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Kvadrat Soft Cells A/S

Lundbergsvej 10
8400 Ebeltoft
CVR No. 28989520

Annual report 2019

25.06.2020

Søren Stenderup Jensen
Conductor

Contents

Entity details

Entity

Kvadrat Soft Cells A/S

Lundbergsvej 10

8400 Ebeltoft

CVR No.: 28989520

Registered office: Syddjurs

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Søren Stenderup Jensen, Chairman

Anders Byriel

Finn Jespersen

Jacob Lahn Sloth

John Charles Thorpe

Mads Bo Nygård

Executive Board

Arne Molberg, CEO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

City Tower, Værkmestergade 2

8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Kvadrat Soft Cells A/S for the financial year 01.01.2019 - 31.12.2019.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Ebeltoft, 25.06.2020

Executive Board

Arne Molberg
CEO

Board of Directors

Søren Stenderup Jensen
Chairman

Anders Byriel

Finn Jespersen

Jacob Lahn Sloth

John Charles Thorpe

Mads Bo Nygård

Independent auditor's report

To the shareholders of Kvadrat Soft Cells A/S

Qualified opinion

We have audited the financial statements of Kvadrat Soft Cells A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, except for possible effect the matter described in the "Basis for qualified opinion" section, the financial statements give a true and fair view of the Entity’s financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for qualified opinion

As stated in note 2, the value of one of the contract works in progress and related inventories, totalling DKK 8,405k, is subject to significant uncertainty. We have not been able to obtain adequate assurance about the value of the construction contract and the related inventories. We therefore modify our opinion in respect of the stated construction contract and the related inventories.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor’s report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity’s ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Aarhus, 25.06.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

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

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

Management commentary

Primary activities
The Company's objective consists in development, production, marketing and sale of building components.

Development in activities and finances
Result for the year amounts to DKK 9,382k, which is considered satisfactory. A result on the same level is expected for the coming financial year.

Uncertainty relating to recognition and measurement
The Company's contract work in progress is measured at the selling price of work carried out at the balance sheet date based on the stage of completion.

One of the contract works in progress and related inventories has become subject to uncertainty as certain contract elements have been violated due to significant delays in delivery and payment. The contract is recognised in the financial statements at DKK 3,943k under contract work in progress and DKK 4,463k under inventories.

It is still Management's assessment that delivery and payment, except for the delay, will be executed in accordance with the terms of the contract. Management has therefore maintained the valuation and recognition under the stage-of-completion method.

Events after the balance sheet date
The outbreak and continued spreading of the COVID-19 virus, in most of the geographies in which Kvadrat Soft Cells is present, will undoubtedly have a negative effect on the outlook for 2020 for the company. Management will closely monitor the situation and adapt appropriate measures required for the company to steer through these difficult and challenging times.

No other events have occurred after the balance sheet date, which would influence the evaluation of this annual report.

Income statement for 2019

	Notes	2019 DKK	2018 DKK
Gross profit/loss		**25,204,420**	**22,843,990**
Staff costs	3	(14,739,383)	(13,601,691)
Depreciation, amortisation and impairment losses	4	(1,810,931)	(1,982,982)
Other operating expenses		(239,393)	(193,972)
Operating profit/loss		**8,414,713**	**7,065,345**
Income from investments in group enterprises		3,071,218	1,056,071
Other financial income		620,890	319,465
Other financial expenses		(925,410)	(1,285,225)
Profit/loss before tax		**11,181,411**	**7,155,656**
Tax on profit/loss for the year	5	(1,799,000)	(1,351,750)
Profit/loss for the year		**9,382,411**	**5,803,906**
Proposed distribution of profit and loss			
Retained earnings		9,382,411	5,803,906
Proposed distribution of profit and loss		**9,382,411**	**5,803,906**

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK	2018 DKK
Completed development projects	7	1,115,593	938,064
Acquired intangible assets		174,544	335,251
Intangible assets	6	**1,290,137**	**1,273,315**
Leasehold improvements		256,110	1,264,458
Property, plant and equipment	8	**256,110**	**1,264,458**
Investments in group enterprises		53,044,211	48,223,063
Deposits		306,839	300,214
Other financial assets	9	**53,351,050**	**48,523,277**
Fixed assets		**54,897,297**	**51,061,050**
Raw materials and consumables		4,811,826	5,253,462
Inventories		**4,811,826**	**5,253,462**
Trade receivables		9,704,436	12,522,863
Contract work in progress	10	3,942,727	3,942,727
Receivables from group enterprises		6,555,811	17,900,388
Other receivables		885,159	133,872
Prepayments		2,171,505	717,019
Receivables		**23,259,638**	**35,216,869**
Cash		**0**	**2,953**
Current assets		**28,071,464**	**40,473,284**
Assets		**82,968,761**	**91,534,334**

Equity and liabilities

	Notes	2019 DKK	2018 DKK
Contributed capital		1,250,000	1,250,000
Reserve for net revaluation according to the equity method		2,388,461	0
Reserve for development expenditure		870,163	606,884
Retained earnings		10,178,981	2,802,091
Equity		**14,687,605**	**4,658,975**
Deferred tax	11	1,232,000	1,282,000
Other provisions		2,801,253	1,697,542
Provisions		**4,033,253**	**2,979,542**
Bank loans		27,600,000	32,200,000
Other payables		465,366	0
Non-current liabilities other than provisions	12	**28,065,366**	**32,200,000**
Current portion of non-current liabilities other than provisions	12	4,600,000	4,600,000
Bank loans		17,626,803	26,542,874
Prepayments received from customers		1,895,242	3,368,626
Trade payables		2,166,922	2,653,600
Payables to group enterprises		2,011,947	852,619
Joint taxation contribution payable		1,849,000	3,647,750
Other payables	13	6,032,623	10,030,348
Current liabilities other than provisions		**36,182,537**	**51,695,817**
Liabilities other than provisions		**64,247,903**	**83,895,817**
Equity and liabilities		**82,968,761**	**91,534,334**
Events after the balance sheet date	1		
Uncertainty relating to recognition and measurement	2		
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Statement of changes in equity for 2019

	Contributed capital DKK	Reserve for net revaluation according to the equity method DKK	Reserve for development expenditure DKK	Retained earnings DKK	Total DKK
Equity beginning of year	1,250,000	0	606,884	2,802,091	4,658,975
Exchange rate adjustments	0	646,219	0	0	646,219
Transfer to reserves	0	0	263,279	(263,279)	0
Profit/loss for the year	0	1,742,242	0	7,640,169	9,382,411
Equity end of year	**1,250,000**	**2,388,461**	**870,163**	**10,178,981**	**14,687,605**

Notes

1 Events after the balance sheet date

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

No other events have occurred after the balance sheet date, which would influence the evaluation of this annual report.

2 Uncertainty relating to recognition and measurement

The Company's contract work in progress is measured at the selling price of work carried out at the balance sheet date based on the stage of completion.

One of the contract works in progress and related inventories have become subject to uncertainty as certain contract elements have been violated due to significant delays in delivery and payment. The contract is recognised in the financial statements at DKK 3,943k under contract work in progress and DKK 4,463k under inventories.

It is still Management's assessment that delivery and payment, except for the delay, will be effected in accordance with the terms of the contract. Management has therefore maintained the valuation and recognition under the stage-of-completion method.

3 Staff costs

	2019 DKK	2018 DKK
Wages and salaries	13,601,342	12,584,506
Pension costs	1,031,142	908,979
Other social security costs	106,899	108,206
	14,739,383	**13,601,691**
Average number of full-time employees	**18**	**17**

4 Depreciation, amortisation and impairment losses

	2019 DKK	2018 DKK
Amortisation of intangible assets	802,583	990,951
Depreciation of property, plant and equipment	1,008,348	992,031
	1,810,931	**1,982,982**

5 Tax on profit/loss for the year

	2019 DKK	2018 DKK
Current tax	1,849,000	3,647,750
Change in deferred tax	(50,000)	(2,296,000)
	1,799,000	**1,351,750**

6 Intangible assets

	Completed development projects DKK	Acquired intangible assets DKK
Cost beginning of year	6,644,045	6,175,907
Additions	819,405	0
Cost end of year	**7,463,450**	**6,175,907**
Amortisation and impairment losses beginning of year	(5,705,981)	(5,840,656)
Amortisation for the year	(641,876)	(160,707)
Amortisation and impairment losses end of year	**(6,347,857)**	**(6,001,363)**
Carrying amount end of year	**1,115,593**	**174,544**

7 Development projects

Development projects consist of capitalised costs relating to development of new products as well as improvement of already existing products.

8 Property, plant and equipment

	Leasehold improvements DKK
Cost beginning of year	2,991,771
Cost end of year	**2,991,771**
Depreciation and impairment losses beginning of year	(1,727,313)
Depreciation for the year	(1,008,348)
Depreciation and impairment losses end of year	**(2,735,661)**
Carrying amount end of year	**256,110**

9 Financial assets

	Investments in group enterprises DKK	Deposits DKK
Cost beginning of year	47,854,496	300,214
Additions	0	6,625
Cost end of year	**47,854,496**	**306,839**
Revaluations beginning of year	368,567	0
Exchange rate adjustments	646,219	0
Amortisation of goodwill	(4,354,392)	0
Share of profit/loss for the year	7,425,610	0
Investments with negative equity value transferred to provisions	1,103,711	0
Revaluations end of year	**5,189,715**	**0**
Carrying amount end of year	**53,044,211**	**306,839**
Goodwill or negative goodwill recognised during the financial year	30,480,736	

Investments in subsidiaries	**Registered in**	**Equity interest %**
Kvadrat Soft Cells Sp. z.o.o.	Poland	100,0
Fabric Systems Limited	England	100,0
Kvadrat Soft Cells Hong Kong Ltd.	Hong kong	100,0
Kvadrat Soft Cells A/S Inc.	USA	100,0

10 Contract work in progress

	2019 DKK	2018 DKK
Contract work in progress	22,293,403	22,293,403
Progress billings regarding contract work in progress	(18,350,676)	(18,350,676)
	3,942,727	**3,942,727**

11 Deferred tax

	2019 DKK	2018 DKK
Intangible assets	245,430	206,374
Property, plant and equipment	(193,380)	(104,324)
Receivables	1,179,950	1,179,950
Deferred tax	**1,232,000**	**1,282,000**

Changes during the year	2019 DKK	2018 DKK
Beginning of year	1,282,000	3,578,000
Recognised in the income statement	(50,000)	(2,296,000)
End of year	**1,232,000**	**1,282,000**

12 Non-current liabilities other than provisions

	Due within 12 months 2019 DKK	Due within 12 months 2018 DKK	Due after more than 12 months 2019 DKK	Outstanding after 5 years 2019 DKK
Bank loans	4,600,000	4,600,000	27,600,000	9,200,000
Other payables	0	0	465,366	0
	4,600,000	**4,600,000**	**28,065,366**	**9,200,000**

13 Other payables

	2019 DKK	2018 DKK
VAT and duties	0	799,424
Wages and salaries, personal income taxes, social security costs, etc payable	4,162,699	6,418,234
Holiday pay obligation	1,008,916	1,645,023
Other costs payable	861,008	1,167,667
	6,032,623	**10,030,348**

14 Unrecognised rental and lease commitments

	2019 DKK	2018 DKK
Liabilities under rental or lease agreements until maturity in total	**5,891,586**	**981,914**

15 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where Kvadrat Holding A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore secondarily liable for income taxes etc for the jointly taxed entities, which is limited to the equity interest by which the entity participates in the Group, and also secondarily liable for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The jointly taxed entities' total known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

16 Assets charged and collateral

On behalf of the Company, the Company's bank has provided performance guarantees to a third party totalling DKK 1.386k.

17 Related parties with controlling interest

Related parties with controlling interest:

Kvadrat A/S, Lundbergsvej 10, 8400 Ebeltoft, Central Business Registration No 45 99 85 17

The Company does not disclose transactions with related parties in accordance with S 98c(7) of the Danish Financial Statements Act.

18 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Kvadrat Holding A/S, Lundbergsvej 10, 8400 Ebeltoft, Central Business Registration No 15 12 00 02

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Kvadrat A/S, Lundbergsvej 10, 8400 Ebeltoft, Central Business Registration No 45 99 85 17

Accounting policies

Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

Consolidated financial statements
Referring to section section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates and out of the translation of income statements from average rates to the exchange rates at the balance sheet date are classified directly as equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries, which are considered part of the total investment in the subsidiary in question, are classified directly as equity.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate at the time of acquisition or the time of any subsequent revaluation or writedown. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Contract work in progress is included in revenue based on he stage of completion so that revenue corresponds to the selling price of the work performed in the financial year (the percentage-of-completion method).

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, and gains and losses from the sale of intangible assets and property, plant and equipment.

Other operating expenses

Other operating expenses comprise expenses of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises
Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income
Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets, and tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities, and tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with the ultimate parent company and all Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred less deferred tax is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

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

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 3-5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised on a straight-line basis over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment
Leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Leasehold improvements	3-5 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits or losses. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in group enterprises.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is the positive difference between cost of investments and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful lives are reassessed annually. The amortisation periods used are 10 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

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

Cost consists of purchase price plus delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Contract work in progress
Contract work in progress is measured at the selling price of the work carried out at the balance sheet date.

The selling price is measured based on the stage of completion and the total estimated income from the individual contracts in progress. Usually, the stage of completion is determined as the ratio of actual to total budgeted consumption of resources.

If the selling price of a project in progress cannot be made up reliably, it is measured at the lower of costs incurred and net realisable value.

Each contract in progress is recognised in the balance sheet under receivables or liabilities other than provisions, depending on whether the net value, calculated as the selling price less prepayments received, is positive or negative.

Costs of sales work and of securing contracts, and finance costs are recognised in the income statement as incurred.

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

Cash
Cash comprises cash in bank deposits.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other provisions
Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructuring, etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Once it is probable that total costs will exceed total income from a contract in progress, provision is made for the total loss estimated to result from the relevant contract.

Other provisions also include group enterprises with negative equity value.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers
Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Joint taxation contributions payable or receivable
Current joint taxation contributions receivable or joint taxation contributions payable are recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.