
Shape Robotics A/S

Rugmarken 18, DK-3520 Farum

Annual Report for 2020

CVR No. 38 32 26 56

The Annual Report was
presented and adopted
at the Annual General
Meeting of the
company
on 27/4 2021

Mattias Vilhelm
Warnøe Nielsen
Chairman of the
general meeting



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Management's statement

The Executive Board and Board of Directors have today considered and adopted the Financial Statements of Shape Robotics A/S for the financial year 1 January - 31 December 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 December 2020 of the Company and of the results of the Company operations and cash flows for 2020.

We recommend that the Financial Statements be adopted at the Annual General Meeting.

Farum, 24 March 2021

Executive Board

David Johan Christensen
CEO

Board of Directors

Lars Randel Nyengaard
Chairman

Thomas Henrik Gjørup
Vice chairman

Kasper Støy

Michael Frank

Moises Pacheco

Independent Auditor's report

To the shareholders of Shape Robotics 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 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Shape Robotics A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 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 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.

Independent Auditor's report

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 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.

Odense M, 24 March 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Brian Petersen

State Authorised Public Accountant

mne33722

Company information

The Company	Shape Robotics A/S Rugmarken 18 DK-3520 Farum Website: www.shaperobotics.com CVR No: 38 32 26 56 Financial period: 1 January - 31 December Incorporated: 1 January 2017 Financial year: 4th financial year Municipality of reg. office: Furesø
Board of Directors	Lars Randel Nyengaard, Chairman Thomas Henrik Gjørup, vice Kasper Støy Michael Frank Moises Pacheco
Executive board	David Johan Christensen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Munkebjergvænget 1, 3. og 4. sal 5230 Odense M
Bankers	Danske bank

Financial Highlights

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

	2020	2019	2018	2017
	TDKK	TDKK	TDKK	TDKK
Key figures				
Profit/loss				
Revenue	6,044	8,060	3,686	1,330
Profit/loss before financial income and expenses	-12,838	-9,509	-6,159	-1,369
Net profit/loss	-12,728	-9,095	-5,424	-1,110
Balance sheet				
Balance sheet total	24,185	13,168	11,570	8,231
Investment in property, plant and equipment	128	876	63	13
Equity	20,354	9,471	7,226	7,400
Cash flows				
Cash flows from:				
- operating activities	-17,524	-10,206	-4,049	-2,040
- investing activities	-127	-2,115	-2,456	-2,417
- financing activities	25,012	11,339	5,250	8,510
Change in cash and cash equivalents for the year	7,361	-982	-1,255	4,053
Number of employees	18	19	14	6
Ratios				
Equity ratio	84.2%	71.9%	62.5%	89.9%
Contribution margin	39.6%	34.5%	42.0%	59.8%

Total shares is 6.825.102.

The market share price, end of period is 12,40 DKK.

Treasury shares is 202.490.

Management's review

Key activities

Shape Robotics A/S is a Danish robotics company with a strong position in the global educational technology market. The Company has developed Fable, a unique modular robotics system that makes it easy and fun for students to build and program their own robots. Since the launch of Fable in 2017, thousands of robots have been sold and shipped to schools around the world.

Shape Robotics helps educational institutions provide excellent teaching that will prepare students for a fast-changing future where digital technologies, artificial intelligence, and automation will transform everyday life and workplaces. Fable is a modular robot that students can build in seconds. The robot system is robust, can withstand everyday usage in classrooms, and can be used to solve demanding tasks. Students can code Fable regardless of their experience with programming – the Fable system allow for the use of both simple block programming as well as coding in the advanced Python language. Comprehensive teaching material has been developed in collaboration with professional educators. Therefore, Shape Robotics provide complete teaching solutions for educational institutions from age 12 to 18.

In 2020 Shape Robotics launched a new telepresence robotics system called Fable Connect. The system enables schools to get homebound students back in the classroom using the robot as a communication device. The product broadens the company's offering and has been well received by the Danish Schools. More than 130 Fable Connect robots are now being used at schools and hospitals, mainly be children with long-term health issues. The market for Fable Connect is expected to grow and become an important product for the company in the years to come.

Market overview

Worldwide, education is a USD 6 trillion industry. The 2020 market was dominated by the COVID-19 pandemic yet budgets continue to grow and the worlds spending on education is expected to reach USD 8 trillion by 2025 and USD 10 trillion by 2030 as populations rise in developing countries. Global Education Technology Expenditure is forecasted to grow to USD 342 billion in 2025. The global focus from governments on national workforce development, education, and skills training for the future is likely to significantly increase the digital expenditure to 4.4 percent of total global education expenditure in 2025, raising from 2.6 percent in 2018.

Robotics in Education is estimated to grow to USD 3.1 billion by 2025 from USD 1.3 billion in 2018. The market forecast continues to demonstrate strong growth over the next decade with a compound annual growth rate ("CAGR") of 17.30 percent in the period 2019-2026. This rise can be attributed to the increase in advancements within robotics technology, alongside increased demand for educational robots as a learning tool as governments continue to implement STEM skills into the national curriculums in more and more countries.

By 2025, around the world, there will be half a billion more students in schools and universities than there is today. The massive development will accelerate public spending and private investments in the educational sector. Due to a global need to ensure training for future skills, knowledge, and jobs, dramatic changes will be made to the way of teaching is done. What we learn, how we learn, and when we learn, is changing fundamentally and fast.

Development in the year

The income statement of the Company for 2020 shows a loss of TDKK 12,728, and at 31 December 2020 the balance sheet of the Company shows positive equity of TDKK 20,354.

The lower net result in 2020 was primarily a consequence of a decrease in revenue compared to FY 2019, and non-recurring costs related to the IPO on June 20. The board and management find the result satisfactory based on the current market conditions.

Management's review

Revenue

Revenue decreased to TDKK 6.044 (TDKK 8.061). Due to the pandemic lockdown of schools, revenue in 2020 originated primarily from Denmark, and a few large resellers outside Denmark.

Cash Flow and investments

Net cash flow amounted to TDKK 7.361 (TDKK -982). Cash flow from operating activities amounted to TDKK -17.524 (TDKK -10.206). The outflow in the year was mainly due to an increase in inventory and costs related to the IPO. Investments in equipment amounted to TDKK 127 (TDKK 876). Cash flow from financing activities amounted to TDKK 25.012 (TDKK 11.339).

Equity and net cash

As of December 31, 2020, equity was TDKK 20.354 (TDKK 9.471). The increase is due to proceeds from the IPO in June 2020. On December 31, 2020 net cash amounted to TDKK 9.176 (TDKK 1.815).

Shares

On December 31, 2020 the total number of shares in Shape Robotics A/S was 6.825.102, hereof 202.490 treasury shares (approx. 3%). On December 31, 2020 the market price pr. share was DKK 12,40, an increase of 26% since the listing of the share on June 25, 2020 for a share price of DKK 9,80. Earnings pr. share amounted to TDKK -1.86.

Highlights from the year

Initial Public Offering of shares in Shape Robotics

The company aims to help students all over the world achieve a better education. To realize this, the Fable robotics system must be marketed and made available globally. Therefore, it was an important milestone when Shape Robotics was successfully listed on Nasdaq First North Growth Market Denmark on June 25, 2020, making it possible for anyone to have a share in a “Made in Denmark” company that develops robot technology to help students, homebound, and isolated people. Subscription commitments for a total of 1,841,713 new shares were given by 28 cornerstone investors during the pre-subscription period, representing a market value of DKK 18 million.

During the subscription period, the company received 4,305 orders for a total of 14,309,844 additional new shares, representing a value of DKK 140 million.

In total, subscriptions were made corresponding to a market value of approximately DKK 158 million. The total offering of 27.0 MDKK was thus oversubscribed by a factor of 5.9 times.

Strong sales before lock-downs

Sales in the educational market for the financial year of 2020 was heavily affected by the COVID-19 lockdowns taking place in most parts of the world. Despite that, the company realized strong sales and order indications before the first lockdown and in the summer when restrictions were eased by governments on the company's main markets. Schools still have a strong interest in teaching 21st century skills, and it is the belief of the management that – when pupils around the globe are physically back in the classrooms – the high demand for modular robotics and technology for education will return.

Management's review

Fable Connect launch

Shape Robotics has handled the decrease in demand for our hands-on learning products during the pandemic situation by improving our product portfolio with the launch of Fable Connect. A small tele-robot, controlled by a smartphone, developed in collaboration with the pediatric cancer department at Rigshospitalet in Denmark. The original purpose was for the robots to help long-term hospitalized patients stay in touch with family and school. Then came Covid-19 and all the restrictions in terms of working together, going to school together, and visiting each other privately for weekdays and holidays. The Fable Connect robot allows the visitor to see and hear, move around, and talk without being physically present in the room. There are countless opportunities to adapt the product to other situations where telecommunications can facilitate everyday life or streamline a process, such as home care, nursing or relatives who are socially isolated. Hence, in 2021, the company will explore the market opportunities in a number of areas in collaboration with relevant partners.

Resellers and distributors

In October 2020 Shape Robotics signed a non-exclusive distribution agreement with Japanese KISSEI COMTECH, a strong and 20-year-experienced partner providing EdTech solutions to primary schools and higher education institutions. Throughout all of 2020 the interest in Fable from resellers remained strong and new resellers from different parts of the world began taking Fable to their domestic markets. Throughout 2021 and the years to follow, the Company will optimize its reseller network and invest in foreign market penetration. The key focus areas are:

- Continued focus on increasing market penetration in the United States, Russia and Northern Europe.
- A focus on establishing a solid market position in the Middle East.

Changes in management and strong hires

In November 2020 the Company hired Steen V. Lund as the new CCO. The new CCO has a solid commercial background in the educational robotics market from previous leading positions in some of the major brands in the industry of educational technology. With Steen V. Lund's network, experience and competencies new doors and opportunities are expected to emerge with distributors and resellers who were previously unfamiliar with the Company or its unique modular robotic products.

In addition to Steen V. Lund the company has strengthened the sales and development teams with a native Russian speaking sales manager for the DACH & CIS countries, a sales manager for UK & Central Europe, a customer success employee, a Senior Creative Director and a Lead Software Developer. At the end of 2020, 23 people, including part-time workers, are employed in the company, and additional hires are planned for 2021.

Furthermore, during the autumn 2020, the Company welcomed the former minister of Education, Merete Riisager, as a board observer, with the intention of nominating Merete Riisager as a new board member at the forthcoming annual general meeting.

Operating risks

The company continuously identifies potential risks that may affect the company's activities. The identified risks are analyzed and investigated on an ongoing basis.

Uncertainty relating to recognition and measurement

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

Unusual events

The spread of Covid-19 has affected the global economic and short-term growth prospects negatively. The financial position and results of operations for the year that ended December 31, 2020, has been impacted by the Covid-19 pandemic.

Management's review

Subsequent events

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

Outlook

The Company's strategy is to continue to expand its international sales channels, optimize its operations, and introduce new products and services. The objective is to strengthen the Company's position as a leading global provider of educational robotic technology and in the process increase turnover as well as profit margins.

The Company anticipate the market situation in 2021 to gradually return to normal. Combined with order indications from the Company's resellers, the Company expects the full year revenue 2021 to be in the range of MDKK 14.0 – 17.0, which will be more than 100% increase in revenue compared to 2020.

Income statement 1 January - 31 December

	Note	2020 TDKK	2019 TDKK
Revenue		6,044	8,060
Work on own account recognised in assets		0	859
Other operating income		531	0
Expenses for raw materials and consumables		-3,651	-5,279
Other external expenses		-3,989	-3,105
Gross profit/loss		-1,065	535
Staff expenses	1	-8,640	-9,434
Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment	2	-929	-610
Other operating expenses		-2,204	0
Profit/loss before financial income and expenses		-12,838	-9,509
Financial expenses		-162	-68
Profit/loss before tax		-13,000	-9,577
Tax on profit/loss for the year	3	272	482
Net profit/loss for the year		-12,728	-9,095

Distribution of profit

	2020 TDKK	2019 TDKK
Proposed distribution of profit		
Retained earnings	-12,728	-9,095
	-12,728	-9,095

Balance sheet 31 December

Assets

	Note	2020 TDKK	2019 TDKK
Completed development projects		4,559	5,275
Development projects in progress		0	0
Intangible assets	4	4,559	5,275
Other fixtures and fittings, tools and equipment		628	736
Leasehold improvements		9	12
Property, plant and equipment	5	637	748
Fixed assets		5,196	6,023
Raw materials and consumables		7,742	2,296
Prepayments for goods		677	274
Inventories		8,419	2,570
Trade receivables		338	1,462
Receivables from group enterprises		0	19
Other receivables		614	716
Corporation tax		272	482
Prepayments		170	81
Receivables		1,394	2,760
Cash at bank and in hand		9,176	1,815
Current assets		18,989	7,145
Assets		24,185	13,168

Balance sheet 31 December

Liabilities and equity

	Note	2020 TDKK	2019 TDKK
Share capital	6	683	256
Reserve for development costs		3,556	4,185
Retained earnings		16,115	5,030
Equity		20,354	9,471
Other payables		495	0
Long-term debt		495	0
Trade payables		2,187	1,351
Other payables		1,149	2,158
Deferred income		0	188
Short-term debt		3,336	3,697
Debt		3,831	3,697
Liabilities and equity		24,185	13,168
Contingent assets, liabilities and other financial obligations	9		
Accounting Policies	10		

Statement of changes in equity

	Share capital	Share premium account	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	256	0	4,186	5,029	9,471
Cash capital increase	427	26,571	0	0	26,998
Capital increase and dividend distribution costs	0	0	0	-1,399	-1,399
Purchase of treasury shares	0	0	0	-1,988	-1,988
Development costs for the year	0	0	-559	559	0
Depreciation, amortisation and impairment for the year	0	0	-71	71	0
Net profit/loss for the year	0	0	0	-12,728	-12,728
Transfer from share premium account	0	-26,571	0	26,571	0
Equity at 31 December	683	0	3,556	16,115	20,354

Cash flow statement 1 January - 31 December

	Note	2020 TDKK	2019 TDKK
Result of the year		-12,728	-9,095
Adjustments	7	844	196
Change in working capital	8	-5,960	-1,778
Cash flow from operations before financial items		-17,844	-10,677
Financial expenses		-162	-68
Cash flows from ordinary activities		-18,006	-10,745
Corporation tax paid		0	0
Corporation tax received		482	539
Cash flows from operating activities		-17,524	-10,206
Purchase of intangible assets		0	-1,239
Purchase of property, plant and equipment		-127	-876
Cash flows from investing activities		-127	-2,115
Purchase of treasury shares		-1,988	0
Cash capital increase		27,000	11,339
Cash flows from financing activities		25,012	11,339
Change in cash and cash equivalents		7,361	-982
Cash and cash equivalents at 1 January		1,815	2,797
Cash and cash equivalents at 31 December		9,176	1,815
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		9,176	1,815
Cash and cash equivalents at 31 December		9,176	1,815

Notes to the Financial Statements

	2020	2019
	TDKK	TDKK
1. Staff Expenses		
Wages and salaries	9,311	8,021
Other social security expenses	129	141
Other staff expenses	-800	1,272
	8,640	9,434
 Average number of employees	 18	 19

	2020	2019
	TDKK	TDKK
2. Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment		
Amortisation of intangible assets	716	425
Depreciation of property, plant and equipment	213	185
	929	610

	2020	2019
	TDKK	TDKK
3. Income tax expense		
Current tax for the year	-272	-482
	-272	-482

Notes to the Financial Statements

4. Intangible fixed assets

	Completed development projects
	TDKK
Cost at 1 January	6,035
Cost at 31 December	6,035
Impairment losses and amortisation at 1 January	760
Amortisation for the year	716
Impairment losses and amortisation at 31 December	1,476
Carrying amount at 31 December	4,559

To meet the increasing demand to teach 21st century skills using educational robots, Shape Robotics continues to develop new products and solutions to complement, improve and expand its existing product offerings.

When the projects are completed and taken into production the projects are depreciated over a 4-10 years period. If the value is impaired, the book value will be written off.

Notes to the Financial Statements

5. Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK
Cost at 1 January	935	17
Additions for the year	128	0
Disposals for the year	-40	0
Cost at 31 December	1,023	17
Impairment losses and depreciation at 1 January	200	5
Depreciation for the year	210	3
Reversal of impairment and depreciation of sold assets	-15	0
Impairment losses and depreciation at 31 December	395	8
Carrying amount at 31 December	628	9

6. Share capital

The company has in July 2020 acquired 202.490 treasury shares with nominal value 0,1, to be used on a Long Term Incentive Program (LTIP) as share options. The company's LTIP is described in the prospectus of June 3rd 2020 and company announcement no. 6 of June 29th 2020. The price pr. share was 9,82 DKK. Treasury shares 202.490 equals less than 3% of the total shares 6.825.102. The shares have been acquired as part of the Company's strategy.

The share capital has developed as follows:

	2020	2019	2018	2017
	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	255,922	201,615	174,100	137,708
Capital increase	426,588	54,307	27,515	36,392
Share capital at 31 December	682,510	255,922	201,615	174,100

Notes to the Financial Statements

	2020	2019
	TDKK	TDKK
7. Cash flow statement - Adjustments		
Financial expenses	162	68
Depreciation, amortisation and impairment losses, including losses and gains on sales	954	610
Tax on profit/loss for the year	-272	-482
	<u>844</u>	<u>196</u>

	2020	2019
	TDKK	TDKK
8. Cash flow statement - Change in working capital		
Change in inventories	-5,849	-1,209
Change in receivables	1,156	78
Change in trade payables, etc	134	-647
Other adjustments	-1,401	0
	<u>-5,960</u>	<u>-1,778</u>

	2020	2019
	TDKK	TDKK
9. Contingent assets, liabilities and other financial obligations		

Contingent assets

The company has a deferred tax asset of MDKK 4.6 relating to tax loss carryforwards.

The amount is not capitalized in the balance sheet

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:

Within 1 year	324,000	353,000
Between 1 and 5 years	236,000	228,000
	<u>560,000</u>	<u>581,000</u>

Notes to the Financial Statements

10. Accounting policies

The Annual Report of Shape Robotics A/S for 2020 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 2020 are presented in DKK.

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.

Income statement

Net sales

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.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and administration, etc.

Notes to the Financial Statements

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.

Balance sheet

Intangible fixed assets

Development projects

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.

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 4-10 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:

Notes to the Financial Statements

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

Leasehold improvements 5 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment and investments 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.

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 and costs of completion. 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 rent, insurance premiums, subscriptions and interest.

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

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.

Cash Flow statement

The cash flow statement shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

The cash flow statement cannot be immediately derived from the published financial records.

Financial Highlights

Explanation of financial ratios

Equity ratio	Total Equity / Total Assets
Contribution margin	Cost of sales / Revenue