
Promovec A/S

Langdyssen 6, Lisbjerg, DK-8200 Aarhus N

Annual Report for 1 July 2021 - 30 June 2022

CVR No 32 79 00 89

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
17/11 2022

Brian Christensen
Chairman of the General
Meeting



pwc

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 July - 30 June	8
Balance Sheet 30 June	9
Statement of Changes in Equity	11
Notes to the Financial Statements	12

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Promovec A/S for the financial year 1 July 2021 - 30 June 2022.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 30 June 2022 of the Company and of the results of the Company operations for 2021/22.

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

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

Aarhus N, 17 November 2022

Executive Board

Jesper Lundqvist

Board of Directors

Gert Kristiansen
Chairman

Kurt Schlott Hansen

Brian Christensen

Independent Auditor's Report

To the Shareholders of Promovec A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2022 and of the results of the Company's operations for the financial year 1 July 2021 - 30 June 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Promovec A/S for the financial year 1 July 2021 - 30 June 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

Management's responsibilities for the Financial Statements

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

Independent Auditor's Report

ment, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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

Independent Auditor's Report

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.

Esbjerg, 17 November 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Palle H. Jensen

State Authorised Public Accountant

mne32115

Company Information

The Company

Promovec A/S
Langdyssen 6
Lisbjerg
DK-8200 Aarhus N
E-mail: info@promovec.dk
Website: www.promovec.dk

CVR No: 32 79 00 89
Financial period: 1 July - 30 June
Financial year: 13rd financial year
Municipality of reg. office: Aarhus

Board of Directors

Gert Kristiansen, Chairman
Kurt Schlott Hansen
Brian Christensen

Executive Board

Jesper Lundqvist

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Esbjerg Brygge 28
DK-6700 Esbjerg

Bankers

Skjern Bank
Banktorvet 3
6900 Skjern

Financial Highlights

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

	<u>2021/22</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	55.206	59.787	28.996	31.966	23.006
Operating profit/loss	23.867	32.971	8.094	13.347	3.805
Profit/loss before financial income and expenses	23.841	32.971	8.094	13.347	3.805
Net financials	-279	-532	-1.273	-2.654	-618
Net profit/loss for the year	18.537	25.495	5.440	8.182	2.477
Balance sheet					
Balance sheet total	180.817	125.598	69.618	83.478	51.874
Equity	59.767	44.231	20.735	17.295	9.113
Ratios					
Return on assets	13,2%	26,3%	11,6%	16,0%	7,3%
Solvency ratio	33,1%	35,2%	29,8%	20,7%	17,6%
Return on equity	35,6%	78,5%	28,6%	62,0%	27,9%

The ratios have been prepared in accordance with the recommendations and guidelines issues by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The Company's principal activity consists of development, production, sale and servicing of electric bikes and drivelines for electric bikes.

Development in the year

The income statement of the Company for 2021/22 shows a profit of DKK 18,536,851, and at 30 June 2022 the balance sheet of the Company shows equity of DKK 59,767,379.

The past year and follow-up on development expectations from last year

Due to supply uncertainty, and rising prices in material and freight our targets for the year have not been met. We have though managed to expand our position in Europe, together with focusing on the cooperation with our strategic partners.

This year, many resources have been put into managing these uncertainties in the market and our focus have been on adapting to the changes throughout the entire value chain. At the same time, we have been working on adjusting and updating our strategy to ensure a clear 2025+ strategy with focus on, among other things, our developments, a clear and strategic sales focus, and sustainability.

Targets and expectations for the year ahead

The electric bicycle industry in general is in a positive development, but short term with a serious slowdown in the market, which also will affect us. In the long term though, we expect further growth. The focus in the coming year will therefore be on adapting to the short-term situation, together with preparing for the long-term growth by ensuring international sales expansion, the product development of our 'Promovec brain', together with strengthening our ESG (Environmental, Social and Corporate Governance) focus even more.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Unusual events

The financial position at 30 June 2022 of the Company and the results of the activities of the Company for the financial year for 2021/22 have not been affected by any unusual events.

Subsequent events

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

Income Statement 1 July - 30 June

	Note	2021/22 DKK	2020/21 DKK
Gross profit/loss		55.206.411	59.787.295
Staff expenses	1	-28.474.035	-24.288.671
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-2.865.635	-2.527.995
Other operating expenses		-25.342	0
Profit/loss before financial income and expenses		23.841.399	32.970.629
Financial income	2	1.163.888	962.483
Financial expenses	3	-1.442.468	-1.494.911
Profit/loss before tax		23.562.819	32.438.201
Tax on profit/loss for the year	4	-5.025.968	-6.942.962
Net profit/loss for the year		18.536.851	25.495.239
Proposed distribution of profit			
Proposed dividend for the year		14.000.000	3.000.000
Retained earnings		4.536.851	22.495.239
		18.536.851	25.495.239

Balance Sheet 30 June

Assets

	Note	2022 DKK	2021 DKK
Completed development projects		2.598.421	2.081.633
Development projects in progress		4.060.212	4.739.149
Intangible assets	5	6.658.633	6.820.782
Other fixtures and fittings, tools and equipment		3.924.050	1.115.443
Leasehold improvements		286.279	516.552
Property, plant and equipment	6	4.210.329	1.631.995
Other receivables		356.000	356.000
Fixed asset investments	7	356.000	356.000
Fixed assets		11.224.962	8.808.777
Inventories	8	60.823.467	51.938.827
Trade receivables		74.372.260	37.148.985
Receivables from group enterprises		11.662.786	7.675.021
Other receivables		18.790.721	15.485.742
Prepayments	9	3.930.407	4.517.222
Receivables		108.756.174	64.826.970
Cash at bank and in hand		12.531	23.227
Currents assets		169.592.172	116.789.024
Assets		180.817.134	125.597.801

Balance Sheet 30 June

Liabilities and equity

	Note	2022 DKK	2021 DKK
Share capital		5.000.000	5.000.000
Reserve for development costs		5.196.368	5.041.697
Retained earnings		35.571.011	31.188.831
Proposed dividend for the year		14.000.000	3.000.000
Equity		59.767.379	44.230.528
Provision for deferred tax	11	1.852.979	1.593.993
Provision for guarantee repairs	12	2.931.056	1.692.493
Provisions		4.784.035	3.286.486
Other payables		1.834.867	1.793.988
Long-term debt	13	1.834.867	1.793.988
Credit institutions		37.308.868	5.441.680
Prepayments received from customers		0	1.283.768
Trade payables		58.585.965	37.310.238
Payables to group enterprises		0	17.766.089
Corporation tax		11.304.524	7.764.542
Other payables	13	7.231.496	6.720.482
Short-term debt		114.430.853	76.286.799
Debt		116.265.720	78.080.787
Liabilities and equity		180.817.134	125.597.801
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	14		
Related parties	15		
Accounting Policies	16		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Proposed dividend for the year	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 July	5.000.000	5.041.697	31.188.831	3.000.000	44.230.528
Ordinary dividend paid	0	0	0	-3.000.000	-3.000.000
Development costs for the year	0	691.639	-691.639	0	0
Depreciation, amortisation and impairment for the year	0	-536.968	536.968	0	0
Net profit/loss for the year	0	0	4.536.851	14.000.000	18.536.851
Equity at 30 June	5.000.000	5.196.368	35.571.011	14.000.000	59.767.379

Notes to the Financial Statements

	<u>2021/22</u>	<u>2020/21</u>
	DKK	DKK
1 Staff expenses		
Wages and salaries	23.762.452	20.457.294
Pensions	3.542.907	2.766.450
Other social security expenses	206.073	195.578
Other staff expenses	962.603	869.349
	<u>28.474.035</u>	<u>24.288.671</u>
Average number of employees	<u>60</u>	<u>58</u>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
2 Financial income		
Interest received from group enterprises	218.652	33.480
Other financial income	945.236	929.003
	<u>1.163.888</u>	<u>962.483</u>
3 Financial expenses		
Interest paid to group enterprises	276.580	0
Other financial expenses	1.165.888	1.494.911
	<u>1.442.468</u>	<u>1.494.911</u>
4 Tax on profit/loss for the year		
Current tax for the year	4.766.982	6.537.542
Deferred tax for the year	258.986	405.420
	<u>5.025.968</u>	<u>6.942.962</u>

Notes to the Financial Statements

5 Intangible assets

	Completed development projects <u>DKK</u>	Development projects in progress <u>DKK</u>
Cost at 1 July	14.431.576	4.734.681
Additions for the year	10.540	2.488.151
Transfers for the year	<u>1.550.645</u>	<u>-3.162.620</u>
Cost at 30 June	<u>15.992.761</u>	<u>4.060.212</u>
Impairment losses and amortisation at 1 July	12.349.943	0
Amortisation for the year	<u>1.044.397</u>	<u>0</u>
Impairment losses and amortisation at 30 June	<u>13.394.340</u>	<u>0</u>
Carrying amount at 30 June	<u>2.598.421</u>	<u>4.060.212</u>
Amortised over		<u>5 years</u>

Development projects related to the development of new versions of the Company's existing products as well as expansion of the Company's product range. In FY 2021/22 we completed the three development projects that we set forth last year and three new projects for the coming years have been started up. The Grip/Display development and the special bikes development from last year, which was launched this financial year, has been sold to various customers. For next year, our focus will have a more international aim together with the prioritization of our battery developments, as we need to make changes to our batteries due to changes in legislation and because we wish to have new drivetrain designs.

Notes to the Financial Statements

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	DKK	DKK
Cost at 1 July	3.352.913	2.121.144
Additions for the year	2.121.716	18.740
Disposals for the year	-48.380	0
Transfers for the year	1.611.975	0
Cost at 30 June	<u>7.038.224</u>	<u>2.139.884</u>
Impairment losses and depreciation at 1 July	2.237.471	1.604.595
Depreciation for the year	899.741	249.010
Reversal of impairment and depreciation of sold assets	-23.038	0
Impairment losses and depreciation at 30 June	<u>3.114.174</u>	<u>1.853.605</u>
Carrying amount at 30 June	<u>3.924.050</u>	<u>286.279</u>
Depreciated over	<u>3-5 years</u>	<u>5 years</u>

7 Fixed asset investments

	Other receiv- ables
	DKK
Cost at 1 July	<u>356.000</u>
Cost at 30 June	<u>356.000</u>
Carrying amount at 30 June	<u>356.000</u>

8 Inventories

	2022	2021
	DKK	DKK
Finished goods and goods for resale	<u>60.823.467</u>	<u>51.938.827</u>
	<u>60.823.467</u>	<u>51.938.827</u>

Notes to the Financial Statements

9 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well as fair value adjustments of derivative financial instruments with a positive fair value.

	<u>2021/22</u> DKK	<u>2020/21</u> DKK
10 Distribution of profit		
Proposed dividend for the year	14.000.000	3.000.000
Retained earnings	<u>4.536.851</u>	<u>22.495.239</u>
	<u>18.536.851</u>	<u>25.495.239</u>

11 Provision for deferred tax

Provision for deferred tax at 1 July	1.593.993	1.188.573
Amounts recognised in the income statement for the year	<u>258.986</u>	<u>405.420</u>
Provision for deferred tax at 30 June	<u>1.852.979</u>	<u>1.593.993</u>

12 Provision for guarantee repairs

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of kDKK 2,931 (2020/21: kDKK 1,692) have been recognised for expected warranty claims.

Other provisions	<u>2.931.056</u>	<u>1.692.493</u>
	<u>2.931.056</u>	<u>1.692.493</u>

Notes to the Financial Statements

13 Long-term debt

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

The debt falls due for payment as specified below:

	2022 DKK	2021 DKK
Other payables		
Between 1 and 5 years	1.834.867	1.793.988
Long-term part	1.834.867	1.793.988
Other short-term payables	7.231.496	6.720.482
	9.066.363	8.514.470

14 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with Skjern Bank A/S:
Company mortgage on nom. kDKK 32,000, which provides security in the Company's intangible and tangible fixed assets, inventories and debtors with an accounting value of DKK

146.064.689	97.540.589
-------------	------------

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	183.358	37.176
Between 1 and 5 years	311.163	68.156
	494.521	105.332

Lease obligations, terminated lease	699.244	0
Lease obligations, period of non-terminability 12 months	0	662.448
Lease obligations, period of non-terminability 11 months	0	291.500
Lease obligations, period of non-terminability 6 months	0	117.000

Other contingent liabilities

The Company has provided a guarantee to Skjern Bank for the bank's facilities with BikeRep A/S, Promovec Properties A/S and Promovec Group A/S.

Notes to the Financial Statements

14 Contingent assets, liabilities and other financial obligations (continued)

As a 4th priority, a receivables charge (negative pledge) has been issued with Skandinaviska Enskilda Banken as manager.

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

15 Related parties

	Basis
Controlling interest	
Promovec Group A/S	Parent Company
Jesper Lundqvist Holding ApS	Ultimate Parent Company
Other related parties	
Jesper Lundqvist Helga Pedersens Gade 9, 7. 0001 DK-8000 Aarhus C	Executive board
Gert Kristiansen Stensballe Strandvej 195 DK-8700 Horsens	Chairman of the board of directors
Brian Christensen Martensens Alle 9, 3. DK-1828 Frederiksberg C	Member of the board of directors
Kurt Schlott Hansen Brombærhegnet 41 DK-8700 Horsens	Member of the board of directors

Notes to the Financial Statements

15 Related parties (continued)

Transactions

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

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

<u>Name</u>	<u>Place of registered office</u>
Jesper Lundqvist Holding ApS	Aarhus C, Denmark
Promovec Group A/S	Aarhus N, Denmark

Notes to the Financial Statements

16 Accounting Policies

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

The accounting policies applied remain unchanged from last year.

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

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Promovec Group A/S, the Company has not prepared a cash flow statement.

Recognition and measurement

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

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

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

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

Translation policies

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

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

Notes to the Financial Statements

16 Accounting Policies (continued)

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

Income Statement

Revenue

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

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

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, expenses for raw materials and consumables and other external expenses.

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

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

Financial income and expenses

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

Tax on profit/loss for the year

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

Notes to the Financial Statements

16 Accounting Policies (continued)

The Company is jointly taxed with Jesper Lundqvist Holding ApS. The tax effect of the joint taxation is allocated to Danish enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of materials, services and direct wages plus indirect costs, which are calculated as costs in the income statement as incurred.

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

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

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

Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

16 Accounting Policies (continued)

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

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

Fixed asset investments

Fixed asset investments consist of rent of deposit.

Inventories

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

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

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

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Receivables

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

Prepayments

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

Equity

Dividend

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

Notes to the Financial Statements

16 Accounting Policies (continued)

Provisions

Other provisions include warranty obligations in respect of repair work within the warranty period of 1 - 5 years. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

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

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

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

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

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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

Financial Highlights

Explanation of financial ratios

Return on assets

$$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$$

Notes to the Financial Statements

16 Accounting Policies (continued)

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$

Return on equity

$$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$$