Esprit de Corp. Danmark A/S

Lindgreens Allé 9, DK-2300 Copenhagen S

Annual Report for 1 July 2016 - 30 June 2017

CVR No 77 14 47 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 30/11 2017

Finn Simper
Chairman

Contents

Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Esprit de Corp. Danmark A/S for the financial year 1 July 2016 - 30 June 2017.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 30 June 2017 of the Company and of the results of the Company operations for 2016/17.

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.

Copenhagen, 30 November 2017

Executive Board

Stig Martin Hallander

Board of Directors

Finn Simper Chairman	Dorte Hultengren	Stig Martin Hallander

Independent Auditor's Report

To the Shareholder of Esprit de Corp. Danmark A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Esprit de Corp. Danmark A/S for the financial year 1 July 2016 - 30 June 2017, 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' 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 Financials Statements Act.

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

Independent Auditor's Report

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, 30 November 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Jan Boje Andreassen	Flemming Eghoff
State Authorised Public Accountant	State Authorised Public Accountant

Company Information

The Company	Esprit de Corp. Danmark A/S Lindgreens Allé 9 DK-2300 Copenhagen S Telephone: + 45 3264 6200 Facsimile: + 45 3264 6201 CVR No: 77 14 47 14 Financial period: 1 July - 30 June Municipality of reg. office: Copenhagen
Board of Directors	Finn Simper, Chairman Dorte Hultengren Stig Martin Hallander
Executive Board	Stig Martin Hallander
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	2016/17	2015/16	2014/15	2013/14	2012/13
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	43.815	49.630	47.520	42.216	77.366
Profit/loss before financial income and expenses	3.715	4.171	5.025	-9.071	10.405
Net financials	2.128	-2.896	-3.079	-9.712	-11.771
Net profit/loss for the year	6.432	-2.497	1.706	-17.581	-10.767
Balance sheet					
Balance sheet total	165.624	247.463	290.649	411.626	554.458
Equity	59.443	140.666	144.187	143.216	244.098
Investment in property, plant and equipment	0	1.185	1.468	0	376
Number of employees	77	90	86	104	125
Ratios					
Return on assets	2,2%	1,7%	1,7%	-2,2%	1,9%
Solvency ratio	35,9%	56,8%	49,6%	34,8%	44,0%
Return on equity	6,4%	-1,8%	1,2%	-9,1%	-4,3%

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.

Management's Review

Financial Statements of Esprit de Corp. Danmark A/S for 2016/17 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

The Company's activity consists of purchasing and selling Esprit's own production of clothes and accessories, both wholesale and retail.

Development in the year

The income statement of the Company for 2016/17 shows a profit of TDKK 6,432k, and at 30 June 2017 the balance sheet of the Company shows equity of TDKK 59,443k.

The results of Esprit Sweden AB and Esprit AS have been incorporated into the Company's Annual Report and aggregate a total profit of TDKK 2,756 after tax.

ESP Clothing Finland Oy has been liquidated during the fiscal year 16/17 and all activities has been transferred to the company's branch in Finland

Moreover, the Company is represented by a branch in Finland.

The Company's decision previous year to close down its own retail stores in Denmark is progressing as planned. The store in Norway is already closed in fiscal year 14/15 with a sublease agreement.

In continuation of the Company's decision last year and this year to discontinue operating its own retail stores in Denmark and Norway, the provisions have been reassessed this year. At year end provisions were recognized for costs of expected closure including onerous lease contracts.

Sales for the year decreased as compared to last year. The sales decrease is due to decreasing wholesale and retail sales in both Finland and Denmark.

The Company has not prepared a written local CSR policy. The Company complies with the international CSR policy of the Parent Company, which is presented in the Annual Report of Esprit Holding Limited.

Management’s Review

Share of the underrepresented sex

Esprit's strategy is a more balanced split between the current split M / F of 10/90. This should be done through education and targeted recruitment, however, professional and personal skills are prioritized in relation to the position to be filled.

At present, the Board of directors consists of three members - two men and one woman who meet the intended target of 33% representation of women in senior management levels.

At present, the management team consists of 1 man and 5 women. Again, Esprit's strategy is a more balanced split – however professional and personal skills of each member are main priority.

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

Management considers the results satisfactory. The Company is expected to show a profit for next year.

External environment

The Company has not prepared a written local CSR policy. The Company complies with the international CSR policy of the Parent Company, which is presented in the Annual Report of Esprit Holding Limited.

Income Statement 1 July - 30 June

	Note	2016/17	2015/16
		TDKK	TDKK
Gross profit/loss		**43.815**	**49.630**
Staff expenses	2	-39.152	-44.773
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-948	-686
Profit/loss before financial income and expenses		**3.715**	**4.171**
Result from investments in subsidiaries after tax	8	2.756	11
Financial income	4	583	569
Financial expenses	5	-1.211	-3.476
Profit/loss before tax		**5.843**	**1.275**
Tax on profit/loss for the year	6	589	-3.772
Net profit/loss for the year		**6.432**	**-2.497**

Balance Sheet 30 June

Assets

	Note	2016/17	2015/16
		TDKK	TDKK
Other fixtures and fittings, tools and equipment		1.128	1.981
Leasehold improvements		14	58
Property, plant and equipment	7	**1.142**	**2.039**
Investments in subsidiaries	8	38.504	49.526
Fixed asset investments		**38.504**	**49.526**
Fixed assets		**39.646**	**51.565**
Inventories		**6.200**	**7.030**
Trade receivables		23.942	28.515
Receivables from group enterprises		70.680	140.401
Other receivables		3.145	3.885
Deferred tax asset	12	3.964	3.964
Corporation tax		1.783	0
Prepayments	9	8.177	6.791
Receivables		**111.691**	**183.556**
Cash at bank and in hand		**8.087**	**5.312**
Currents assets		**125.978**	**195.898**
Assets		**165.624**	**247.463**

Balance Sheet 30 June

Liabilities and equity

	Note	2016/17	2015/16
		TDKK	TDKK
Share capital		12.000	12.000
Retained earnings		47.443	41.666
Proposed dividend for the year		0	87.000
Equity	10	**59.443**	**140.666**
Provisions relating to investments in group enterprises		0	5.212
Other provisions	13	5.196	10.245
Provisions		**5.196**	**15.457**
Trade payables		10.704	7.754
Payables to group enterprises		72.602	64.841
Corporation tax		0	42
Other payables		17.679	18.703
Short-term debt		**100.985**	**91.340**
Debt		**100.985**	**91.340**
Liabilities and equity		**165.624**	**247.463**
Subsequent events	1		
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	14		
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Statement of Changes in Equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 July	12.000	41.666	87.000	140.666
Ordinary dividend paid	0	0	-87.000	-87.000
Exchange adjustments relating to foreign entities	0	-655	0	-655
Net profit/loss for the year	0	6.432	0	6.432
Equity at 30 June	**12.000**	**47.443**	**0**	**59.443**

Notes to the Financial Statements

1 Subsequent events

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

2 Staff expenses

Wages and salaries	35.085	36.153
Pensions	3.603	2.750
Other social security expenses	464	5.870
	39.152	**44.773**
Average number of employees	**77**	**90**

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Depreciation of property, plant and equipment	950	686
Gain and loss on disposal	-2	0
	948	**686**

4 Financial income

Interest received from group enterprises	571	544
Other financial income	10	12
Exchange adjustments	2	13
	583	**569**

Notes to the Financial Statements

		2016/17	2015/16
		TDKK	TDKK
5	**Financial expenses**		
	Interest paid to group enterprises	335	426
	Other financial expenses	849	3.008
	Exchange adjustments, expenses	1	0
	Exchange loss	26	42
		1.211	**3.476**
6	**Tax on profit/loss for the year**		
	Current tax for the year	-589	580
	Deferred tax for the year, net	0	3.192
		-589	**3.772**
	Tax on profit/loss for the year is calculated as follows:		
	Calculated 22% tax on profit/loss for the year before tax	1.285	530
	Tax effect of:		
	Tax on non-deductible expenses and non-taxable income	-597	50
	Nedskrivning af udskudt skatteaktiv	0	3.192
	Ej indregnet udskudt skat	-99	0
		589	**3.772**

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK
Cost at 1 July	10.420	24.539
Additions for the year	112	0
Disposals for the year	-802	0
Cost at 30 June	9.730	24.539
Impairment losses and depreciation at 1 July	8.439	24.481
Depreciation for the year	906	44
Reversal of impairment and depreciation of sold assets	-743	0
Impairment losses and depreciation at 30 June	8.602	24.525
Carrying amount at 30 June	**1.128**	**14**
Depreciated over	3-5 years	5 years

Notes to the Financial Statements

	2016/17	2015/16
	TDKK	TDKK

8 Investments in subsidiaries

	2016/17 TDKK	2015/16 TDKK
Cost at 1 July	57.829	57.829
Additions for the year	4.600	0
Disposals for the year	-23.314	0
Cost at 30 June	39.115	57.829
Value adjustments at 1 July	-13.515	-12.807
Disposals for the year	10.732	0
Exchange adjustment	-602	-719
Net profit/loss for the year	2.774	11
Value adjustments at 30 June	-611	-13.515
Equity investments with negative net asset value transferred to provisions	0	5.212
Carrying amount at 30 June	**38.504**	**49.526**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Esprit Sweden AB	Stockholm, Sverige	500.000 (SEK)	100%	38.870.120	2.775.563
Esprit AS, Norge	Oslo, Norge	16.000.000 (NOK)	100%	-366.471	-1.093

All foreign subsidiaries are recognised and measured as separate entities.

9 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums and subscriptions.

10 Equity

The share capital consists of 120 shares of a nominal value of TDKK 100. No shares carry any special rights.

Notes to the Financial Statements

		2016/17	2015/16
		TDKK	TDKK
11	**Distribution of profit**		
	Proposed dividend for the year	0	87.000
	Retained earnings	6.432	-89.497
		6.432	**-2.497**

12 Deferred tax asset

The Company has a deferred tax asset of DKK 21 million, whereof DKK 3,964k has been recognised at 30 June 2017.

		2016/17	2015/16
		TDKK	TDKK
13	**Other provisions**		
	Dilapidation cost	841	1.975
	Customer discounts	2.930	612
	Retail Store Exit	1.425	7.658
		5.196	**10.245**
	The provisions are expected to mature as follows:		
	Within 1 year	4.745	5.986
	Between 1 and 5 years	453	4.259
		5.198	**10.245**

14 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

	2016/17	2015/16
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	21.579	22.331
Between 1 and 5 years	37.417	59.062
	58.996	**81.393**

Notes to the Financial Statements

15 Related parties

	Basis
Controlling interest	
Esprit Holdings Ltd., Hong Kong	Ultimate parent company

Consolidated Financial Statements

The Company is consolidated in the Group Annual Report for the Parent and Ultimate Parent Companies

Name	Place of registered office
Esprit Europe Holdings BV	Holland
Esprit Holdings Ltd.	Hong Kong

Group Annual Reports for the above Companie, can be obtained by written contact to Esprit de Corp. Danmark A/S.

Notes to the Financial Statements

16 Accounting Policies

The Annual Report of Esprit de Corp. Danmark A/S for 2016/17 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 2016/17 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of , the Company has not prepared consolidated financial statements.

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 Esprit Holdings Ltd., Hong Kong, the Company has not prepared a cash flow statement.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Notes to the Financial Statements

16 Accounting Policies (continued)

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.

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.

The income statements, of foreign subsidiaries of the Company, are translated at average exchange rates, wheras balance sheet items are translated at the exchange rates at the balance sheet date.

Exchange adjustments arising on the translation of the opening equity of foreign enterprises and exchange adjustments arising from the translation at average exchange rates of the income statements of foreign enterprises are recognised directly in equity.

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.

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.

Notes to the Financial Statements

16 Accounting Policies (continued)

Other external expenses

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

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

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 as well as gains and losses from current replacement of fixed assets.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

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

Revenue

Revenue comprise income and ex pen ses resulting from events or transactions which clearly differ from ordinary activities and which are not expected to be of a recurring nature.

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.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Notes to the Financial Statements

16 Accounting Policies (continued)

Balance Sheet

Property, plant and equipment

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

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

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

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

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,200 are expensed in the year of acquisition.

Impairment of fixed assets

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

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

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item“Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Notes to the Financial Statements

16 Accounting Policies (continued)

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Inventories

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

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

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

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. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

Prepayments

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

Equity

Dividend

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

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

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

Notes to the Financial Statements

16 Accounting Policies (continued)

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.

Financial Highlights

Explanation of financial ratios

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