	389.510	321.522	330.822
Equity	159.695	188.890	162.152	132.141	116.438
Investment in property, plant and equipment	65.787	57.732	19.366	21.785	70.202
Investment in intangible assets	39.771	41.713	40.622	40.330	33.991
Number of employees	415	347	308	292	312
Ratios					
Gross margin	25,0%	28,5%	28,1%	24,3%	23,6%
Profit margin	3,8%	8,2%	7,7%	2,1%	2,1%
Return on assets	9,3%	19,6%	20,6%	5,9%	5,6%
Solvency ratio	29,7%	38,2%	41,6%	41,1%	35,2%
Return on equity	20,5%	37,5%	40,8%	12,6%	18,4%

Management's Review

Key activities

The Company's key activity is the development of a design collection of furniture and lifestyle products for the private and professional markets. The collection is sold through the Company's own international concept stores and European e-commerce platform, as well as through a global dealer and B2B network. The Bolia stores are run as branches in Denmark, Norway, Germany, Sweden, Austria, Switzerland, France, Belgium, Luxembourg, and the Netherlands.

Development in the year

During the financial year, the store expansion rate was doubled compared to the previous year and a record number of new concept stores were opened in Europe. Major investments were also made in design and product development, sustainable initiatives, and the continuous development of the global IT platform.

Revenue for the financial year 2021/22 amounted to 1,315,078 kDKK, which is an increase in sales of 12% compared to the previous financial year, which became a new revenue record for the company. Profit for the year before tax was 43,668 kDKK, which reflects the significant investments made in new concept stores as well as the development of the IT platform, together with the negative effect from increasing cost- and material prices during the year. Consequently, the result is considered satisfactory.

Capital resources

On 31 August 2022, equity was 159,695 kDKK.

Targets and expectations for the year ahead

Bolia International A/S plans to continue its development of the Bolia design collection and business concept, as well as investing further in expansion, sustainable initiatives, and digitalization. Due to the continuously high rate of expansion and the expected market situation, the financial year 2022/23, profit before tax is expected to correspond to the profit earned in this financial period.

Research and development

In line with the Company's innovation strategy, major investments were made in design- and product development and sustainable initiatives throughout the value chain. Together with investments in digitalization and development of the global IT platform.

Statement of corporate social responsibility

The Company's corporate social responsibility report is included in the CSR reporting of the Group. Reference is made to Management's Review in the Annual Report 2021/22 of LLG A/S, CVR No. 86 00 15 19, which may be obtained from www.cvr.dk.

Management's Review

Statement on gender composition

Bolia A/S aims to be an attractive workplace with equal opportunities for all employees. We will continue our work to further support our policy on gender equality at all management levels and throughout the organization. To achieve this ambition, we will continue to work actively with our equal opportunities policy, our company values, and our human resources, while at the same time basing recruitment on qualifications and competencies.

The gender representation at the various management levels (except for the Board of Directors) is shown in the table below.

Bolia A/S	Total	Women in per cent	Men in per cent
Total number of employees at Bolia A/S (All employees, incl. full and part time contracts)	732	74%	26%
Number of management positions in Bolia A/S (Employees with staff responsibilities)	195	73%	27%

The Board of Directors currently consists of four male board members. The Board aims at having equal representation of male and female board members by 2024.

Statement on data ethics

The statement required under section 99(d) of the Danish Financial Statements Act are contained in the Consolidated financial statements of LLG A/S, CVR No. 86 00 15 19, which may be obtained from www.cvr.dk.

Subsequent events

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

Income Statement 1 September - 31 August

	Note	2021/22 kDKK	2020/21 kDKK
Revenue	1	1.315.078	1.176.422
Expenses for raw materials and consumables		-664.140	-582.439
Other external expenses		-322.112	-259.264
Gross profit/loss		328.826	334.719
Staff expenses	2	-190.445	-168.235
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-87.951	-69.788
Other operating expenses		-399	0
Profit/loss before financial income and expenses		50.031	96.696
Financial income	3	5.406	1.896
Financial expenses	4	-11.769	-10.102
Profit/loss before tax		43.668	88.490
Tax on profit/loss for the year	5	-7.863	-22.752
Net profit/loss for the year		35.805	65.738
Proposed distribution of profit			
Proposed dividend for the year		0	65.000
Other statutory reserves		-1.278	7.951
Retained earnings		37.083	-7.213
		35.805	65.738

Balance Sheet 31 August

Assets

	Note	2022 kDKK	2021 kDKK
Completed development projects		88.461	90.101
Acquired other similar rights		862	1.493
Intangible assets	8	89.323	91.594
Other fixtures and fittings, tools and equipment		36.436	33.745
Leasehold improvements		98.183	81.436
Property, plant and equipment	9	134.619	115.181
Investments in subsidiaries	6	0	0
Deposits	10	6.208	4.857
Fixed asset investments		6.208	4.857
Fixed assets		230.150	211.632
Inventories		115.897	93.404
Trade receivables		71.512	74.422
Receivables from group enterprises		17.146	37.775
Other receivables		13.675	11.884
Deferred tax asset	12	3.179	0
Corporation tax		0	10.172
Prepayments	11	54.763	39.045
Receivables		160.275	173.298
Cash at bank and in hand		31.642	15.835
Currents assets		307.814	282.537
Assets		537.964	494.169

Balance Sheet 31 August

Liabilities and equity

	Note	2022 kDKK	2021 kDKK
Share capital		1.800	1.800
Reserve for development costs		69.000	70.278
Retained earnings		88.895	51.812
Proposed dividend for the year		0	65.000
Equity		159.695	188.890
Provision for deferred tax	12	0	22.847
Provisions		0	22.847
Trade payables		85.097	93.036
Payables to group enterprises		69.209	0
Corporation tax		10.048	0
Other payables		27.189	25.046
Deferred income	13	186.726	164.350
Short-term debt		378.269	282.432
Debt		378.269	282.432
Liabilities and equity		537.964	494.169
Distribution of profit	7		
Contingent assets, liabilities and other financial obligations	14		
Related parties	15		
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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	kDKK	kDKK	kDKK	kDKK	kDKK
Equity at 1 September	1.800	70.278	51.812	65.000	188.890
Ordinary dividend paid	0	0	0	-65.000	-65.000
Development costs for the year	0	-1.278	0	0	-1.278
Net profit/loss for the year	0	0	37.083	0	37.083
Equity at 31 August	1.800	69.000	88.895	0	159.695

Notes to the Financial Statements

1 Revenue

With reference to section 96(1) of the Danish Financial Statements Act, no disclosure is made of the breakdown of revenue into business segments and geographical markets as Company Management, including the Board of Directors, finds that such disclosure would be very detrimental to the Company.

	2021/22 kDKK	2020/21 kDKK
2 Staff expenses		
Wages and salaries	174.681	158.297
Pensions	14.015	9.088
Other social security expenses	1.749	850
	190.445	168.235
Average number of employees	415	347

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

3 Financial income

Interest received from group enterprises	0	80
Other financial income	2.890	1.816
Exchange gains	2.516	0
	5.406	1.896

4 Financial expenses

Interest paid to group enterprises	999	646
Other financial expenses	10.770	9.456
	11.769	10.102

Notes to the Financial Statements

	2021/22	2020/21
	kDKK	kDKK
5 Tax on profit/loss for the year		
Current tax for the year	10.676	-8.751
Deferred tax for the year	-1.053	29.083
Adjustment of tax concerning previous years	23.213	2.420
Adjustment of deferred tax concerning previous years	-24.973	0
	7.863	22.752

	2022	2021
	kDKK	kDKK
6 Investments in subsidiaries		
Cost at 1 September	0	0
Cost at 31 August	0	0
Value adjustments at 1 September	0	0
Net profit/loss for the year	0	0
Value adjustments at 31 August	0	0
Carrying amount at 31 August	0	0

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Bolia Inc.	Delaware, USA	0	100%	0	0

	2021/22	2020/21
	kDKK	kDKK
7 Distribution of profit		
Proposed dividend for the year	0	65.000
Other statutory reserves	-1.278	7.951
Retained earnings	37.083	-7.213
	35.805	65.738

Notes to the Financial Statements

8 Intangible assets

	Completed development projects kDKK	Acquired other similar rights kDKK
Cost at 1 September	180.406	5.193
Additions for the year	39.771	0
Cost at 31 August	<u>220.177</u>	<u>5.193</u>
Impairment losses and amortisation at 1 September	90.305	3.700
Amortisation for the year	41.411	631
Impairment losses and amortisation at 31 August	<u>131.716</u>	<u>4.331</u>
Carrying amount at 31 August	<u>88.461</u>	<u>862</u>

Development projects relate to the development of the company's digital platform, which is fully implemented by the business. Sub-projects of the IT project are completed on an ongoing basis.

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment kDKK	Leasehold improvements kDKK
Cost at 1 September	96.768	193.850
Additions for the year	17.373	48.414
Disposals for the year	-725	0
Cost at 31 August	<u>113.416</u>	<u>242.264</u>
Impairment losses and depreciation at 1 September	63.023	112.414
Depreciation for the year	14.240	31.667
Reversal of impairment and depreciation of sold assets	-283	0
Impairment losses and depreciation at 31 August	<u>76.980</u>	<u>144.081</u>
Carrying amount at 31 August	<u>36.436</u>	<u>98.183</u>

Notes to the Financial Statements

10 Other fixed asset investments

	Deposits kDKK
Cost at 1 September	4.857
Additions for the year	1.351
Cost at 31 August	6.208
Carrying amount at 31 August	6.208

11 Prepayments

Prepayments and accrued income consist mainly of prepaid expenses relating to rent and marketing.

12 Deferred tax asset

	2022 kDKK	2021 kDKK
Deferred tax asset at 1 September	-22.847	6.236
Amounts recognised in the income statement for the year	26.034	-29.083
Deferred tax asset at 31 August	3.179	-22.847
Leasehold improvements	3.613	3.924
Fixed assets	17.968	-1.081
Rights	-36	-19
Prepayments	426	289
Trade receivables	-186	-88
Development projects	-24.972	19.822
Tax loss carry-forward	8	0
Transferred to deferred tax asset	3.179	0
	0	22.847

Deferred tax has been provided at 22% corresponding to the current tax rate.

Deferred tax asset

Calculated tax asset	3.179	0
Carrying amount	3.179	0

The recognized tax asset consists primarily of the value of tax assets, due to the difference in the accounting and tax depreciation horizons. The tax asset is thus expected to be offset over the assets' tax lifetime.

Notes to the Financial Statements

13 Deferred income

Prepayments are mainly made up of prepayments received regarding income in the following years as well as issued gift cards.

	<u>2022</u>	<u>2021</u>
	kDKK	kDKK
14 Contingent assets, liabilities and other financial obligations		

Other contingent liabilities

At 31 August, the Company has assumed rental obligations, which are non-terminable for 1-7 years, and which total:	364.032	317.054
At 31 August, the Company has assumed lease commitments, which are non-terminable for 1-3 years, and which total:	450	291
Guarantees have been provided to external parties, which at 31 August amounted to:	30.560	26.378

The company's enterprises are jointly and severally liable for tax on the jointly taxed income, etc. of the Group. The total accrued corporation tax is disclosed in the Annual Report of LLG A/S, which is the management company under the joint taxation scheme. Moreover, the Danish group enterprises are jointly and severally liable for Danish withholding taxes by way of dividend tax, royalty tax and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

LLG A/S has entered into an agreement concerning a group arrangement for Lars Larsen Group. As of 31 August 2022, 0 kDKK had been withdrawn from the total group facility. As a participant in the group account arrangement, Bolia International A/S has provided surety towards credit institutions as security for LLG A/S' obligations under the group agreement.

Notes to the Financial Statements

15 Related parties

Basis

Controlling interest

LLG A/S, CVR-nr. 86 00 15 19

Parent entity

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98 C(7) of the Danish Financial Statements Act.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company:

Name

Place of registered office

LLG A/S, CVR-nr. 86 00 15 19

Aarhus

The Group Annual Report of LLG A/S, CVR-nr. 86 00 15 19 may be obtained at the following address:

LLG A/S
Sødalsparken 18
8220 Brabrand
Danmark

Notes to the Financial Statements

16 Accounting Policies

The Annual Report of Bolia International A/S for 2021/22 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021/22 are presented in kDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of LLG A/S, the Company has not prepared consolidated financial statements.

Cash flow statement and social responsibility

With reference to section 86(4), 99(7) of the Danish Financial Statements Act and to the cash flow statement and social responsibility included in the consolidated financial statements of LLG A/S, CVR-nr. 86 00 15 19, the Company has not prepared a cash flow statement and social responsibility in the Management's Review.

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 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.

Notes to the Financial Statements

16 Accounting Policies (continued)

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.

Segment information on revenue

With reference to section 96(1) of the Danish Financial Statements Act, no disclosure is made of the breakdown of revenue into business segments as Company Management, including the Board of Directors, finds that such disclosure would be very detrimental to the Company.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when the sale is considered effected based on the following criteria:

- delivery has been made before the end of the financial year;
- a binding sales agreement has been made;
- the selling price has been determined; and
- payment has been received or may with reasonable certainty be expected to be received.

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

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Notes to the Financial Statements

16 Accounting Policies (continued)

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

With reference to section 96(3) of the Danish Financial Statements Act, no disclosure is made of the fee to the auditors appointed at the general meeting. We refer to the statement in LLG A/S' Consolidated Financial Statements.

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.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale 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 and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

16 Accounting Policies (continued)

Balance Sheet

Intangible assets

Development projects and rights

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient 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 project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item "Reserve for development costs". The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 3-5 years.

Rights are measured at cost less accumulated amortisation and less any accumulated impairment losses or at a lower value in use.

Rights are amortised over the period of the agreement, which is 6 years.

Notes to the Financial Statements

16 Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment 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:

Plant and machinery	6 years
Other fixtures and fittings, tools and equipment	3-6 years

The fixed assets' residual values are determined at nil.

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.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

Notes to the Financial Statements

16 Accounting Policies (continued)

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. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

Prepayments

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

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

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 legislation 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 tax calculated on the taxable income for the year, adjusted for tax on the taxable income of previous years and for prepaid taxes. Extra payments and repayment under the on-account taxation scheme are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

16 Accounting Policies (continued)

Financial debts

Payables are recognised at cost at the time of incurring the debt. Subsequently, they are determined at amortised cost, which in terms of short-term and non-interest-bearing liabilities as well as variable-rate liabilities usually corresponds to nominal value.

Deferred income

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

Notes to the Financial Statements

16 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$