
WattsUp Power A/S

Sydholmen 8, DK-2650 Hvidovre

Annual Report for 1 January - 31 December 2021

CVR No 35 82 70 48

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
19/7 2022

Nicolai Reedtz Funder
Chairman of the General
Meeting



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Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Company Information	
Company Information	5
Management's Review	6
Financial Statements	
Income Statement 1 January - 31 December	7
Balance Sheet 31 December	8
Statement of Changes in Equity	10
Notes to the Financial Statements	11

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of WattsUp Power A/S for the financial year 1 January - 31 December 2021.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2021 of the Company and of the results of the Company operations for 2021.

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.

Hvidovre, 19 July 2022

Executive Board

Martin Speiermann
CEO

Board of Directors

Nicolai Reedtz Funder
Chairman

Martin Speiermann

Fredie Speiermann

Andreas Færgemann Tycho

Independent Auditor's Report

To the Shareholders of WattsUp Power A/S

Opinion

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

We have audited the Financial Statements of WattsUp Power A/S for the financial year 1 January - 31 December 2021, 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.

Emphasis of Matter

Material Uncertainty Related to the recognition of a share buy back agreement

It should be noted that a material uncertainty exists in relation to the recognition of a share buy back agreement as per 31 December 2021. We refer to note 2 to the Financial Statements disclosing the matter. Our opinion has not been modified in respect of this matter.

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial

Independent Auditor's Report

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 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 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 dis-

Independent Auditor's Report

closures 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.

Hellerup, 19 July 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Niels Henrik B. Mikkelsen

State Authorised Public Accountant

mne16675

Company Information

The Company

WattsUp Power A/S
Sydholmen 8
DK-2650 Hvidovre

CVR No: 35 82 70 48

Financial period: 1 January - 31 December

Incorporated: 19 March 2014

Municipality of reg. office: Hvidovre

Board of Directors

Nicolai Reedtz Funder, Chairman
Martin Speiermann
Fredie Speiermann
Andreas Færgemann Tycho

Executive Board

Martin Speiermann

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Key activities

The Company's objective is to develop and sell electromagnetic solutions in which energy can be stored.

Development in the year

The income statement of the Company, which for 2021, are impacted by large investments in the development of the Company shows a loss of DKK 12,787,096 and at 31 December 2021 the balance sheet of the Company shows equity of DKK 11,757,519.

Capital resources

The Company has reestablished and gained share capital during 2021, due to the first system sales and due to partner and investor investments in the development of the DENEb product to reach 37,500 RPM. Management expects the Company can begin delivering units during the 2022. Refer to the description in note 1.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have been subject to uncertainty relating to recognition of share buy back agreement as well as capitalised research & development projects. Refer to note 2 for a description of this.

Unusual events

The financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have not been affected by any unusual events.

Subsequent events

In January 2022, the Company has sold treasury shares for an amount of DKK 11,175k to increase cash flows for 2022.

With reference to note 2, the Company has entered into a share buy back agreement regarding purchase of 160,000 shares with a value of DKK 26,820,000. Payment instalments have not been finalised.

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

Income Statement 1 January - 31 December

	Note	2021 DKK	2020 DKK
Gross profit/loss		297.722	-1.760.456
Staff expenses	4	-10.471.863	-7.062.540
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-3.871.616	-2.084.533
Other operating expenses		0	-31.010
Profit/loss before financial income and expenses		-14.045.757	-10.938.539
Financial income	5	20.332	173.833
Financial expenses	6	-726.287	-510.000
Profit/loss before tax		-14.751.712	-11.274.706
Tax on profit/loss for the year	7	1.964.616	225.974
Net profit/loss for the year		-12.787.096	-11.048.732

Distribution of profit

Proposed distribution of profit

Retained earnings		-12.787.096	-11.048.732
		-12.787.096	-11.048.732

Balance Sheet 31 December

Assets

	Note	2021 DKK	2020 DKK
Completed development projects		10.489.831	4.862.590
Acquired patents		314.904	0
Development projects in progress		0	0
Intangible assets	8	10.804.735	4.862.590
Other fixtures and fittings, tools and equipment		867.315	1.404.158
Property, plant and equipment	9	867.315	1.404.158
Investments in subsidiaries	10	40.000	100
Other investments	11	2.200	0
Fixed asset investments		42.200	100
Fixed assets		11.714.250	6.266.848
Inventories	12	921.398	955.065
Trade receivables		140.583	705.300
Receivables from group enterprises		85.650	74.400
Other receivables	13	15.309.650	533.503
Corporation tax		1.964.616	887.789
Prepayments		282.333	424.283
Receivables		17.782.832	2.625.275
Cash at bank and in hand		195.731	1.487.798
Currents assets		18.899.961	5.068.138
Assets		30.614.211	11.334.986

Balance Sheet 31 December

Liabilities and equity

	Note	2021 DKK	2020 DKK
Share capital	14	1.000.000	1.000.000
Reserve for development costs		7.729.001	2.886.683
Retained earnings		3.028.518	-9.384.432
Equity		11.757.519	-5.497.749
Other payables		552.703	546.555
Long-term debt	15	552.703	546.555
Credit institutions		500.945	904.826
Prepayments received from customers		4.461.780	0
Trade payables		1.941.675	1.272.273
Payables to associates		870.924	1.365.757
Payables to owners and Management		941.397	2.318.278
Other payables	15	9.587.268	10.425.046
Short-term debt		18.303.989	16.286.180
Debt		18.856.692	16.832.735
Liabilities and equity		30.614.211	11.334.986
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Other operating income	3		
Contingent assets, liabilities and other financial obligations	16		
Accounting Policies	17		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 January	1.000.000	2.886.683	-9.384.433	-5.497.750
Sale of treasury shares	0	0	30.042.365	30.042.365
Development costs for the year	0	6.965.457	-6.965.457	0
Depreciation, amortisation and impairment for the year	0	-2.123.139	2.123.139	0
Net profit/loss for the year	0	0	-12.787.096	-12.787.096
Equity at 31 December	1.000.000	7.729.001	3.028.518	11.757.519

Notes to the Financial Statements

1 Going concern

The Company, has in 2022, received a high value purchase order as well as shareholder funding. Therefore based on the financial position, budget and strategic plans, Management is convinced that the Company's capital resources are sufficient to ensure that the Company is able to continue as a going concern.

2 Uncertainty relating to recognition and measurement

In general, Management makes judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Management continuously reassessed these estimates and judgments based on several factors under the given circumstances.

Recognition of share buy back agreement

The Company entered into a buy back agreement concerning 160,000 shares in the Company at 30 December 2021 with one of the Company's shareholders. The agreement was signed by the Company before year-end, thus the selling shareholder did not sign the agreement until February 2022. In addition, it is Management's clear belief that the buy back agreement was entered under the condition that the Company will have sufficient free equity reserve to acquire the shares without violating the Companies Act section 197.

The amount to be paid in accordance with the agreement significantly exceeds the retained earnings and consequently it is Management assessment that the Company is unable to fulfill the buy back agreement without violating the Companies Act section 197. Based on the above Management has not recognised the buy back agreement as per 31 December 2021.

Management has after year end entered into discussion with the shareholder to reach a settlement, and has based on legal counselling recognised a potential compensation penalty as per 31 December 2021, as the assessment does entail material uncertainty.

Capitalised research & development cost

The value of all capitalised research & development costs is amortised over their useful lives. Every year, Management evaluates an impairment assessment to make sure the total value of the capitalised projects is fair. The estimated value of intangible assets is based on Management estimates and assumptions and by nature subject to uncertainty.

Notes to the Financial Statements

	2021 DKK	2020 DKK
3 Other operating income		
Government aid, Covid-19	176.333	0
	176.333	0
4 Staff expenses		
Wages and salaries	9.588.071	6.768.899
Pensions	68.631	28.803
Other social security expenses	195.705	36.258
Other staff expenses	619.456	228.580
	10.471.863	7.062.540
Average number of employees	13	12
<p>The Company has provided warrant programmes for all employees and executive management in the Company. The number of warrants issued are 46,000 warrants (nominal share capital DKK 46,000). The exercise price has been determined individually for each warrant agreement.</p> <p>The maturity period varies from 3 years from the time of granting and programmes have been granted from 2019.</p> <p>Incentive programmes are not recognised in the Financial Statements.</p>		
5 Financial income		
Other financial income	20.000	173.833
Exchange adjustments	332	0
	20.332	173.833
6 Financial expenses		
Interest paid to associates	83.225	64.533
Other financial expenses	642.975	445.467
Exchange loss	87	0
	726.287	510.000

Notes to the Financial Statements

	2021 DKK	2020 DKK
7 Tax on profit/loss for the year		
Current tax for the year	-1.964.616	-887.789
Deferred tax for the year	0	661.815
	-1.964.616	-225.974

8 Intangible assets

	Completed development projects DKK	Acquired pa- tents DKK	Development projects in progress DKK
Cost at 1 January	7.584.075	0	0
Additions for the year	0	314.904	8.930.073
Transfers for the year	8.930.073	0	-8.930.073
Cost at 31 December	16.514.148	314.904	0
Impairment losses and amortisation at 1 January	2.721.487	0	0
Amortisation for the year	3.302.830	0	0
Impairment losses and amortisation at 31 December	6.024.317	0	0
Carrying amount at 31 December	10.489.831	314.904	0
Amortised over	<u>5 years</u>	<u>5 years</u>	

Development projects relates to the development of electromagnetic solutions in which energy can be stored. All current development projects were finalised during 2021. It is expected that the completed development projects will be sold to the existing market to the existing customers as well as new customers. The amortisation period for completed development projects is 5 years.

Notes to the Financial Statements

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	DKK
Cost at 1 January	2.838.582
Additions for the year	<u>31.937</u>
Cost at 31 December	<u>2.870.519</u>
Impairment losses and depreciation at 1 January	1.434.424
Depreciation for the year	<u>568.780</u>
Impairment losses and depreciation at 31 December	<u>2.003.204</u>
Carrying amount at 31 December	<u>867.315</u>
Depreciated over	<u>5 years</u>

10 Investments in subsidiaries

	2021	2020
	DKK	DKK
Cost at 1 January	100	0
Additions for the year	<u>39.900</u>	<u>100</u>
Carrying amount at 31 December	<u>40.000</u>	<u>100</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
WattsUp IP ApS	Hvidovre	DKK 40.000	100%	9.403	-31.234

Notes to the Financial Statements

11 Other fixed asset investments

	Other investments DKK
Cost at 1 January	0
Additions for the year	<u>2.200</u>
Cost at 31 December	<u>2.200</u>
Carrying amount at 31 December	<u>2.200</u>

12 Inventories

	2021 DKK	2020 DKK
Raw materials and consumables	<u>921.398</u>	<u>955.065</u>
	<u>921.398</u>	<u>955.065</u>

13 Other receivables

Other receivables consists of receivables in relation to sale of treasury shares as well as receivables which are of a secondary nature to the main activities of the Company.

Notes to the Financial Statements

14 Equity

The share capital is broken down as follow:

	<u>Number</u>	<u>Nominal value</u> DKK
F-shares	180.000	180.000
A-shares	210.000	210.000
I-shares	460.000	460.000
E-shares	150.000	150.000
		<u>1.000.000</u>

In 2021, the Company has sold 173.875 treasury shares. The share price for the shares amounted to DKK 30,042,365, which has been transferred to retained earnings under equity. The shares have been sold as part of the Company's strategy.

As disclosed in note 2, the Company has entered into a share buy back agreement regarding purchase of 160,000 shares with a value of DKK 26,820,000. Payment installments have not been finalised.

The Company holds a total of 246,515 shares with a nominal value of DKK 246,515 corresponding to 24.66% of the total capital, where 166,515 shares have been reserved for an investment agreement as well as warrant programs for employees.

15 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:

	<u>2021</u> DKK	<u>2020</u> DKK
Other payables		
Between 1 and 5 years	552.703	546.555
Long-term part	<u>552.703</u>	<u>546.555</u>
Other short-term payables	9.587.268	10.425.046
	<u>10.139.971</u>	<u>10.971.601</u>

Notes to the Financial Statements

	<u>2021</u> DKK	<u>2020</u> DKK
16 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with bankers:		
Floating charge on intangible assets, property, plant and equipment and trade receivables.	15.800.000	15.800.000
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	667.500	595.585
Between 1 and 5 years	<u>0</u>	<u>372.000</u>
	<u>667.500</u>	<u>967.585</u>

Other contingent liabilities

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 by the Group amounts to DKK 0. 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 unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

17 Accounting Policies

The Annual Report of WattsUp Power A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021 are presented in DKK.

Consolidated financial statements

With reference to section 110 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

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.

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

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

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

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

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

Notes to the Financial Statements

17 Accounting Policies (continued)

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

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

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.

Cost of sales

Cost of sales include costs incurred to achieve revenue for the year. Cost of sales include development cost.

Other external expenses

Other external expenses comprise expenses for premises, sales, and advertising as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, work on own account recognised in assets, other operating income, 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.

Notes to the Financial Statements

17 Accounting Policies (continued)

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.

Financial income and expenses

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

Tax on profit/loss for the year

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

The Company is jointly taxed with the Danish parent company. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

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

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

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

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

Notes to the Financial Statements

17 Accounting Policies (continued)

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.

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

Patents are amortised over the remaining patent period or a shorter useful life. The amortisation period is years. Software licences are amortised over the period of the agreement, which is 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	5	years
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The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of fixed assets 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.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Fixed asset investments

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Notes to the Financial Statements

17 Accounting Policies (continued)

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 raw materials and consumables equals landed cost.

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 insurance premiums etc.

Equity

Treasury shares

Purchase and sales prices for treasury shares are recognised directly in retained earnings under equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares and increases retained earnings. Dividend on treasury shares is recognised directly in equity under retained earnings.

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.

Notes to the Financial Statements

17 Accounting Policies (continued)

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

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