Micro Focus Software Denmark ApS

Borupvang 3, DK-2750 Ballerup

Annual Report for 1 November 2019 - 31 October 2020

CVR No 38 06 39 95

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 30/March 2021

Lars Rossen
Chairman of the General Meeting

Contents

Management’s Statement

The Executive Board has today considered and adopted the Annual Report of Micro Focus Software Denmark ApS for the financial year 1 November 2019 - 31 October 2020.

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 October 2020 of the Company and of the results of the Company operations for 2019/20.

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.

Ballerup, 30 March 2021

Executive Board

Lars Rossen	Sharad Bansal
CEO	Executive Officer

Independent Auditor's Report

To the Shareholder of Micro Focus Software Denmark ApS

Opinion
We have audited the financial statements of Micro Focus Software Denmark ApS for the financial year 1 November 2019 – 31 October 2020 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 October 2020 and of the results of the Company's operations for the financial year 1 November 2019 – 31 October 2020 in accordance with the Danish Financial Statements Act.

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' 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 rules and requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility 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, that 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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

Independent Auditor's Report

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review
Management is responsible for Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

Independent Auditor's Report

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 30 March 2021
KPMG
Statsautoriseret Revisionspartnerselskab
CVR No 25 57 81 98

Jesper Bo Pedersen
State Authorised Public Accountant
mne42778

Company Information

The Company	Micro Focus Software Denmark ApS Borupvang 3 DK-2750 Ballerup CVR No: 38 06 39 95 Financial period: 1 November - 31 October Municipality of reg. office: Ballerup
Executive Board	Lars Rossen Sharad Bansal
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 København Ø

Financial Highlights

Seen over a 4-year period, the development of the Company is described by the following financial highlights:

	2019/20	2018/19	2017/18	2016/17
	TDKK	TDKK	TDKK	TDKK
Profit/loss				
Revenue	89.306	133.865	141.611	57.230
Operating profit (before interest & amortization)	3.581	5.970	4.362	5.744
Profit/loss before financial income and expenses	-7.460	-1.014	-3.595	528
Net financials	1.793	-2.587	-87	1.392
Net profit/loss for the year	-6.635	-3.173	-2.632	1.412
Balance sheet				
Balance sheet total	64.700	118.344	112.111	121.694
Equity	9.828	16.463	11.033	13.665
Ratios				
Gross margin	18,2%	18,0%	14,9%	19,0%
Operating margin	4,0%	4,5%	3,1%	10,0%
Return on assets*	-11,5%	-0,9%	-3,2%	0,4%
Solvency ratio	15,2%	13,9%	9,8%	11,2%
Return on equity	-50,5%	-23,1%	-21,3%	20,7%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.
In 2016/17 the activity was 5 months.
*As per Danish GAAP, exchange gain or loss has been excluded from ROA calculations however exchange gain or loss is considered for TP as it is operational in nature. If exchange gain or loss is included for ROA, then the corresponding ROA for the following years would be :

	2019/20	2018/19	2017/18	2016/17
Return on assets	-7,2%	-1,9%	-3,3%	1,9%

Management's Review

Key activities

The Company is a pure-play software company focused from the ground up on building, selling, and supporting software. We help customers bridge the old and the new by maximizing the ROI on existing software investments and enabling innovation in the new hybrid model for enterprise IT.

Development in the year

The income statement of the Company for 2019/20 shows a loss of TDKK 6,635, and at 31 October 2020 the balance sheet of the Company shows an equity of TDKK 9,828.

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

Measurement of the Company's performance is consistently applied, and control is exercised by Company and divisional management. The Company has a budgeting control process in place whereby actual performance is measured against budget, both financial and non-financial, on a quarterly reporting timetable at divisional level. The Company constantly focuses on revenue and margin growth while maintaining rigorous cost control and efficiency. The actual recorded results were in line with expectations.

The following key performance indicators are reviewed:

Year ended 31 October 2020 / 31 October 2019

Turnover: 89,306 /133,865
Operating profit (berfore interets & amortization): 3,581 / 5,970
Operating margin: 4.01% / 4.46%
EBT: -5,667 / -3,601
Net margin: -6.3% / -2.7%

The company being a reseller entity within the Micro Focus group, it has a limited risk under the distribution model. The Model is set up in such a way that the company should operate on a positive arm's length margin, before depreciation of goodwill, which is determined via benchmarking studies.

Management’s Review

Capital resources

The Company operates as a reseller entity for the Micro Focus Group. The company meets its day-to-day capital requirements through its intra-group funding arrangements. The directors believe that preparing the financial statements on the going concern basis is appropriate as they consider that the Company has adequate resources to continue in operational existence for at least one year from the date of the financial statements.

The Company, being a trading subsidiary in the Micro Focus Group, has an indirect contribution to the external cash flows of the group. After making enquiries and considering the assessment included in the Group annual financial statements for the year ended 31st October 2020, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date of these financial statements.

In assessing going concern the Group has estimated the financial impact of severe but plausible scenarios, which take into account the Group's principal risks, impacting both revenue and Adjusted EBITDA, including a greater than forecast level of exceptional expenditure to complete the Group's IT implementation being incurred. The impact of COVID-19 on Group's cash flow in the current year has been limited however the severe but plausible scenarios reflect a wider macro-economic impact from COVID-19 continuing for the entire 12 month going concern assessment period to February 2022. This stress testing confirmed that existing projected cash flows and cash management activities provided the Group, and therefore the Company through its ownership of cash flows within the Group, with adequate headroom over the going concern assessment period.

As the Company balance sheet is in a net current liability position at the end of October 2020, a letter of support has been obtained from Micro Focus Holding Hague B. V. confirming its intention and ability to provide adequate financial support, directly or indirectly, either in the form of a contribution, of a loan, or by providing another form of support to the Company for a period of at least twelve months from the date of approval of these financial statements.

The Financials have been prepared on a Going Concern Basis.

Management's Review

Targets and expectations for the year ahead

The company operates as a reseller entity for Micro Focus group and being a subsidiary of the group, has an indirect contribution to the external cash flows of the group.

Micro Focus has completed the first year of a three-year turnaround plan and has made solid progress in the key objectives of evolving our business model and improving operational effectiveness.

In FY20, we began to take a more definitive approach to delivering Subscription and SaaS based offerings as a key part of our strategy and to accelerate the transition to these models where appropriate within our portfolios. The transition is being managed over multiple financial periods with initial focus on products where this model is the emerging or de-facto market standard. As a result of this transition, there will be a deceleration of license revenue during the transition phase

Our goal is delivering consistent, sustained improvement to our revenue performance through increases in sales productivity and the more effective alignment of our resources to opportunity.

Focus is on delivering software and support that is essential to mission-critical business processes. Our approach and experience in helping customers run and transform their business while managing risk and ultimately driving long-term value from their investments are strong foundations from which to build.

The majority of our revenues are contractual and recurring in nature and management is targeting initiatives to increase this mix. We have made significant progress in cost rationalisation and will continue to focus on this area in order to maximize the potential profit and cash flow that our revenue streams represent.

External environment

The software marketplace is rapidly evolving. A combination of technology advances, evolving customer expectations, process evolutions (e.g. digitization) and new business models are forcing executives to re-think prior IT strategies. With the stakes so high and so many variables to consider, Micro Focus has priortised what will have the greatest impact on its business by building on the existing strength of its broad portfolio and has taken the next critical step in adapting to changing customer needs and delivering integrated solutions.

Uncertainty relating to recognition and measurement

Due to the negative results that have been realised in 2019/20 a, management has assessed that there are indications of impairment. Consequently an impairment test has been performed, which shows that there is no need for an impairment write-down of the recognised intangible assets. Management refers to note 2 for a more detailed description of the main assumptions used in the impairment test and the connected uncertainty.

Income Statement
1 November 2019 - 31 October 2020

	Note	2019/20	2018/19
		TDKK	TDKK
Revenue		**89.306**	**133.865**
Other income		0	1.380
Cost of sales		-70.514	-108.041
Other external expenses		-2.522	-3.043
Gross profit/loss		**16.270**	**24.161**
Staff expenses	3	-15.484	-16.989
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-8.246	-8.186
Profit before financial income and expenses		**-7.460**	**-1.014**
Financial income	5	2.830	0
Financial expenses	6	-1.037	-2.587
Profit before tax		**-5.667**	**-3.601**
Tax on profit/loss for the year	7	-968	428
Net profit/loss for the year		**-6.635**	**-3.173**

Balance Sheet 31 October 2020

Assets

	Note	2020	2019
		TDKK	TDKK
Goodwill		54.563	62.809
Intangible assets	8	**54.563**	**62.809**
Other fixtures and fittings, tools and equipment		0	0
Property, plant and equipment	9	**0**	**0**
Fixed assets		**54.563**	**62.809**
Trade receivables		5.219	43.007
Receivables from group enterprises		3.076	9.970
Other receivables		383	846
Deferred tax asset	11	0	970
Receivables		**8.678**	**54.793**
Cash at bank and in hand		**1.459**	**742**
Currents assets		**10.137**	**55.535**
Assets		**64.700**	**118.344**

Balance Sheet 31 October 2020

Liabilities and equity

	Note	2020	2019
		TDKK	TDKK
Share capital		50	50
Retained earnings		9.778	16.413
Equity		**9.828**	**16.463**
Other payables		0	668
Deferred income		1.615	13.395
Long-term liabilities	12	**1.615**	**14.063**
Trade payables		109	518
Payables to group enterprises		19.477	53.013
Corporation tax		0	2
Other payables	12	6.940	7.121
Deferred income		26.731	27.164
Short-term liabilities		**53.257**	**87.818**
Debt		**54.872**	**101.881**
Liabilities and equity		**64.700**	**118.344**
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 November 2019	50	16.413	16.463
Net profit/loss for the year	0	-6.635	-6.635
Equity at 31 October 2020	**50**	**9.778**	**9.828**

There was a capital increase of DKK 1 paid in by merger in 2019. The share capital now consist of DKK 50.001.

Notes to the Financial Statements

1 Going concern

Micro Focus Holding Hague B.V. has confirmed that they will support financially, if needed for the company up to MUSD 2,8. The statement is valid at least twelve months from the date of approval of these financial statements.

2 Uncertainty relating to recognition and measurement

Uncertainty exists regarding the valuation of intangible assets, as revenue and earnings have decreased.

Due to the negative results that have been realised in 2019/20, Management has assessed that there are indications of impairment. Consequently, an impairment test has been performed in order to determine if the fair value of the intangibles exceeds the carrying amount.

The impairment test did not show any need for additional impairment write-down. The basis for the impairment test has been a discounted cash flow model based on the following assumptions:

- Discounted cash flow forecasts derived from the most recent budgets/forecasts for the next five years (2021 through 2025) approved by Management.

- The budgets/forecasts shows an expected revenue decrease in the coming years (average annual growth rate over the next 5 years of -2.3%).

- The valuation model and the post tax cash flows are supported with a WACC of 7.25%.

The sensitivity of a write-down requirement is primary related to the company's fulfillment of the derived budgets/forecasts including budgeted income statement, balance sheet and cash flow from 2021 - 2025. Furthermore, the sensitivity is related to underlying strategic actions and value drivers as well as changes in the long-term revenue expectations. An increase in the WACC beyond 8.14 % will result in a write-down of the intangible assets. Together with the financial backing from Micro Focus Hague B.V., the Company expects to be able to carry out the plans in the coming year and therefore realise the budgets and forecasts that are used in the impairment test.

Notes to the Financial Statements

		2019/20	2018/19
		TDKK	TDKK
3	**Staff expenses**		
	Wages and salaries	14.250	15.394
	Pensions	1.181	1.215
	Other social security expenses	60	42
	Other staff expenses	-7	338
		15.484	**16.989**
	Including remuneration to the Executive Board of:		
	Executive Board	1.823	1.975
		1.823	**1.975**
	Average number of employees	**14**	**13**

		2019/20	2018/19
4	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	8.246	8.171
	Depreciation of property, plant and equipment	0	15
		8.246	**8.186**

		2019/20	2018/19
5	**Financial income**		
	Exchange adjustments	2.830	0
		2.830	**0**

		2019/20	2018/19
6	**Financial expenses**		
	Interest paid to group enterprises	990	1.234
	Other financial expenses	47	152
	Exchange adjustments, expenses	0	1.201
		1.037	**2.587**

Notes to the Financial Statements

7 Tax on profit/loss for the year

	2019/20	2018/19
	TDKK	TDKK
Current tax for the year	0	0
Deferred tax for the year	970	0
Adjustment of tax concerning previous years	-2	-428
	968	**-428**

8 Intangible assets

	Goodwill
	TDKK
Cost at 1 November 2019	82.463
Cost at 31 October 2020	82.463
Impairment losses and amortisation at 1 November 2019	19.654
Amortisation for the year	8.246
Impairment losses and amortisation at 31 October 2020	27.900
Carrying amount at 31 October 2020	**54.563**

9 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	TDKK
Cost at 1 November 2019	24
Cost at 31 October 2020	24
Impairment losses and depreciation at 1 November 2019	24
Impairment losses and depreciation at 31 October 2020	24
Carrying amount at 31 October 2020	**0**

Notes to the Financial Statements

	2019/20	2018/19
	TDKK	TDKK

10 Distribution of profit

Retained earnings	-6.635	-3.173
	-6.635	**-3.173**

11 Provision for deferred tax

Provision for deferred tax at 1 November 2019	-970	-542
Amounts recognised in the income statement for the year	970	0
Amounts recognised in equity for the year	0	-428
Provision for deferred tax at 31 October 2020	**0**	**-970**

12 Long-term liabilities

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:

Other payables

Between 1 and 5 years	0	668
Long-term part	0	668
Other short-term payables	6.940	7.121
	6.940	**7.789**

Deferred income

Between 1 and 5 years	1.615	13.395
Long-term part	1.615	13.395
Within 1 year	0	0
Other deferred income	26.731	27.164
	28.346	**40.559**

Notes to the Financial Statements

13 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2020	2019
	TDKK	TDKK
Rental and lease obligations under operating leases. Total future rent and lease payments:		
Within 1 year	356	838
Between 1 and 5 years	169	249
	525	**1.087**

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc. of the Group. 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

14 Related parties

	Basis
Controlling interest	
Micro Focus Holding Hague B.V., Netherlands	Parent

Transactions

During the year, the Company had the following transactions with its ultimate Parent Company and its subsidiaries:

Cost of services TDKK 66,641 (2019 TDKK 106,268)

Revenue TDKK 10,508 (2019 TDKK 2,169)

Other expenses TDKK 2,804 (2019 TDKK 133)

Trade receivables TDKK 3,076 (2019 TDKK 9.970)

Trade payables TDKK 19,477 (2019 TDKK 53,013)

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Micro Focus Holding Hague B.V., Netherlands

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Ultimate Parent Company

Name	Place of registered office
Micro Focus International Plc.	Berkshire, UK

The Group Annual Report of Micro Focus International Plc. may be obtained at the following address:

The Lawn, 22-30 Old Bath Road, Newbury, Berkshire, RG14 1QN, United Kingdom

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Micro Focus Software Denmark ApS for 2019/20 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 2019/20 are presented in TDKK.

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 Micro Focus International Plc., 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

15 Accounting Policies (continued)

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

Income Statement

Revenue

Revenue from the sale of software products is recognised when the risks and rewards relating to the software products 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.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

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

Cost of sales

The cost of sales is the accumulated total of all costs used to create a product or service, which has been sold.

Other external expenses

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

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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 Danish group entities. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 10 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

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 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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

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.

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

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Notes to the Financial Statements

15 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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