

Softline A/S

Kidnakken 7, 4930 Maribo
CVR no. 27 26 63 55

Annual report for 2022

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 29.03.23

Andy Nørregaard Andersen
Dirigent

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The company

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Registered office: Lolland
CVR no.: 27 26 63 55
Financial year: 01.01 - 31.12

Executive Board

Finn Herluf Sørensen

Board of Directors

Andy Nørregaard Andersen, chairman
Finn Herluf Sørensen
Karen Sofie Hansen-Hoeck
Anders Carsted Rosenberg

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.22 - 31.12.22 for Softline A/S.

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

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 31.12.22 and of the results of the company's activities and cash flows for the financial year 01.01.22 - 31.12.22.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Maribo, March 29, 2023

Executive Board

Finn Herluf Sørensen

Board of Directors

Andy Nørregaard Andersen
Chairman

Finn Herluf Sørensen

Karen Sofie Hansen-Hoeck

Anders Carsted Rosenberg

To the Shareholders of Softline A/S**Opinion**

We have audited the financial statements of Softline A/S for the financial year 01.01.22 - 31.12.22, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.22 and of the results of the company's operations and cash flows for the financial year 01.01.22 - 31.12.22 in accordance with the the Danish Financial Statements Act (Årsregnskabsloven).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing 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 regarding the 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, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Acts. We did not identify any material misstatement of management's review.

Management's responsibility for the financial statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore the Management is responsible for the internal control as the 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 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 International Standards on Auditing 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 International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Nykøbing F, March 29, 2023

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Glenn Hartmann

State Authorized Public Accountant
MNE-no. mne32173

FINANCIAL HIGHLIGHTS**Key figures**

Figures in DKK '000	2022	2021	2020	2019	2018
<i>Profit/loss</i>					
Gross profit	43,336	37,815	34,567	34,324	37,024
Index	117	102	93	93	100
Operating profit	12,764	12,616	8,206	7,963	12,009
Index	106	105	68	66	100
Total net financials	-200	-186	-377	-143	-101
Profit for the year	9,793	9,699	6,097	6,088	9,262

Balance

Total assets	66,106	64,525	57,113	56,031	53,415
Investments in property, plant and equipment	1,559	675	1,294	403	669
Equity	53,894	51,101	45,902	44,805	43,717

Ratios

	2022	2021	2020	2019	2018
<i>Profitability</i>					
Return on equity	19%	20%	13%	14%	22%
<i>Equity ratio</i>					
Solvency ratio	82%	79%	80%	80%	82%
<i>Others</i>					
Number of employees (average)	51	46	53	53	51

The comparative figures for 20x1 have been restated in accordance with the new accounting policies. Financial highlights for the past 2 to 4 years have not been restated in accordance with the change in accounting policies, see section 101(3) of the Danish Financial Statements Act. (Tilføj overordnet omtale af, hvilken indvirkning den ændrede regnskabspraksis har på virksomhedens sammenligningstal.)

Ratios definitions

Return on equity:	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$
Solvency ratio:	$\frac{\text{Equity, end of year} \times 100}{\text{Total assets}}$

Primary activities

SOFTLINE A/S continues to develop as an international brand and a leading provider of innovative, functional and high-quality design furniture worldwide. The strong SOFTLINE concept of our unique design furniture is evolving. The company is working closely together with leading designers in order to continuously launch new, creative design products. SOFTLINE's desire to innovate, which was the company's starting point at the founding in 1979, is still our driving force.

Today, SOFTLINE design products are sold in 61 countries worldwide through high-end design partners and dealers specialised in the creative development of public spaces and domestic interiors. The export share is 93%.

Since 2003, SOFTLINE A/S has been an independent, privately-owned enterprise with a factory in Denmark, where the upholstery craft is performed by hand, based on Scandinavian traditions – in eco-friendly materials.

Development in activities and financial affairs

The income statement for the period 01.01.22 - 31.12.22 shows a profit/loss of DKK 9,792,955 against DKK 9,698,993 for the period 01.01.21 - 31.12.21. The balance sheet shows equity of DKK 53,894,265.

The earnings expectations for 2022 were a net profit of DKK 7.692.000, which was achieved in 2022 with a final net profit DKK 9.792.955 a result +27,3% compared to budget.

Outlook

The company expects a profit before tax in the region of DKK 12.802.000 for the coming year. The company's investments in the expansion of the distribution network are expected to be realised in the coming year and contribute to improved results.

Knowledge resources

The company is constantly focused on optimization of procedures and processes to ensure a high product quality that meet the customer's rightful demand of high-quality design products.

Therefore, considerable resources are continuously allocated to the development and marketing of new products, as well as to the optimisation of procedures and processes.

Furthermore, a significant investment in marketing activities happened in 2022, focusing on digital media to ensure an even stronger positioning of the SOFTLINE brand.

Financial risks*Foreign currency risks*

More than 70% of the revenue is invoiced in foreign currency, which means that profit, cash flows and equity are affected by the development of the exchange rate for a number of currencies. It is the company's policy to hedge the most significant commercial currency risks. The coverage primarily takes place via currency accounts in EUR to hedge the currency risk for the currency traded in.

Research and development activities

Significant resources are continuously allocated to the development and marketing of new products, as well as for optimising methods and processes.

Subsequent events*Inflation*

In 2022 and the first month of 2023 have been characterized by high inflation with price increases as a consequence. The company is monitoring this development closely, and the necessary measures are taken accordingly.

No other significant events have occurred after the end of the financial year.

Corporate social responsibility

As a production company, SOFTLINE cares about its responsibility for the development and well-being of people as well as we care about the environment and protecting the planet against climate change. In 2022, the company focused strategically on improving practices and actions concerning sustainability and work related, social issues.

CSR Policy

The CSR policy of the company has been evaluated and adjusted so that it reflects how the company acts responsibly socially, environmentally and management-wise on a daily basis. In that connection the UN Global Goals acted as the point of orientation.

SOFTLINE has engaged in community activities and support to refugees, displaced people and people in need by providing donations to aid and charity organizations at local, national and global level. Also, employment of refugees and marginalized people has a priority for the company.

Furthermore, the Code of Conduct of the company has been updated in accordance with the current legal requirements including directions targeted to the subcontractors of the company. Serving as the foundation of future commerce, ethical principles has been defined to help us control the supply chain.

Sustainability/Quality

When innovating, designing and producing products, it is of the utmost importance to the company to use environmentally friendly raw materials in a high quality and thoroughly tested constructions, resulting in durable and safe SOFTLINE products with a long lifespan.

Recykling/Durability

To ensure that we make the most of the resources and they are kept in circulation as long as possible, the company has an increased focus on furniture and materials that can be recycled or reused, becoming part of new products. Covers and other components are changeable, extending the life cycle of the product and minimizing the environmental impact over time. When the life cycle of the furniture has come to an end, the simple disassembly ensures that the various materials can be sorted at source and reused to the widest extend possible. Lastly, it is worth mentioning that an optimization and upgrade of materials are happening on a regular basis and that the development of sustainable materials is closely monitored.

Income statement

Note		2022 DKK	2021 DKK
	Gross profit	43,335,741	37,815,022
1	Staff costs	-29,686,818	-24,376,876
	Profit before depreciation, amortisation, write-downs and impairment losses	13,648,923	13,438,146
	Depreciation and impairments losses of property, plant and equipment	-884,712	-821,918
	Operating profit	12,764,211	12,616,228
2	Financial expenses	-200,343	-186,134
	Profit before tax	12,563,868	12,430,094
	Tax on profit for the year	-2,770,913	-2,731,101
	Profit for the year	9,792,955	9,698,993

3 Proposed appropriation account

ASSETS		31.12.22	31.12.21
		DKK	DKK
Note			
	Leasehold improvements	239,474	76,049
	Other fixtures and fittings, tools and equipment	1,710,041	1,199,594
4	Total property, plant and equipment	1,949,515	1,275,643
5	Other receivables	670,438	656,815
	Total investments	670,438	656,815
	Total non-current assets	2,619,953	1,932,458
	Raw materials and consumables	24,073,291	17,368,775
	Manufactured goods and goods for resale	2,647,265	5,078,055
	Total inventories	26,720,556	22,446,830
	Work in progress for third parties	70,272	66,574
	Trade receivables	13,674,276	16,417,389
	Receivables from group enterprises	19,039	0
	Deferred tax asset	70,558	106,937
	Other receivables	1,143,795	1,189,785
6	Prepayments	339,363	443,300
	Total receivables	15,317,303	18,223,985
	Cash	21,448,529	21,921,244
	Total current assets	63,486,388	62,592,059
	Total assets	66,106,341	64,524,517

EQUITY AND LIABILITIES		31.12.22	31.12.21
		DKK	DKK
Note			
7	Share capital	2,000,000	2,000,000
	Retained earnings	44,894,265	42,101,310
	Proposed dividend for the financial year	7,000,000	7,000,000
	Total equity	53,894,265	51,101,310
	Prepayments received from customers	3,744,476	2,890,338
	Trade payables	6,577,326	7,504,385
	Payables to group enterprises	0	235,992
	Income taxes	216,534	50,230
	Other payables	1,673,740	2,742,262
	Total short-term payables	12,212,076	13,423,207
	Total payables	12,212,076	13,423,207
	Total equity and liabilities	66,106,341	64,524,517
9	Contingent liabilities		
10	Charges and security		
11	Related parties		

Statement of changes in equity

Figures in DKK	Share capital	Retained earnings	Proposed dividend for the financial year	Total equity
Statement of changes in equity for 01.01.22 - 31.12.22				
Balance as at 01.01.22	2,000,000	42,101,310	7,000,000	51,101,310
Dividend paid	0	0	-7,000,000	-7,000,000
Net profit/loss for the year	0	2,792,955	7,000,000	9,792,955
Balance as at 31.12.22	2,000,000	44,894,265	7,000,000	53,894,265

Cash flow statement

Note	2022 DKK	2021 DKK
Profit for the year	9,792,955	9,698,993
12 Adjustments	3,557,669	3,664,753
Change in working capital:		
Inventories	-4,273,726	-5,958,365
Receivables	2,856,680	-3,256,677
Trade payables	-927,059	1,971,988
Other payables relating to operating activities	-450,378	475,147
Cash flows from operating activities before net financials	10,556,141	6,595,839
Interest expenses and similar expenses paid	-200,343	-186,134
Income tax paid	-2,568,230	-2,994,990
Cash flows from operating activities	7,787,568	3,414,715
Purchase of property, plant and equipment	-1,558,582	-675,311
Sale of property, plant and equipment	298,299	74,400
Cash flows from investing activities	-1,260,283	-600,911
Dividend paid	-7,000,000	-4,500,000
Cash flows from financing activities	-7,000,000	-4,500,000
Total cash flows for the year	-472,715	-1,686,196
Cash, beginning of year	21,921,244	23,607,440
Cash, end of year	21,448,529	21,921,244
Cash, end of year, comprises:		
Cash	21,448,529	21,921,244
Total	21,448,529	21,921,244

	2022	2021
	DKK	DKK

1. Staff costs

Wages and salaries	27,025,864	22,212,572
Pensions	1,597,358	1,385,495
Other social security costs	213,174	199,915
Other staff costs	850,422	578,894
Total	29,686,818	24,376,876

Average number of employees during the year	51	46
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Remuneration for the management:

Remuneration for the Executive Board and Board of Directors	1,638,186	1,625,186
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2. Financial expenses

Interest, group enterprises	2,799	1,133
Other interest expenses	78,906	133,760
Foreign currency translation adjustments	118,638	47,741
Other financial expenses	0	3,500
Other financial expenses	197,544	185,001
Total	200,343	186,134

3. Proposed appropriation account

Proposed dividend for the financial year	7,000,000	7,000,000
Retained earnings	2,792,955	2,698,993
Total	9,792,955	9,698,993

4. Property, plant and equipment

Figures in DKK	Leasehold improvements	Other fixtures and fittings, tools and equipment
Cost as at 01.01.22	636,451	4,611,892
Additions during the year	212,500	1,346,082
Disposals during the year	0	-940,865
Cost as at 31.12.22	848,951	5,017,109
Depreciation and impairment losses as at 01.01.22	-560,402	-3,412,296
Depreciation during the year	-49,075	-835,637
Reversal of depreciation of and impairment losses on disposed assets	0	940,865
Depreciation and impairment losses as at 31.12.22	-609,477	-3,307,068
Carrying amount as at 31.12.22	239,474	1,710,041

5. Non-current financial assets

Figures in DKK	Other receivables
Cost as at 01.01.22	670,438
Cost as at 31.12.22	670,438
Carrying amount as at 31.12.22	670,438

	31.12.22	31.12.21
	DKK	DKK

6. Prepayments

Prepaid membership fees and subscriptions	63,911	61,573
Prepaid rent	0	256,868
Prepaid support assistance	55,161	40,065
Prepaid fair costs	220,291	84,794
Total	339,363	443,300

7. Share capital

The share capital consists of:

	Quantity	Total nominal value DKK
Share capital	4,000	2,000,000
Total		2,000,000

	31.12.22	31.12.21
	DKK	DKK

8. Deferred tax

Provisions for deferred tax as at 01.01.22	106,937	77,808
Deferred tax recognised in the income statement	-36,379	29,129
Provisions for deferred tax as at 31.12.22	70,558	106,937

Deferred tax is distributed as below:

Property, plant and equipment	95,968	129,297
Receivables	-25,410	-22,361
Total	70,558	106,936

As at 31.12.22, the company has recognised a deferred tax asset of DKK 71k, which can primarily be attributed to tax losses carried forward. The deferred tax asset is recognised on the basis of expectations of positive operating results for the coming years.

9. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 6-18 months and total lease payments of DKK 2.180k.

Other contingent liabilities

The company is taxed jointly with the other Danish companies in the group and is liable for income taxes on a pro rata basis and must comply with any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The maximum liability totals an amount corresponding to the share of the capital in the company which is owned directly or indirectly by the ultimate parent. The total tax liability for the jointly taxed companies at the balance sheet date has not yet been determined. For further information, please see the financial statements of the management company Softline Holding A/S.

10. Charges and security

The company has issued mortgage deeds registered to the mortgagor in the total amount of DKK 4,000k carrying amount of pledged assets 2022.12.31 constitutes:

- Other fixtures and fittings, tools and equipment, DKK 1,710k.
- Trade receivables, DKK 13,674k..

11. Related parties

Controlling influence	Basis of influence
Andy Nørregaard Andersen	Management
Finn Herluf Sørensen	Management
Karen Sofie Hansen-Hoeck	Management
Anders Carsted Rosenberg	Management
Softline Holding A/S, Lolland	Owner
SH Softair Holding AG, Sarnen, Schweiz	Owner

Related party transactions are not disclosed, as all transactions are entered into in the ordinary course of business at arms' length.

Remuneration for the management is specified in note 1. Staff costs.

The company is included in the consolidated financial statements of the parent Softline Holding A/S, Lolland.

	2022 DKK	2021 DKK
12. Adjustments for the cash flow statement		
Other operating income	-298,299	-74,400
Depreciation and impairments losses of property, plant and equipment	884,712	821,918
Financial expenses	200,343	186,134
Tax on profit or loss for the year	2,770,913	2,731,101
Total	3,557,669	3,664,753

13. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

13. Accounting policies - continued -**LEASES**

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

INCOME STATEMENT**Gross profit**

Gross profit comprises revenue, other operating income and raw materials and consumables and other external expenses.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including compensation, and gains on the sale of intangible assets and property, plant and equipment.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

13. Accounting policies - continued -**Staff costs**

Staff costs comprise wages and salaries as well as other staff-related costs.

Depreciation and impairment losses

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value DKK
Leasehold improvements	5	0
Other plant, fixtures and fittings, tools and equipment	2-5	0

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

13. Accounting policies - continued -**BALANCE SHEET****Property, plant and equipment**

Property, plant and equipment comprise leasehold improvements as well as other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

13. Accounting policies - continued -**Inventories**

Inventories are measured at cost calculated according to the FIFO-method. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The cost of manufactured finished goods and work in progress is determined as the value of direct material and labour costs. Interest on loans arranged to finance production is not included in the cost.

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

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Work in progress for third parties

Work in progress for third parties is determined as the value of direct material and labour costs less prepayments associated with each piece of work in progress. Interest on loans arranged to finance production is ikke included in the cost.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

13. Accounting policies - continued -**Equity**

The proposed dividend for the financial year is recognised as a separate item in equity.

Current and deferred tax

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

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to the time and date of delivery of the agreed product or completion of the agreed service.

13. Accounting policies - continued -**CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the company's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables.

Cash and cash equivalents at the beginning and end of the year comprise cash.