Carl Hansen & Søn Holding A/S

Hylkedamvej 77-79, 5591 Gelsted

Annual Report 2017

CVR No 26 90 09 21

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 31/5 2018

Brian Hansen
Chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the Annual Report of Carl Hansen & Søn Holding A/S for the financial year 1 January - 31 December 2017.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Company's financial position at 31 December 2017 and of the results of the Group's and the Company's operations and consolidated cash flows for the financial year 1 January - 31 December 2017.

Further, in our opinion, Management's Review gives a fair review of the development in the Group's and the Company's operations and financial matters and the results of the Group's and the Company's operations and financial position.

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

Gelsted, 22 May 2018

Executive Board:

Knud Erik Hansen CEO	Brian Hansen CFO	Lars Hansen COO

Board of Directors:

Clas Nylandsted Andersen Chairman	Knud Erik Hansen	Inger Marie Jensen Hansen
Ulrich Krasilnikoff	Carsten Fode	

Independent Auditor’s Report

To the Shareholder of Carl Hansen & Søn Holding A/S

Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2017, and of the results of the Group’s and the Parent Company’s operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the consolidated financial statements and the parent company financial statements of Carl Hansen & Søn Holding A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows (“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 Group 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 Financial Statements Act. Based on the work we have performed, in our view, Management’s Review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement 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 consolidated financial statements and parent company 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.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent 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 Group or the Parent 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 Group's and the Parent Company's internal control.

Independent auditor’s report

- 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 Group’s and the Parent 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 Group and the Parent 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.

- 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.

Trekantomraadet, 22 May 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Carsten Dahl	Heidi Bonde
State Authorised Public Accountant	State Authorised Public Accountant
mne28674	mne42815

Management's Review

Company details

Carl Hansen & Søn Holding A/S
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DK-5591 Gelsted

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Fax: +45 66 91 60 04
Website: www.carlhansen.com
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CVR No: 26 90 09 21
Registered office: Middelfart
Financial year: 1 January – 31 December

Board of Directors

Clas Nylandsted Andersen, Chairman
Knud Erik Hansen
Inger Marie Jensen Hansen
Ulrich Krasilnikoff
Carsten Fode

Executive Board

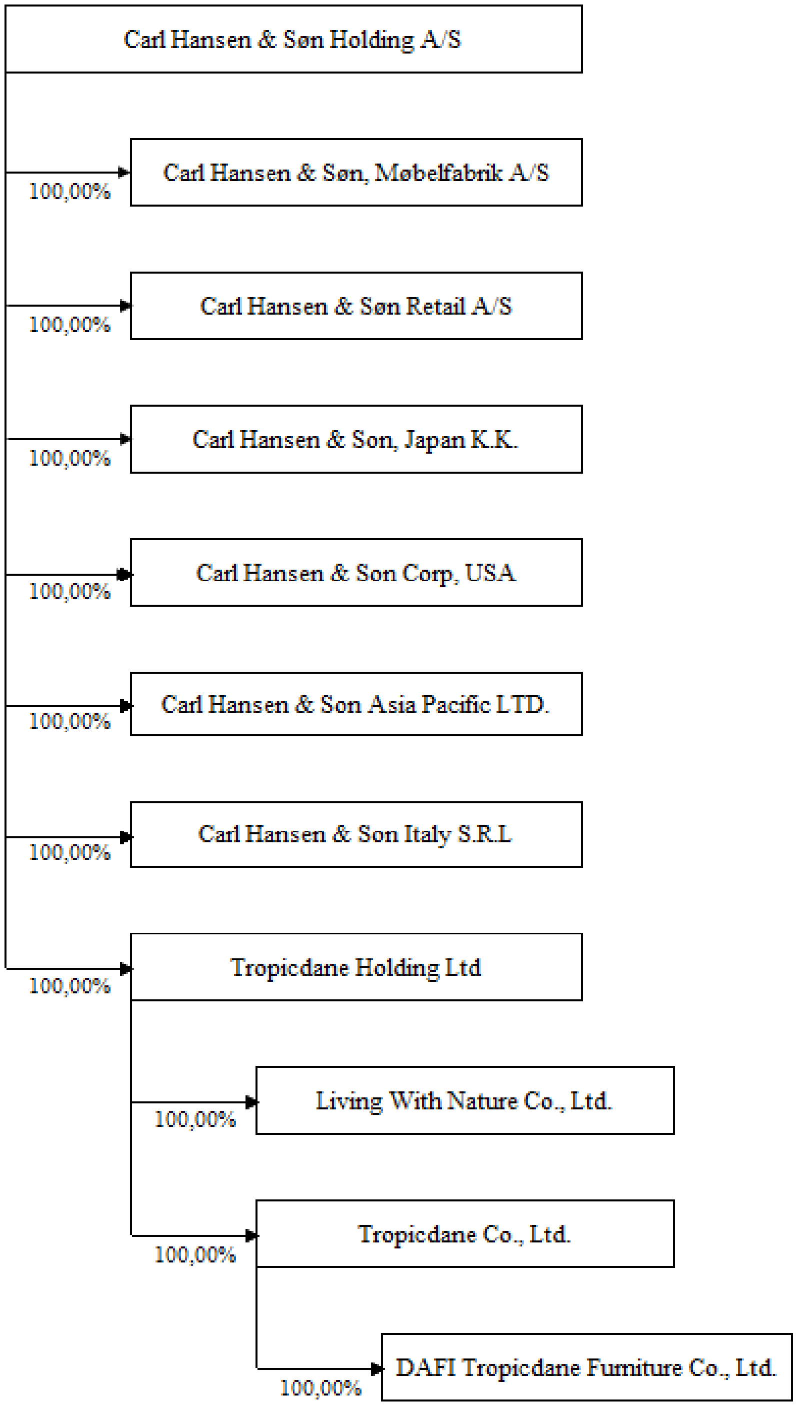
Knud Erik Hansen
Brian Hansen
Lars Hansen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Herredsvej 32
DK-7100 Vejle

Management's Review

Group chart



Management's Review

Financial highlights for the Group

DKK ‘000	2017	2016	2015	2014	2013
Key figures					
Revenue	497,395	422,025	369,550	279,937	236,501
Gross profit	209,909	173,853	140,407	110,525	93,236
Profit before financials	41,362	32,997	20,428	16,763	13,785
Net financials	-11,302	-5,592	-6,258	-5,879	-3,551
Profit for the year	**22,541**	**20,582**	**10,557**	**7,399**	**8,355**
Balance sheet total	467,037	234,870	234,790	209,235	165,824
Equity	**99,707**	**80,098**	**53,504**	**44,245**	**37,021**
Cash flows from:					
-operating activities	20,387	37,142	28,413	8,784	13,956
-investing activities	-178,879	240	-22,728	-39,719	-26,345
Portion relating to investment in property, plant and equipment	-87,603	-26,722	-18,545	-39,489	-21,717
-financing activities	96,102	5,564	-5,372	18,089	-270
Total cash flows	**-62,390**	**42,947**	**314**	**-12,846**	**-12,660**
Financial ratios					
Gross margin ratio	42.2%	41.2%	38.0%	39.5%	39.4%
Profit margin	8.3%	7.8%	5.5%	6.0%	5.8%
Return on assets	8.9%	14.0%	8.7%	8.0%	8.9%
Solvency ratio	21.3%	34.1%	22.8%	20.9%	22.2%
Return on equity	25,1%	30.8%	21.6%	18.2%	23.1%
Average number of full-time employees	**713**	**286**	**247**	**206**	**169**

For terms and definitions, please see the accounting policies.

Management's Review

Operating review

Main activity of the Group
Over the past 110 years, Carl Hansen & Søn has been manufacturing and trading high-level Danish designer furniture in Denmark and throughout the world.

Market overview
The Company achieved a growth rate of some 18 % in 2017. Denmark continues to be the largest market with a share of approximately 30 %.

In 2017, growth was generated especially in Japan, Scandinavia and Southern Europe; however, also Denmark, Central Europe and the USA saw double-digit growth rates.

It is the Company's strategy to continue recent years' growth scenario through organic growth, while looking out for opportunities of making strategic business acquisitions in the furniture and design industry.

Development in activities and financial matters
The consolidated income statement for 2017 shows a profit of DKK 22.5 million, which is as expected, and the consolidated balance sheet at 31 December 2017 shows equity of DKK 99.7 million.

In 2017, production was moved from Aarup to Gelsted to merge the two production units.

Carl Hansen & Søn purchased additional buildings in Gelsted, after which the Company has a total of 37,000 square metres of administration, production and storage facilities at its disposal in Gelsted. The production capacity has been increased.

In 2017 Carl Hansen & Søn Holding acquired DAFI in Asia. DAFI is a furniture company with production in Vietnam. DAFI is a going concern and will continue its already successful activities. Carl Hansen & Son will mainly support DAFI with technological knowhow within machinery and IT.

Capital resources
The Group's funds tied up in working capital increased by DKK 21,3 million due to high sales in December as well as build-up of foreign inventories to support future growth in these markets.

Investments totalled DKK 178,9 million, the majority being investments in buildings and machinery to support growth. Investments for 2018 are expected to amount to DKK 71 million.

Management's Review

Operating review

Risks

Currency risks
A significant number of the products manufactured by the Carl Hansen & Søn Group are sold in export markets throughout the world. In all major markets, the Company trades with its own tariffs in foreign currencies. Such an organised sales strategy implies that the Company’s income would be affected by currency fluctuations. However, the Company aims at hedging all these currency fluctuations through forward exchange contracts with its banks. We do not wish to speculate in any form of currency fluctuations or other matters that are not linked directly to our main activities as described above.

Liquidity risks
The Group relies on having access to long-term funding at all times. It is therefore the Group’s policy to have, as far as possible, non-cancellable credit facilities to an extent that is reasonably proportionate to the Group’s planned activities. Moreover, the Company makes an effort to avoid, as far as possible, dependence on individual lenders by raising loans with several different lenders.

Strategy and objectives

Strategy

It is Carl Hansen & Søn’s strategy to continue investing in the market with showrooms/shops and by employing salespersons.

Moreover, expansion of the product range is a key element in the continued expansion as the Company aims at winning market shares from its competitors through organic growth.

Targets and expectations for the year ahead

The Management of Carl Hansen & Søn expects results for 2018 to exceed those realised for 2017.

Management's Review

Operating review

Basis of earnings

External environment

The objective of the Company is to have the lowest possible impact on the environment. The Company has established a number of internal targets to ensure health and safety at work and reduce the consumption of energy.

Product development

During 2017, Carl Hansen & Søn spent DKK 3.9 million on product development. This amount relating to the development of new models has been capitalised.

A development project typically covers a period of 6-12 months, after which the products are introduced to the markets. We expect to develop 4-6 new products per year.

Corporate social responsibility report

Policies

Carl Hansen & Søn's policies in relation to corporate social responsibility comprise our environmental policy and our health & safety policy. Our environmental policy requires environmentally sound operations and forms an integral part of the Group's objectives for product quality and production environment. Our health & safety policy is designed to ensure that we have continuous focus on our employees' health and safety.

The environment and health & safety form one of the Group's five core values.

Other than that, the Group has no formal policies. Efforts will be directed at this going forward.

Activities

In 2017, Management decided to increase the Company's recycling of wood chips and rejects to generate heat at the Group's production facilities in Gelsted. Therefore, investments was made in 2017 in plant and installations so that all buildings will be supplied by heat from an internal central heating system using only wood chips and rejects from the Group's furniture production.

In order to strengthen focus a working environment coordinator and HR assistant with a focus on strategic working environment and health were employed in 2017.

Management's Review

Operating review

Intellectual capital resources

The Company manufactures a variety of products of high-quality craftsmanship supported by the newest machine technology in the market. That makes heavy demands in terms of skilled labour.

The Company works continuously to attract the best workers, while focusing on continuous enhancement of technical standards throughout the business.

Report on gender composition of management under section 99b of the Danish Financial Statements Act

Target for the Board of Directors

Carl Hansen & Søn has defined a target of at least 40 % female members of the Board of Directors elected at the Annual General Meeting by 2022. The current gender composition among the board members elected at the Annual General Meeting is four men and one woman. The composition of the Board of Directors remains unchanged from 2016. Going forward, the Board of Directors will, where possible, nominate qualified female candidates for the Board of Directors at future General Meetings to achieve the target.

Diversity at other management levels of Carl Hansen & Søn

Moreover, the Company has prepared a policy for increasing the share of female members of management below board level. The policy includes a target of equal gender distribution at all management levels with personnel responsibility.

The Company's target is challenged by a relatively small number of female candidates for vacant management positions; however, in the event of equally qualified candidates for a vacant management position, the female candidate will be preferred to achieve the target of equal gender distribution among the Company's managers with personnel responsibility.

In order to ensure that the Company is able to comply with section 99b of the Danish Finacial Statement Act, it remains the Company's objective for future recruitment with equal split between gender based on skills, the participants in the Company's management training must be equally divided between gender over a number of years.

During 2017 there has been changes in the management levels, and as a result, number of female managers and directors has increased compared to last year.

Subsequent events

No events affecting Management's assessment of the results for 2017 have occurred after the balance sheet date.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

The Annual Report of Carl Hansen & Søn Holding A/S for 2017 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 used in the preparation of the consolidated financial statements and the parent company financial statements are consistent with those of last year.

The consolidated financial statements and the parent company financial statements for 2017 are presented in DKK.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Carl Hansen & Søn Holding A/S, and subsidiaries in which Carl Hansen & Søn Holding A/S directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Enterprises in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates, see the group chart.

On consolidation, intercompany income and expenses, shareholdings, intercompany balances and dividends as well as realised and unrealised gains and losses on intercompany transactions are eliminated.

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

Business combinations

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the consolidated income statement until the date of disposal. The comparative figures are not adjusted for acquisitions or disposals.

Gains or losses on disposal of subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal plus non-amortised goodwill and anticipated disposal costs.

Acquisitions of enterprises are accounted for using the acquisition method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

Goodwill and negative goodwill from acquired enterprises may be adjusted until the end of the year following the year of acquisition.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

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

Foreign subsidiaries and associates are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Foreign exchange adjustments of intercompany balances with independent foreign subsidiaries which are considered part of the investment in the subsidiary are recognised directly in equity. Foreign exchange gains and losses on loans and derivative financial instruments designated as hedges of foreign subsidiaries are also recognised directly in equity.

On recognition of foreign subsidiaries which are integral entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Changes in the fair value of derivative financial instruments used to hedge net investments in independent foreign subsidiaries or associates are recognised directly in equity.

Segment reporting on revenue

Information is presented in respect of business segments and geographical segments based on the Group's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Revenue is measured at fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Expenses for raw materials and consumables

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

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sale and distribution and office expenses, etc.

Staff expenses

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

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses comprise depreciation, amortisation and impairment for the year of property, plant and equipment and intangible assets.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the enterprises, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The proportionate share of the profits/losses after tax of the individual subsidiaries is recognised in the income statement of the Parent Company after full elimination of intercompany profits/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies,

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account taxation scheme, etc.

Tax on profit/loss for the year

The Parent Company is subject to the Danish rules on compulsory joint taxation of the Carl Hansen & Søn Group's Danish subsidiaries. Subsidiaries form part of the joint taxation from the date on which they are included in the consolidation of the consolidated financial statements and up to the date on which they exit the consolidation.

The Parent Company is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

The current Danish corporation tax is allocated by settlement of joint taxation contributions between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carry-forwards receive joint taxation contributions from companies that have used these losses to reduce their own taxable profits.

Tax for the year comprises current tax, joint taxation contributions for the year and changes in deferred tax for the year – due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible assets

Goodwill

Goodwill is amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is amortised on a straight-line basis over a maximum amortisation period of 20 years, longest for strategically acquired enterprises with strong market positions and long-term earnings profiles.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Development projects, patents and licences

Development costs comprise costs, salaries and amortisation directly or indirectly attributable to development activities.

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

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Completed development projects are amortised on a straight-line basis over the expected useful life. The amortisation period is usually 10 years. In case of development projects protected by intellectual property rights, the maximum amortisation period equals the remaining term of the rights concerned, however maximum 10 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the licence period, although not exceeding 10 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount.

Property, plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and labour.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

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

Buildings	10-50 years
Fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	10 years

The residual value of the Company’s property, plant and equipment is reassessed annually.

Showroom furniture is recognised at cost.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Leases

Leases for non-current assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are initially recognised in the balance sheet at cost, corresponding to the lower of fair value and the net present value of future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the Company's other non-current assets.

The capitalised residual lease obligation is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingent liabilities etc.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Investments in subsidiaries

Investments in subsidiaries are measured under the equity method.

Investments in subsidiaries are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intercompany profits and losses and plus or minus any residual value of positive goodwill determined in accordance with the acquisition method.

Investments in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the Parent Company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries and associates is recognised in the reserve for net revaluation in equity under the equity method to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the Annual Report of Carl Hansen & Søn Holding A/S are not recognised in the reserve for net revaluation.

On acquisition of subsidiaries, the acquisition method is applied, see Consolidated financial statements above.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

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

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct labour and indirect production overheads. Indirect production overheads comprise indirect materials and labour as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost.

Provision is made for bad debt losses where there is an objective indication that a receivable or a receivable portfolio has been impaired. If there is an objective indication that an individual receivable has been impaired, a provision is made based on an individual assessment.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's and the Group's credit risk management policy. The objective indicators used in relation to portfolios are determined based on historical loss experience.

Provisions for write-down are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Equity

Reserve for net revaluation under the equity method

Net revaluation of investments in subsidiaries and associates is recognised at cost in the reserve for net revaluation under the equity method.

The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

Dividends

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

Corporation tax and deferred tax

In its capacity as the administrative company, Carl Hansen & Søn Holding A/S is liable for its subsidiaries' corporation taxes towards the tax authorities concurrently with the payment of joint taxation contribution by the subsidiaries.

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

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or "Corporation tax payable".

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

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intercompany profits and losses.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

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

Other liabilities are measured at net realisable value.

Deferred income

Deferred income is payments received concerning income in subsequent years.

Cash flow statement

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

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

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are subject to an insignificant risk of changes in value.

Financial ratios

The financial ratios stated in the survey of financial highlights have been calculated as follows:

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

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Income statement

		Consolidated		Parent Company	
DKK	Note	2017	2016	2017	2016
Revenue	1	497,394,711	422,024,766	0	0
Cost of goods sold		-175,815,256	-148,513,521	0	0
Other income		1,839,807	0	224.340	101,941
Other external expenses		-113,509,794	-99,657,922	-415,744	0
Gross profit/loss		209,909,468	173,853,323	-191,404	101,941
Staff expenses	2	-148,361,492	-126,115,116	0	0
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	3	-16,693,565	-12,576,304	-69,444	-41,667
Other expenses		-3,492,423	-2,165,069	0	0
Operating profit/loss		41,361,988	32,996,834	-260,848	60,274
Income from investments in group enterprises	4	0	0	24,377,529	22,155,195
Financial income	5	819,928	557,538	614,215	0
Financial expenses	6	-12,121,971	-6,149,553	-2,680,772	-2,031,586
Profit/loss for the year before tax		30,059,945	27,404,819	22,050,124	20,183,883
Tax on profit/loss for the year	7	-7,519,221	-6,822,719	490,600	398,217
Profit/loss for the year		22,540,724	20,582,100	22,540,724	20,582,100

Proposed profit appropriation note 8

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

		Consolidated		Parent Company	
DKK	Note	2017	2016	2017	2016
ASSETS					
Non-current assets					
Intangible assets	9				
Goodwill		1,558,463	1,795,085	0	0
Goodwill on consolidation		43,879,489	2,242,215	0	0
Development completed		13,081,282	11,243,099	0	0
Patents and licences		3,239,021	169,238	0	0
		61,758,255	15,449,637	0	0
Property, plant and equipment	10				
Leasehold improvements		7,410,060	6,020,939	0	0
Land and buildings		85,453,146	19,169,422	0	0
Fixtures and fittings, tools and equipment		78,024,409	48,548,740	180,556	55,555
Property, plant and equipment under construction		6,197,460	2,545,994	0	0
		177,085,075	76,285,095	180,556	55,555
Investments					
Investments in subsidiaries	11	0	0	190,794,500	129,016,019
Deposits		7,583,261	7,358,498	0	0
		7,583,261	7,358,498	190,794,500	129,016,019
Total non-current assets		246,426,591	99,093,230	190,975,056	129,071,574
Current assets					
Inventories					
Raw materials and consumables		19,098,752	8,627,450	0	0
Work in progress		61,166,449	32,808,472	0	0
Finished goods		39,919,232	33,066,568	0	0
		120,184,433	74,502,490	0	0
Receivables					
Trade receivables		74,400,728	50,275,581	0	0
Amounts receivable from group enterprises		0	0	62,304	0
Corporation tax		0	0	550,392	552,662
Deferred tax asset	15	249,482	648,132	0	346
Other receivables	12	7,142,588	2,722,053	0	6,455
Prepayments	13	7,157,494	4,882,062	0	0
		88,950,292	58,527,828	612,696	559,463
Cash at bank and in hand		11,475,662	2,745,993	0	4,089
Total current assets		220,610,387	135,776,331	612,696	563,552
TOTAL ASSETS		467,036,978	234,869,541	191,587,752	129,635,126

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

DKK	Note	Consolidated 2017	Consolidated 2016	Parent Company 2017	Parent Company 2016
EQUITY AND LIABILITIES					
Equity					
Share capital	14	519,556	590,405	519,556	590,405
Reserve for net revaluation under the equity method		0	0	60,432,372	58,440,000
Retained earnings		96,687,771	77,407,593	36,255,399	18,967,593
Proposed dividends		2,500,000	2,100,000	2,500,000	2,100,000
Total equity		99,707,327	80,097,998	99,707,327	80,097,998
Provisions					
Deferred tax	15	11,052,166	4,153,900	15,446	0
Total provisions		11,052,166	4,153,900	15,446	0
Liabilities other than provisions					
Non-current liabilities other than provisions	16				
Mortgage debt		16,555,877	6,430,216	0	0
Bank debt		28,417,520	1,336,346	0	0
Instruments of debt		32,755,404	2,000,000	32,755,404	2,000,000
Lease obligations		35,114,329	20,253,988	0	0
		112,843,130	30,020,550	32,755,404	2,000,000
Current liabilities other than provisions					
Current portion of long term debt	16	40,829,521	24,949,891	11,549,706	409,000
Trade payables		68,466,630	44,123,906	0	0
Bank debt		83,685,378	12,566,503	2,315,782	0
Deferred income	17	14,935,136	6,310,372	0	0
Amounts owed to group enterprises		0	0	43,862,843	47,088,128
Corporation tax		3,904,637	8,015,622	0	0
Other payables		31,613,053	24,630,799	1,381,244	40,000
		243,434,355	120,597,093	59,109,575	47,537,128
Total liabilities other than provisions		356,277,485	150,617,643	91,864,979	49,537,128
TOTAL EQUITY AND LIABILITIES		467,036,978	234,869,541	191,587,752	129,635,126

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Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Equity

DKK	Consolidated Share capital	 Retained earnings	 Proposed dividends	 Total
Equity at 1 January	590,405	77,407,593	2,100,000	80,097,998
Capital decrease	-70,849	70,849	0	0
Profit for the year	0	20,040,724	2,500,000	22,540,724
Foreign currency translation adjustments, foreign subsidiaries	0	-3,795,354	0	-3,795,354
Ordinary dividend distributed	0	0	-2,100,000	-2,100,000
Extraordinary dividend distributed	0	-500,000	0	-500,000
Value adjustments of hedging instruments at 31 December	0	3,463,959	0	3,463,959
Proposed dividends	0	0	0	0
Equity at 31 December	519,556	96,687,771	2,500,000	99,707,327

DKK	Parent Company Share capital	 Reserve for net revaluation under the equity method	 Retained earnings	 Proposed dividends	 Total
Equity at 1 January	590,405	58,440,000	18,967,593	2,100,000	80,097,998
Capital decrease	-70,849	0	70,849	0	0
Profit for the year	0	2,383,923	17,656,801	2,500,000	22,540,724
Foreign currency translation adjustments, foreign subsidiaries	0	-3,795,354	0	0	-3,795,354
Ordinary dividend distributed	0	0	0	-2,100,000	-2,100,000
Extraordinary dividend distributed	0	0	-500,000	0	-500,000
Value adjustments of hedging instruments at 31 December	0	3,463,959	0	0	3,463,959
Proposed dividends	0	0	0	0	0
Equity at 31 December	519,556	60,492,528	36,195,243	2,500,000	99,707,327

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Cash flow statement

DKK	Note	Consolidated 2017	2016
Profit for the year		22,540,724	20,582,100
Adjustments	17	40,043,611	37,542,585
Changes in working capital	18	-21,340,612	-14,617,106
Cash generated from operations (operating activities)		41,243,723	43,507,579
Interest received		819,928	557,538
Interest paid		-12,121,971	-6,149,553
Cash generated from operations (ordinary activities)		29,941,680	37,915,564
Corporation tax paid		-9,554,559	-773,766
Cash flows from operating activities		20,387,121	37,141,798
Acquisition of subsidiaries and activities		-87,941,705	0
Acquisition of intangible assets		-3,917,804	-3,053,990
Acquisition of property, plant and equipment		-87,603,456	-26,722,200
Disposal of property, plant and equipment		808,891	31,871,850
Additions, other fixed asset investments		-224,763	-1,855,320
Cash flows from investing activities		-178,878,837	240,340
External financing:			
Additions of long-term debt		127,466,135	12,768,826
Repayment of long-term debt		-28,763,925	-6,904,438
Shareholders:			
Dividends paid		-2,600,000	-300,000
Cash flows from financing activities		96,102,210	5,564,388
Net cash flows from operating, investing and financing activities		-62,389,506	42,946,526
Cash and cash equivalents at 1 January		-9,820,510	-52,767,036
Cash and cash equivalents at 31 December		-72,210,016	-9,820,510
Cash and cash equivalents:			
Cash at bank and in hand		11,475,662	2,745,993
Bank debt		-83,685,678	-12,566,503
Cash and cash equivalents at 31 December		-72,210,016	-9,820,510

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements and the parent company financial statements.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK	Consolidated 2017	Consolidated 2016	Parent Company 2017	Parent Company 2016
1 Revenue				
Geographical markets				
Denmark	161,004,171	144,480,862	0	0
Other countries in Europe	177,939,283	140,278,582	0	0
Canada and USA	59,994,504	49,107,340	0	0
Japan	74,122,805	65,335,057	0	0
Other	24,333,948	22,822,925	0	0
	497,394,711	422,024,766	0	0
Activities				
Sale of self-constructed furniture and goods for resale	497,394,711	422,024,766		
2 Staff expenses				
Wages and salaries	134,803,362	115,970,343	0	0
Pensions	11,709,706	8,310,440	0	0
Other social security costs	1,848,424	1,834,333	0	0
	148,361,492	126,115,116	0	0
Hereof remuneration to Executive Board and Board of Directors	6,023,209	4,717,772	0	0
Average number of full-time employees	713	286	0	0
3 Depreciation, amortisation and impairment losses				
Intangible assets	3,482,257	2,603,956	0	0
Property, plant and equipment	13,211,308	9,972,348	69,444	41,667
	16,693,565	12,576,304	69,444	41,667

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK	Consolidated 2017	Consolidated 2016	Parent Company 2017	Parent Company 2016
4 Income from investments in group enterprises				
Share of profits of subsidiaries			22,796,301	23,216,405
Amortisation of goodwill			-1,168,785	-436,548
Change in intercompany profit on inventories purchased within the Group			2,750,013	-624,662
			24,377,529	22,155,195
5 Financial income				
Other interest income	819,928	557,538	614,215	0
	819,928	557,538	614,215	0
6 Financial expenses				
Interest, group enterprises	0	0	1,788,655	2,015,906
Other interest expense	12,121,971	6,149,553	892,117	15,680
	12,121,971	6,149,553	2,680,772	2,031,586
7 Tax on the profit/loss for the year				
Current tax for the year	3,526,506	8,287,748	-506,392	-428,528
Deferred tax for the year	3,718,146	30,787	15,792	-4,977
Adjustment of tax re prior years	274,569	-374,143	0	35,288
	7,519,221	7,944,392	-490,600	-398,217
broken down as follows:				
Tax on profit for the year	6,542,207	6,822,719	-490,600	-398,217
Tax on changes in equity	977,014	1,121,673	0	0
	7,519,221	7,944,392	-490,600	-398,217

Notes to the financial statements

8 Proposed profit appropriation

	Parent Company	
DKK	2017	2016
Proposed dividend	2,500,000	2,100,000
Transferred to revaluation under the equity method	2,383,923	16,170,234
Retained earnings	17,656,801	2,311,866
	22,540,724	20,582,100

9 Intangible assets

	Consolidated			
DKK	Goodwill	Goodwill on conso-lidation	Develop-ment projects	Patents and licences
Cost at 1 January	4,466,220	5,625,501	18,841,456	305,740
Acquired enterprises	0	42,806,059	0	3,067,012
Additions	0	0	3,866,247	51,557
Disposals	0	0	0	0
Cost at 31 December	4,466,220	48,431,560	22,707,703	3,424,309
Impairment losses and amortisation at 1 January	2,671,135	3,383,286	7,598,357	136,502
Impairment losses and amortisation for the year	236,622	1,168,785	2,028,064	48,786
Disposals	0	0	0	0
Impairment losses and amortisation at 31 December	2,907,757	4,552,071	9,626,421	185,288
Carrying amount at 31 December	1,558,463	43,879,489	13,081,282	3,239,021
Amortised over	10 years	10-20 years	10 years	10 years

Development projects concern new products to be introduced to the market. A development project typically spans a period of 6-12 months, after which the product is introduced to the market. We expect to develop 4-6 new products per year.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

10 Property, plant and equipment

DKK	Leasehold improvements	Land and buildings	Fixtures and fittings, tools and equipment	Property, plant and equipment under con-struction
	Consolidated			
Cost at 1 January	8,075,644	21,577,401	93,343,740	2,545,994
Acquired enterprises	0	24,959,200	6,246,349	150,375
Foreign currency translation adjustments, foreign entities	-90,613	-89,593	-788,902	-226,160
Additions	2,077,803	44,128,539	35,350,029	6,047,085
Transferred	539,172	0	1,780,662	-2,319,834
Disposals	0	-10,969	-11,378,659	0
Cost at 31 December	10,602,006	90,564,578	124,553,219	6,197,460
Impairment losses and depreciation at 1 January	2,054,705	2,407,979	44,795,001	0
Foreign currency translation adjustments, foreign entities	-66,147	-3,488	-139,974	0
Depreciation	1,203,388	2,717,910	9,295,122	0
Transferred	0	0	0	0
Disposals	0	-10,969	-7,421,339	0
Impairment losses and depreciation at 31 December	3,191,946	5,111,432	46,528,810	0
Carrying amount at 31 December	7,410,060	85,453,146	78,024,409	6,197,460
Property, plant and equipment include finance leases with a carrying amount totalling	0	3,325,798	41,737,732	0
Depreciated over	10 years	10-50 years	3-10 years	-

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

10 Property, plant and equipment (continued)

DKK	Parent Company Fixtures and fittings, tools and equipment
Cost at 1 January	250,000
Additions	250,000
Transferred	0
Disposals	-250,000
Cost at 31 December	250,000
Impairment losses and depreciation at 1 January	194,445
Depreciation	69,444
Disposals	-194,445
Impairment losses and depreciation at 31 December	69,444
Carrying amount at 31 December	180,556
Property, plant and equipment include finance leases with a carrying amount totalling	0
Depreciated over	3-10 years

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK	Parent Company 2017	Parent Company 2016
11 Investments in subsidiaries		
Cost at 1 January	70,576,019	71,001,519
Additions	70,994,077	74,500
Disposals	-11,268,124	-500,000
Cost at 31 December	130,301,972	70,576,019
Value adjustments at 1 January	58,440,000	35,957,393
Adjustment to beginning-of-year balance	0	15,039
Foreign currency translation adjustments	-3,795,354	2,335,532
Equity adjustments in subsidiaries, financial instruments	3,463,959	3,976,841
Profit/loss for the year	22,796,301	23,216,405
Liquidation proceeds	-4,993,606	0
Dividend paid	-17,000,000	-6,000,000
Adjustment of intercompany profit on inventories	3,349,471	-800,849
Deferred tax on intercompany profit on inventories	-599,458	176,187
Amortisation, goodwill on consolidation	-1,168,785	-436,548
Value adjustments at 31 December	60,492,528	58,440,000
Carrying amount at 31 December	190,794,500	129,016,019
Non-amortised goodwill	43,879,489	2,242,215

Name	Registered office	Voting rights and ownership
Carl Hansen & Søn, Møbelfabrik A/S	Middelfart, Denmark	100%
Carl Hansen & Son Italy S.R.L.	Milan, Italy	100%
Carl Hansen & Søn Retail A/S	Middelfart, Denmark	100%
Carl Hansen & Son Japan K.K.	Tokyo, Japan	100%
Carl Hansen & Son Corp.	New York, USA	100%
Carl Hansen & Son Asia Pacific Ltd.	Kowloon, Hong Kong	100%
Tropicdane Holding Ltd	British Virgin Islands	100%
Living With Nature Co., Ltd	Hong Kong	100%
Tropicdane Co., Ltd	Turks and Caicos Islands	100%
DAFI Tropicdane Furniture Co., Ltd	HCMC, Vietnam	100%

All subsidiaries are considered separate entities.

12 Other receivables

Other receivables include positive fair value of forward exchange contracts of DKK 1,022k. The forward exchange contracts have been entered into to hedge inflow of currency from the sale of goods in 2018 at the amount of JPY 400,000k. All forward exchange contracts expire in 2018.

13 Prepayments

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

Notes to the financial statements

DKK	Parent Company 2017	Parent Company 2016

14 Share capital

	2017	2016
Share capital contributed at foundation	500,000	500,000
Capital increase 2003	3,393	3,393
Capital increase 2004	6,671	6,671
Capital increase 2005	9,492	9,492
Capital increase 2009	70,849	70,849
Capital decrease 2017	-70,849	0
Equity at 31 December	519,556	590,405

The share capital consists of 519,556 shares of DKK 1. No shares carry any special rights.

15 Deferred tax

	Consolidated		Parent Company	
DKK	2017	2016	2017	2016
Deferred tax asset	-249,482	-648,132	0	-346
Deferred tax	11,052,166	4,153,900	15,446	0
	10,802,684	3,505,768	15,446	-346
Intangible assets	2,773,941	2,202,618	0	0
Property, plant and equipment	5,599,375	1,458,153	15,446	-346
Current assets	2,678,850	682,193	0	0
Tax loss carry-forward	-249,482	-837,196	0	0
	10,802,684	3,505,768	15,446	-346

Provision for deferred tax has been made at the tax rate at which the temporary differences are expected realised.

	Consolidated 2017	Consolidated 2016	Parent Company 2017	Parent Company 2016
Provisions for deferred tax at 1 January	3,505,768	3,489,640	-346	4,631
Acquired enterprises	3,617,747	0	0	0
Beginning of year exchange adjustment recognised in equity	-38,976	-14,659	0	0
Deferred tax recognised in the income statement	3,718,145	30,787	15,792	-4,977
	10,802,684	3,505,768	15,446	-346

Deferred tax assets on loss carry-forwards are expected utilised within the next 1-2 years.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

16 Mortgage credit institutes and banks

The loans are specified as follows:

	Consolidated		Parent Company	
DKK	2017	2016	2017	2016
Mortgage debt				
After 5 years	11,831,036	4,774,912	0	0
Between 1 and 5 years	4,724,841	1,655,304	0	0
Long-term	16,555,877	6,430,216	0	0
Short-term	1,143,167	18,765,239	0	0
	17,699,044	25,195,455	0	0
Bank debt				
After 5 years	0	0	0	0
Between 1 and 5 years	28,417,520	1,336,346	0	0
Long-term	28,417,520	1,336,346	0	0
Short-term	20,798,103	326,434	0	0
	49,215,623	1,662,780	0	0
Instruments of debt				
After 5 years	464,132	0	464,132	0
Between 1 and 5 years	32,291,272	2,000,000	32,291,272	2,000,000
Long-term	32,755,404	2,000,000	32,755,404	2,000,000
Short-term	11,549,706	409,000	11,549,706	409,000
	44,305,110	2,409,000	44,305,110	2,409,000
Lease obligations				
After 5 years	7,351,214	1,319,753	0	0
Between 1 and 5 years	27,763,115	18,934,235	0	0
Long-term	35,114,329	20,253,988	0	0
Short-term	7,338,545	5,449,218	0	0
	42,452,874	25,703,206	0	0
Total loans	153,672,651	54,970,441	44,305,110	2,409,000

17 Deferred income

Deferred income, DKK 14,935k, consists of payments received from customers that may not be recognised until the subsequent financial year.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK	Consolidated 2017	Consolidated 2016
18 Adjustments		
Interest received	-819,928	-557,538
Interest paid	12,121,971	6,149,553
Amortisation of intangible assets	3,482,257	2,603,956
Depreciation of property, plant and equipment	13,211,308	9,972,348
Other income	-1,839,807	0
Other expenses	3,492,423	2,165,069
Taxes for the year	7,519,221	6,822,719
Currency adjustments	-3,795,354	2,316,307
Other adjustments	3,207,561	4,093,330
Equity adjustments regarding financial instruments	3,463,959	3,976,841
	40,043,611	37,542,585

DKK	Consolidated 2017	Consolidated 2016
19 Changes in working capital		
Change in inventories	-23,996,874	-8,697,184
Change in receivables	-20,608,521	-16,750,815
Change in trade and other payables	23,264,783	10,830,893
	-21,340,612	-14,617,106

Notes to the financial statements

20 Contractual obligations and contingencies, etc

Mortgages and collateral, parent company

The Parent Company Carl Hansen & Son Holding A/S has issued a joint and unlimited guarantee for the subsidiary's bank commitments.

Contingent assets

An action has been brought against a company in Sweden which has made copy furniture. The Court awarded, among others, Carl Hansen & Søn Møbelfabrik A/S damages of SEK 3,413k. The company has lodged an appeal against the decision with the Danish High Court. In the appeal case the Court has reduced damages to SEK 198k. Carl Hansen & Søn Møbelfabrik A/S has lodged an appeal against the decision. Management has therefore opted not to recognise the damages in the financial statements for 2017 due to uncertainty of the outcome of the appeal.

Operating lease obligations

The group enterprises have entered into operating lease obligations with total nominal residual lease payments of DKK 3,497k. The leases have a remaining term of up to 43 months.

The group enterprises have entered into contractual obligations with total nominal residual lease payments of DKK 114,313k. The leases have a remaining term of up to 126 months.

Mortgages and collateral

As security for bank commitments, the following have been deposited:

> As security for bank commitments of DKK 94,394k, a owner's mortgage of nom. DKK 5,000k secured on buildings has been issued, as well as a floating charge of DKK 15,000k secured on unsecured claims originating from the sale of goods, machinery and equipment, inventories as well as goodwill and patents of a total carrying amount of DKK 193,704k.
>
> As security for bank commitments of DKK 24,292k, a floating charge of DKK 19,863k secured on unsecured claims originating from machinery, equipment and land use rights of a total carrying amount of DKK 30,859k.

As security for mortgage debt, the following has been deposited:

> DKK 19,452k, secured on property of a carrying amount of DKK 60,639k for a recorded remaining debt of DKK 18,117k.

Notes to the financial statements

21 Related party disclosures

	Basis
Controlling interest	
Knud Erik Hansen, Hellerupvej 20, DK-5750 Ringe	Controlling shareholder
Other related parties	
Clas Nylandsted Andersen, Revningevej 209, DK-5300 Kerteminde	Chairman of the Board of Directors
Inger Marie Jensen Hansen, Hellerupvej 20, DK-5750 Ringe	Member of the Board of Directors
Carsten Fode, Strandborgvej 38, DK-8240 Risskov	Member of the Board of Directors
Ulrich Krasilnikoff, Nøkkentved 18, DK-4440 Mørkøv	Member of the Board of Directors
Knud Erik Hansen, Hellerupvej 20, DK-5750 Ringe	Member of the Board of Directors

Transactions

Related party transactions have been carried out on an arm's length basis. With reference to section 98 c(7) of the Danish Financial Statements Act, related party transactions have not been disclosed.

22 Fee to auditors appointed by the general meeting

	PricewaterhouseCoopers		Other	
DKK	2017	2016	2017	2016
Audit fees	611,425	500,495	20,333	25,673
Other assurance engagements	0	0	0	0
Tax consultancy	10,000	10,000	0	0
Other services	967,252	688,310	14,510	53,285
	1,588,677	1,198,805	34,843	78,958

23 Significant subsequent events

No events have occurred after year end which could materially affect the Company’s financial position.