Deloitte.

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Louis Poulsen A/S
Kuglegårdsvej 19
1434 København K
Central Business Registration
No 59742817

Annual report 2018

The Annual General Meeting adopted the annual report on 29 May 2019

Chairman of the General Meeting

Name: Kristoffer Mejborn

Contents

Entity details

Entity

Louis Poulsen A/S
Kuglegårdsvej 19
1434 København K

Central Business Registration No (CVR): 59742817
Registered in: København
Financial year: 01.01.2018 - 31.12.2018

Website: www.louispoulsen.com

Board of Directors

Gabriele Del Torchio
Lars Stilling Pedersen
Otto Ottosen
Davide Ambrogio Pelle
Francesco Malvezzi

Executive Board

Søren Mygind Eskildsen, CEO
Peter Rathsach

Entity auditors

KPMG Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Louis Poulsen A/S for the financial year 01.01.2018 - 31.12.2018.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2018 and of the results of its operations and cash flows for the financial year 01.01.2018 - 31.12.2018.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen,

Executive Board

Søren Mygind Eskildsen
CEO

Peter Rathsach

Board of Directors

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Copenhagen, 29 May 2019

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CEO

Peter Rathsach

Board of Directors

Gabriele Del Torchio

Lars Stilling Pedersen

Otto Ottosen

Davide Ambrogio Pelle

Francesco Malvezzi

Independent auditor's report

To the shareholders of Louis Poulsen A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Louis Poulsen A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2017 - 31.12.2017 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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 exits. Misstatements

Independent auditor's report

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 consolidated financial statements and parent 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 consolidated financial statements and the parent 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 Group's and the Entity'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 consolidated financial statements and the parent 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 Group's and the Entity'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 29 May 2019

KPMG
Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 25578198

Henrik O. Larsen
State Authorized Public Accountant
Identification No (MNE) mne15839

Nikolaj Møller Hansen
State Authorized Public Accountant
Identification No (MNE) mne33220

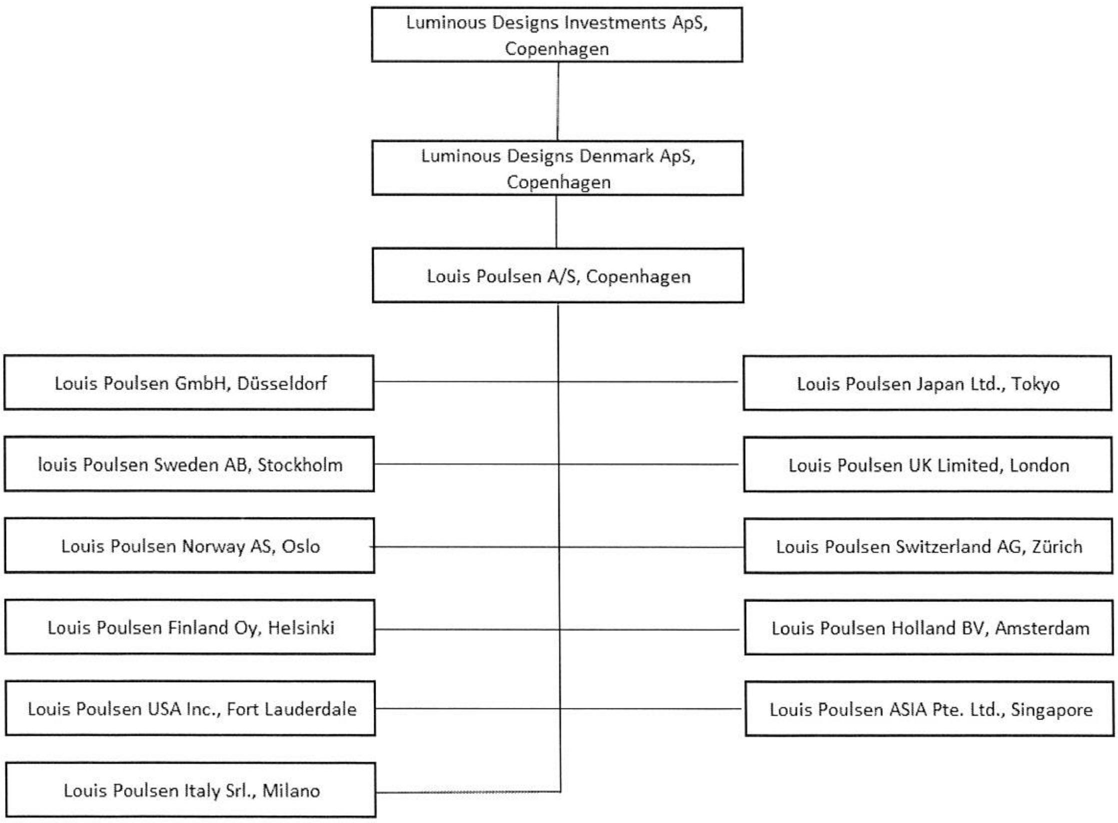
Management commentary

	2018 DKK'm	2017 DKK'm	2016 DKK'm	2015 DKK'm	2014 DKK'm
Financial highlights					
Key figures					
Revenue	807	801	750	716	30
Gross profit/loss	406	386	319	281	1
EBITDA (Earnings before depreciations and amortisation)	164	146	104	89	(17)
EBITA (Earnings before amortisation)	139	121	74	45	(18)
Operating profit/loss	116	98	74	45	(18)
Net financials	(2)	7	(20)	(11)	(1)
Profit/loss for the year	86	78	27	13	(17)
Total assets	726	685	671	698	734
Investments in property, plant and equipment	23	32	22	12	60
Equity	472	352	279	247	216
Net working capital	(21)	(18)	-	26	70
Cash flows from (used in) operating activities	146	146	99	85	(5)
Cash flows from (used in) investing activities	(54)	(56)	(8)	(17)	(473)
Cash flows from (used in) financing activities	33	-	(227)	(52)	494
Ratios					
Net margin (%)	10,7	9,7	3,6	1,8	(56,7)
EBITDA ratio (%)	20,3	18,2	13,9	12,4	(55,3)
EBITA ratio (%)	17,2	15,1	9,9	6,3	(58,2)
Solvency ratio (%)	65,2	51,7	41,4	35,3	29,4
Equity ratio (%)	65,0	51,4	41,6	35,4	29,4
Primary ratio (%)	42,9	42,0	23,7	37,3	(13,0)

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Management commentary

Ratios	Calculation formula	Calculation formula reflects
Net margin (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Revenue}}$	The entity's operating profitability.
EBITDA ratio (%)	$\frac{\text{EBITDA x 100}}{\text{Revenue}}$	The entity's profitability before depriciation and amortisation
EBITA ratio (%)	$\frac{\text{EBITA x 100}}{\text{Revenue}}$	The entity's profitability before amortisation
Solvency ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity
Equity ratio (%)	$\frac{\text{Equity x 100}}{\text{Total assets}}$	The financial strength of the entity.
Primary ratio (%)	$\frac{\text{EBITA x 100}}{\text{Average invested capital}}$	The return on invested capital in the entity



Louis Poulsen A/S has local Sales Representation Offices in Spain and France.

Management commentary

Primary activities

The Louis Poulsen group manufactures and sells lighting fixtures to private consumers and professionals at home and abroad. The group is internationally recognized for providing exclusive lighting fixtures of high quality and functional design. The products primarily serve the upper segments of the professional and private consumer markets that attach great importance to the unique lighting and the high quality levels. Louis Poulsen´s products fulfil the most stringent international demands for energy optimisation and at the same time they meet the demand for a unique design as well as comfortable and glare free lighting.

Development in activities and finances

A merger of the Danish entities P-LP 2014 A/S, Louis Poulsen Holding A/S and Louis Poulsen A/S was completed as per year-end 2018 leaving Louis Poulsen A/S as the continuing company. The merger is effective since Januar 1st 2018, and is concluded as tax-exempt pursuant to the Danish Merger Tax Act ("fusionsskatteloven").

During August 2018 all shares in Louis Poulsen A/S, and its subsidiaries, was sold by Polaris Private Equity, Denmark, to Invest Industrial, Italy through the company Design Holding S.p.A. During November 2018 Invest Industriale sold 50% of the shares in Design holding S.p.A. to Carlyle Group.

Invest Industriale, Italy. During November 2018 50% of the shares in the company was sold to the Carlyle Group.

The consolidated revenue amounts to DKK 807 million. The gross profit of DKK 406 million in 2018 is slightly below expectations however well above last year. The positive development versus 2017 derives mainly from profitability improvements in the production areas, and a shift in the sales mix.

Operating profit (EBIT) reached DKK 116 million. The profit of DKK 86 million is in line with expectations and well above 2017 result.

The management considers the financial development to be satisfactory.

Further information on the financial development for the subsidiaries is available in the annual report pages 14 and forward.

Outlook

Louis Poulsen A/S expect an increase in the turnover in 2019 followed by modest increase in capacity costs covering new initiatives. The primary result is expected to increase due to further activities in sales.

Particular risks

Market risks

The group's products are primarily positioned in the high end markets. The economic development in the professional and private consumer markets will affect the financial results.

Currency risks

Due to sales activities in foreign markets, cash flow and equity are influenced by changes in interest levels and exchange rates for a number of currencies. It is group policy to cover commercial exchange risks.

Management commentary

Hedging is primarily used to cover open foreign exchange positions related to trading activities in the next twelve months based on the budget. The group does not use speculative hedging.

Credit risks

The group's credit risks relate to trade receivables included in the balance sheet. The group has no vital risks related to a single customer or business partner. The company's credit risk policy involves assessing creditworthiness of all major customers and business partners. This is done on a regular basis.

Intellectual capital resources

The group has an experienced as well as competent staff working with lighting technology. It will continue to attract and retain highly skilled staff with expertise in the development of lighting to ensure future growth. Great demand is placed on the employees' technical and craftsman skills and their ability to engage in a logistically demanding production process.

To ensure high product quality and competitive production the group continuously optimizes production. This demands a high level of competence, and the group therefore continuously invests in competency development. It is, however, just as important for Louis Poulsen A/S to attract and retain both skilled and unskilled workers and employees with medium to higher education level.

During 2018 Louis Poulsen A/S has recruited competencies within the area of product development, quality and supply chain with focus on delivery performance and development of new products. In order to meet the increased sales, more blue collar workers have been recruited to the factory in Vejen. In addition, the company has increased its competencies within the area of sales and marketing.

Environmental performance

Energy consumption in 2018 is in line with consumption in 2017. There have been no specific investments to reduce energy consumptions in 2018.

Products from the existing product portfolio are continuously being adapted to the new energy efficient LED light sources without compromise on the company's lighting philosophy. Furthermore, there is a daily focus on test and development of products with prolonged lifetime.

Research and development activities

Louis Poulsen continuously invests in development, updates and improvements of its product portfolio. Costs related to development of products are expensed in the income statement, or accounted for as an asset following the accounting policies.

Group relations

The consolidated financial statements comprise the parent company Louis Poulsen A/S and its subsidiaries being incorporated in the annual report of Louis Poulsen A/S. The consolidated accounts include profit and loss for all subsidiaries.

Louis Poulsen A/S own 100% of all subsidiaries.

Management commentary

Louis Poulsen's sales organization is based in Copenhagen, and the company's production facilities are based in Vejen. The daily management is carried out from Denmark in close cooperation with our new owners.

Sales and distribution outside Denmark are carried out through the 10 subsidiaries or through agents and distributors operating on behalf of Louis Poulsen A/S. During 2018 a local Sales Representation Office was established in Spain.

The Louis Poulsen group has 463 employees, including 154 being employed in the subsidiaries abroad. The majority of the Danish employees are engaged in the company's production in Vejen.

Development in staff:	Denmark	Subsidiaries
Number of employees beginning of 2018	315	145
Recruited during 2018	80	28
Resigned during 2018	-86	-19
Number of employees end of 2018	309	154

Statutory report on corporate social responsibility

Policies

The CSR policies of Louis Poulsen A/S consist of both an environmental policy and various employment policies.

The environmental and climate policy is divided into a product philosophy, and an operational philosophy. The product philosophy is to develop lighting fixtures of high quality, long life time and long product cycles. The operational philosophy is built on continuous improvement of the daily operations with focus on waste, scrapping, energy losses and consumption. During 2018, we did not identify any breaches to our environment and climate policy.

We have assessed the risk within environment and climate and have not found any material risks

The employment policies include a list of initiatives improving the working environment, health and staff retention. The policies comprise diversity policies, drug/alcohol, staff, smoking, senior and health policies. Furthermore, the company is conscious of its obligation to educate trainees and apprentices.

Louis Poulsen A/S want to create a healthy and desirable physical and psychological working environment with focus on the well-being of the employees including reduction of sickness absenteeism. The policy regarding sickness absenteeism covers both follow up upon the presence and behaviour of the employees as well as expressing the company's compassionate interest in each employee.

Louis Poulsen A/S is continuously working on a formal policy for human rights. Within the above-mentioned

Management commentary

policies, there are focus areas to maintain a positive working environment and to avoid harassment of any kind. Based on internal risk assessment and prioritization of CSR activities during 2018, we have not yet completed our human rights policy. We aim to have it completed by end of 2019.

In Louis Poulsen, we are in every respect distancing ourselves from corruption and bribery. Louis Poulsen agrees to give and receive occasional gifts that do not exceed purely symbolic value. As part of our contracts with suppliers, we have formulated a code of conduct that prohibits any form of bribery. The ban is not limited to money but also includes all other values and gifts. During 2018, we did not identify any breaches to our supplier Code of Conduct.

We have assessed the risk within anti-corruption and have not found any material risks.

In 2018 Louis Poulsen A/S started working with our new owner and their portfolio companies on "How to drive sustainable growth". The goal is to have a sustainability report by June 2019.

General Data Projection Regulation (GDPR)

In 2018 Louis Poulsen A/S has initiated a Data Protection and Compliance project to secure compliance with the new EU General Data Protection Regulation of May 25th 2018, which improves data protection for individuals within EU.

Activities concerning the EU GDPR regulation is incorporated in all processes, and will continuously be audited by own Quality department.

Education

Louis Poulsen A/S assumes responsibility for educating both younger and more experienced employees and take responsibility in helping vulnerable employees on in terms of flexible jobs. In 2018 one more employee is hired on a 'flex job' agreement. Louis Poulsen A/S has now three permanently employed on a 'flex job' agreement.

During 2018 Louis Poulsen A/S has started education of two of our unskilled employees: one in R&D as Technical Designer and one in Assembly as Process Operator. Louis Poulsen A/S has now eight employees in education and has already scheduled to offer two more of our unskilled employees an education as Process Operator in 2019.

Furthermore, Louis Poulsen A/S has in 2018 in close cooperation with our trade union representatives and external educational institutions offered Danish language training to 10 of our unskilled employees. This

Management commentary

education is being held at Louis Poulsen A/S' location.

Results

The absenteeism for production workers increased from 4.2% in 2017 to 5,5% in 2018 despite a proactive approach to sickness absenteeism combined with ongoing support and guidance of the employees to develop and maintain a healthy lifestyle. Absenteeism for office workers has increased from 1.2% in 2017 to 1,8% in 2018.

A variety of physical exercise is made available to the staff. The company continuously supports new health promoting initiatives from the employees. Work place exercise has become a natural part of the working day.

Louis Poulsen A/S' working environment organisation continuously works to secure a sound working environment and to minimize the number of work related injuries. In 2018 a total of six work related injuries were recorded of which only 1 resulted in absenteeism for more than a week. The company has thus successfully avoided injuries resulting in extended absenteeism.

We have assessed the risk within labour and have not found any material risks.

Statutory report on the underrepresented gender

Louis Poulsen A/S wants to give equal access to leadership positions for members of both genders.

The share of women in leadership positions with staff responsibility represented 28% as of end of 2017. This share was 39% in 2018. The company wishes to continue increasing the share of women in leadership positions. To facilitate this development a recruitment policy has been implemented in relation to leadership positions according to which at least one female applicant must be admitted to job interview assuming qualified female applicants are available.

Through this policy and an ongoing focus on development of employees at all levels of the organization irrespective of age and gender Louis Poulsen A/S wishes to contribute to the education and development of potential female board members.

Target figure for the share of the under-represented gender in the Board of Directors

We strive to reach equal gender representation on the board. Currently the Board of Directors consists of 0% women and 100% men. It is the goal to recruit one female board member by the end of 2019 to increase the female share to 20%. The Board will follow up on the implementation of this goal on a yearly basis and is constantly seeking candidates with both relevant competencies and experience. Relevant knowledge and professional experience are key parameters when nominating new board members. No candidates met these criteria in 2018, which is the reason for the Board of Directors not achieving the recruitment goal during this year.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of

Management commentary

this annual report.

Consolidated income statement for 2018

	Notes	2018 DKK'm	2017 DKK'm
Revenue	1	807	801
Production costs	3, 4	(401)	(415)
Gross profit/loss		**406**	**386**
Distribution costs	4	(195)	(219)
Administrative expenses	2, 4	(95)	(69)
Operating profit/loss		**116**	**98**
Other financial income	5	0	13
Other financial expenses	6	(2)	(6)
Profit/loss before tax		**114**	**105**
Tax on profit/loss for the year	7	(28)	(27)
Profit/loss for the year	8	**86**	**78**

Consolidated balance sheet at 31.12.2018

	Notes	2018 DKK'm	2017 DKK'm
Completed development projects		20	18
Acquired licences		14	7
Acquired trademarks		89	98
Acquired rights		21	23
Goodwill		197	209
Development projects in progress		23	12
Intangible assets	9	**364**	**367**
Plant and machinery		45	47
Other fixtures and fittings, tools and equipment		13	12
Leasehold improvements		10	8
Prepayments for property, plant and equipment		11	8
Property, plant and equipment	10	**79**	**75**
Receivables from owners and management		0	3
Deposits		5	4
Deferred tax	13	10	11
Fixed asset investments	11	**15**	**18**
Fixed assets		**458**	**460**
Raw materials and consumables		36	32
Work in progress		13	13
Manufactured goods and goods for resale		39	41
Inventories		**88**	**86**
Trade receivables		78	70
Other receivables		3	8
Prepayments	12	8	7
Receivables		**89**	**85**
Cash		**91**	**54**
Current assets		**268**	**225**
Assets		**726**	**685**

Consolidated balance sheet at 31.12.2018

	Notes	2018 DKK'm	2017 DKK'm
Contributed capital		10	10
Retained earnings		462	342
Equity		**472**	**352**
Deferred tax	13	39	37
Other provisions	14	16	17
Provisions		**55**	**54**
Bank loans		0	88
Trade payables		111	104
Payables to group enterprises		0	2
Other payables	15	88	85
Current liabilities other than provisions		**199**	**279**
Liabilities other than provisions		**199**	**279**
Equity and liabilities		**726**	**685**
Unrecognised rental and lease commitments	17		
Contingent liabilities	18		
Assets charged and collateral	19		
Transactions with related parties	20		
Group relations	21		
Subsidiaries	22		

Consolidated statement of changes in equity for 2018

	Contributed capital DKK'm	Retained earnings DKK'm	Total DKK'm
Equity beginning of year	10	342	352
Effect of mergers and business combinations	0	69	69
Extraordinary dividend paid	0	(34)	(34)
Exchange rate adjustments	0	4	4
Fair value adjustments of hedging instruments	0	(5)	(5)
Profit/loss for the year	0	86	86
Equity end of year	**10**	**462**	**472**

Consolidated cash flow statement for 2018

	Notes	2018 DKK'm	2017 DKK'm
Operating profit/loss		116	98
Amortisation, depreciation and impairment losses		44	50
Other provisions		(1)	(6)
Working capital changes	16	(1)	15
Cash flow from ordinary operating activities		**158**	**157**
Financial income received		0	13
Financial expenses paid		0	(6)
Income taxes refunded/(paid)		(12)	(18)
Cash flows from operating activities		**146**	**146**
Acquisition etc of intangible assets		(35)	(21)
Acquisition etc of property, plant and equipment		(19)	(32)
Acquisition of fixed asset investments		0	(3)
Cash flows from investing activities		**(54)**	**(56)**
Incurrence of debt to group enterprises		0	2
Dividend paid		(33)	0
Acquisition of treasury shares		0	(2)
Capital infusion		67	0
Payment of deposits		(1)	0
Cash flows from financing activities		**33**	**0**
Increase/decrease in cash and cash equivalents		**125**	**90**
Cash and cash equivalents beginning of year		(34)	(124)
Cash and cash equivalents end of year		**91**	**(34)**
Cash and cash equivalents at year-end are composed of:			
Cash		91	54
Short-term debt to banks		0	(88)
Cash and cash equivalents end of year		**91**	**(34)**

Notes to consolidated financial statements

1. Revenue	2018 DKK'm	2017 DKK'm
Scandinavia	444	458
Rest of Europe	136	98
Rest of World	227	245
	807	**801**

2. Fees to the auditor appointed by the Annual General Meeting	2018 DKK'm	2017 DKK'm
Statutory audit services	1	1
	1	**1**

3. Staff costs	2018 DKK'm	2017 DKK'm
Wages and salaries	223	217
Pension costs	13	13
Other social security costs	14	14
	250	**244**
Number of employees at balance sheet date	**463**	**459**
Average number of employees	**442**	**429**

	Remuneration of management 2018 DKK'm	Remuneration of management 2017 DKK'm
Executive Board	7	7
Board of Directors	0	1
	7	**8**

4. Depreciation, amortisation and impairment losses	2018 DKK'm	2017 DKK'm
Amortisation of intangible assets	32	34
Depreciation on property, plant and equipment	12	2
Impairment losses on property, plant and equipment	0	14
	44	**50**

Notes to consolidated financial statements

5. Other financial income	2018 DKK'm	2017 DKK'm
Other interest income	0	13
	0	**13**

6. Other financial expenses	2018 DKK'm	2017 DKK'm
Other interest expenses	2	6
	2	**6**

7. Tax on profit/loss for the year	2018 DKK'm	2017 DKK'm
Current tax	25	25
Change in deferred tax	3	1
Adjustment concerning previous years	0	1
	28	**27**

8. Proposed distribution of profit/loss	2018 DKK'm	2017 DKK'm
Extraordinary dividend distributed in the financial year	33	0
Retained earnings	53	78
	86	**78**

Notes to consolidated financial statements

9. Intangible assets	Completed develop-ment projects DKK'm	Acquired licences DKK'm	Acquired trademarks DKK'm	Acquired rights DKK'm
Cost beginning of year	32	18	124	31
Additions	8	9	0	0
Disposals	0	0	0	0
Cost end of year	**40**	**27**	**124**	**31**
Amortisation and impairment losses beginning of year	(14)	(11)	(26)	(8)
Amortisation for the year	(6)	(3)	(9)	(2)
Reversal regarding disposals	0	1	0	0
Amortisation and impairment losses end of year	**(20)**	**(13)**	**(35)**	**(10)**
Carrying amount end of year	**20**	**14**	**89**	**21**

9. Intangible assets	Goodwill DKK'm	Develop-ment projects in progress DKK'm
Cost beginning of year	245	12
Additions	0	18
Disposals	0	(7)
Cost end of year	**245**	**23**
Amortisation and impairment losses beginning of year	(36)	0
Amortisation for the year	(12)	0
Reversal regarding disposals	0	0
Amortisation and impairment losses end of year	**(48)**	**0**
Carrying amount end of year	**197**	**23**

Development projects

Development projects in progress comprise ongoing development of new lighting fixtures that have not yet been completed.

The cost of development projects comprises costs such as salaries, amortisation and indirect costs.

New lighting fixtures are developed for the domestic market as well as markets abroad. The development

Notes to consolidated financial statements

projects are regularly evaluated by the management. In the evaluation the management evaluates the progress of the projects and the future market for the lighting fixtures.

	Plant and machinery DKK'm	Other fixtures and fittings, tools and equipment DKK'm	Leasehold improvements DKK'm	Prepayments for property, plant and equipment DKK'm
10. Property, plant and equipment				
Cost beginning of year	67	13	11	8
Additions	2	7	5	9
Disposals	(30)	(8)	(3)	(6)
Cost end of year	**39**	**12**	**13**	**11**
Depreciation and impairment losses beginning of year	(20)	(1)	(3)	0
Reversal of impairment losses	0	3	0	0
Depreciation for the year	(10)	(1)	(1)	0
Reversal regarding disposals	36	0	1	0
Depreciation and impairment losses end of year	**6**	**1**	**(3)**	**0**
Carrying amount end of year	**45**	**13**	**10**	**11**

	Receivables from owners and management DKK'm	Deposits DKK'm	Deferred tax DKK'm
11. Fixed asset investments			
Cost beginning of year	3	4	11
Additions	0	1	0
Disposals	(3)	0	(1)
Cost end of year	**0**	**5**	**10**
Carrying amount end of year	**0**	**5**	**10**

12. Prepayments

Prepayments comprise incurred marketing costs and other costs relating to subsequent financial years.

Notes to consolidated financial statements

	2018 DKK'm
13. Deferred tax	
Changes during the year	
Beginning of year	26
Recognised in the income statement	3
End of year	**29**

14. Other provisions

Other provisions mainly consist of provisions regarding unfavourable lease contracts on premises in Vejen in order to reach a fair market value. Provisions on lease contracts are amortised over the lifespan of the lease contract.

15. Other short-term payables

Other debts include a negative fair value of forward exchange contracts of Dkk 0,9 million. Louis Poulsen hedges future exchange risks relating to sale of goods to subsidiaries. Louis Poulsen A/S has entered into forward exchange contracts for the following 12 months to secure sales in the following currencies JPY 826 million, NOK 29 million and SEK 48 million. All contracts are subscribed with the company's bank.

	2018 DKK'm	2017 DKK'm
16. Change in working capital		
Increase/decrease in inventories	(2)	(18)
Increase/decrease in receivables	(4)	5
Increase/decrease in trade payables etc	5	24
Other changes	0	4
	(1)	**15**

	2018 DKK'm	2017 DKK'm
17. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**103**	**66**

	2018 DKK'm	2017 DKK'm
18. Contingent liabilities		
Recourse and non-recourse guarantee commitments	2	3
Contingent liabilities in total	**2**	**3**

Louis Poulsen Holding A/S is in a Danish joint taxation arrangement in which Luminous Designs Investments

Notes to consolidated financial statements

ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The total known net liability of the jointly taxed entities under the joint taxation arrangement is evident from the administration company's financial statements.

Louis Poulsen UK Limited (company no. 01895479) is exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A of the Companies Act 2006.

19. Assets charged and collateral
None.

20. Transactions with related parties
All transactions with related parties during the year have been made on markets terms.

21. Group relations
Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Design Holding SpA, via Monte Napoleone 29 – 20121 Milan, Italy.
Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Design Holding SpA, via monte Napoleone 29 – 20121 Milan, Italy.

	Registered in	Corpo-rate form	Equity inte-rest %
22. Subsidiaries			
Louis Poulsen U.S.A Inc	Fort Lauderdale, USA	Inc.	100,0
Louis Poulsen Asia Pte. Ltd.	Singapore, Asia	Ltd.	100,0
Louis Poulsen Germany GmbH	Düsseldorf, Germany	GmbH	100,0
Louis Poulsen Sweden AB	Stockholm, Sweden	AB	100,0
Louis Poulsen Norway AS	Oslo, Norway	AS	100,0
Louis Poulsen Finland Oy	Helsinki, Finland	Oy	100,0
Louis Poulsen UK Limited	London, Great Britain	Limited	100,0
Louis Poulsen Japan Ltd.	Tokyo, Japan	Ltd.	100,0
Louis Poulsen Switzerland AG	Zürich, Switzerland	AG	100,0
Louis Poulsen Holland B.V.	Amsterdam, Holland	B.V.	100,0
Louis Poulsen Italy S.R.L	Milano, Italy	S.R.L	100,0

Parent income statement for 2018

	Notes	2018 DKK'm	2017 DKK'm
Revenue	1	582	563
Production costs	2, 3	(328)	(331)
Gross profit/loss		**254**	**232**
Distribution costs	3	(81)	(84)
Administrative expenses	3	(57)	(61)
Operating profit/loss		**116**	**87**
Income from investments in group enterprises		(5)	15
Other financial income	4	2	10
Other financial expenses	5	(4)	(6)
Profit/loss before tax		**109**	**106**
Tax on profit/loss for the year	6	(23)	(23)
Profit/loss for the year	7	**86**	**83**

Parent balance sheet at 31.12.2018

	Notes	2018 DKK'm	2017 DKK'm
Completed development projects		19	18
Acquired licences		13	5
Goodwill		79	56
Development projects in progress		23	12
Intangible assets	8	**134**	**91**
Plant and machinery		27	29
Other fixtures and fittings, tools and equipment		7	7
Leasehold improvements		5	4
Prepayments for property, plant and equipment		11	7
Property, plant and equipment	9	**50**	**47**
Investments in group enterprises		347	133
Deposits		3	2
Fixed asset investments	10	**350**	**135**
Fixed assets		**534**	**273**
Raw materials and consumables		33	30
Work in progress		13	13
Manufactured goods and goods for resale		13	22
Inventories		**59**	**65**
Trade receivables		24	23
Receivables from group enterprises		50	49
Other receivables		4	6
Prepayments	11	3	3
Receivables		**81**	**81**
Cash		**58**	**30**
Current assets		**198**	**176**
Assets		**732**	**449**

Parent balance sheet at 31.12.2018

	Notes	2018 DKK'm	2017 DKK'm
Contributed capital		10	10
Reserve for development expenditure		30	16
Retained earnings		432	94
Equity		**472**	**120**
Deferred tax	12	38	7
Other provisions	13	8	2
Provisions		**46**	**9**
Payables to group enterprises		65	122
Other payables		1	2
Non-current liabilities other than provisions		**66**	**124**
Bank loans		0	72
Trade payables		93	77
Payables to group enterprises		0	2
Income tax payable		18	6
Other payables	14	37	39
Current liabilities other than provisions		**148**	**196**
Liabilities other than provisions		**214**	**320**
Equity and liabilities		**732**	**449**

Unrecognised rental and lease commitments	15
Contingent liabilities	16
Assets charged and collateral	17
Related parties with controlling interest	18
Transactions with related parties	19

Parent statement of changes in equity for 2018

	Contributed capital DKK'm	Reserve for development expenditure DKK'm	Retained earnings DKK'm	Total DKK'm
Equity beginning of year	10	16	94	120
Effect of mergers and business combinations	0	0	232	232
Extraordinary dividend paid	0	0	(34)	(34)
Exchange rate adjustments	0	0	4	4
Fair value adjustments of hedging instruments	0	0	(5)	(5)
Group contributions etc	0	0	69	69
Transfer to reserves	0	14	(14)	0
Profit/loss for the year	0	0	86	86
Equity end of year	**10**	**30**	**432**	**472**

Notes to parent financial statements

	2018 DKK'm	2017 DKK'm
1. Revenue		
Lighting fixtures, domestic	291	295
Lighting fixtures, abroad	291	268
	582	**563**

	2018 DKK'm	2017 DKK'm
2. Staff costs		
Wages and salaries	150	140
Pension costs	9	9
Other social security costs	2	3
Other staff costs	(1)	0
	160	**152**
Number of employees at balance sheet date	**309**	**312**
Average number of employees	**297**	**268**

	Remuneration of management 2018 DKK'm	Remuneration of management 2017 DKK'm
Executive Board	7	7
Board of Directors	0	1
	7	**8**

	2018 DKK'm	2017 DKK'm
3. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	13	23
Depreciation on property, plant and equipment	14	11
	27	**34**

	2018 DKK'm	2017 DKK'm
4. Other financial income		
Exchange rate adjustments	2	10
	2	**10**

Notes to parent financial statements

5. Other financial expenses	2018 DKK'm	2017 DKK'm
Financial expenses from group enterprises	2	3
Other interest expenses	2	3
	4	**6**

6. Tax on profit/loss for the year	2018 DKK'm	2017 DKK'm
Current tax	21	20
Change in deferred tax	2	3
	23	**23**

7. Proposed distribution of profit/loss	2018 DKK'm	2017 DKK'm
Extraordinary dividend distributed in the financial year	33	0
Retained earnings	53	83
	86	**83**

8. Intangible assets	Completed development projects DKK'm	Acquired licences DKK'm	Goodwill DKK'm	Development projects in progress DKK'm
Cost beginning of year	59	40	282	12
Additions	7	9	0	18
Disposals	0	0	0	(7)
Cost end of year	**66**	**49**	**282**	**23**
Amortisation and impairment losses beginning of year	(41)	(35)	(226)	0
Reversal of impairment losses	0	0	28	0
Amortisation for the year	(6)	(2)	(5)	0
Reversal regarding disposals	0	1	0	0
Amortisation and impairment losses end of year	**(47)**	**(36)**	**(203)**	**0**
Carrying amount end of year	**19**	**13**	**79**	**23**

Development projects

Development projects in progress comprise ongoing development of new lighting fixtures that have not yet

Notes to parent financial statements

been completed.

The cost of development projects comprises costs such as salaries, amortisation and indirect costs.

New lighting fixtures are developed for the domestic market as well as markets abroad. The development projects are regularly evaluated by the management. In the evaluation the management evaluates the progress of the projects and the future market for the lighting fixtures.

	Plant and machinery DKK'm	Other fixtures and fittings, tools and equipment DKK'm	Leasehold improvements DKK'm	Prepayments for property, plant and equipment DKK'm
9. Property, plant and equipment				
Cost beginning of year	136	24	10	7
Additions	2	2	3	9
Disposals	(30)	(6)	(4)	(5)
Cost end of year	**108**	**20**	**9**	**11**
Depreciation and impairment losses beginning of year	(107)	(17)	(6)	0
Depreciation for the year	(11)	(2)	(1)	0
Reversal regarding disposals	37	6	3	0
Depreciation and impairment losses end of year	**(81)**	**(13)**	**(4)**	**0**
Carrying amount end of year	**27**	**7**	**5**	**11**

Notes to parent financial statements

	Investments in group enterprises DKK'm	Deposits DKK'm
10. Fixed asset investments		
Cost beginning of year	224	2
Additions	0	1
Cost end of year	**224**	**3**
Impairment losses beginning of year	(91)	0
Addition through business combinations etc	222	0
Exchange rate adjustments	4	0
Share of profit/loss for the year	(5)	0
Dividend	(7)	0
Impairment losses end of year	**123**	**0**
Carrying amount end of year	**347**	**3**

Hereof non-amortised goodwill DKK 117 million.

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

11. Prepayments

Prepayments comprise incurred insurance costs and other costs relating to subsequent financial years.

	2018 DKK'm
12. Deferred tax	
Changes during the year	
Beginning of year	7
Recognised in the income statement	4
Recognised directly in equity	27
End of year	**38**

13. Other provisions

Other provisions mainly consist of provisions regarding unfavourable lease contracts on premises in Vejen in order to reach a fair market value. Provisions on lease contracts are amortised over the lifespan of the lease contract.

Notes to parent financial statements

14. Other payables

Other debts include a negative fair value of forward exchange contracts of Dkk 0,9 million. Louis Poulsen hedges future exchange risks relating to sale og goods to subsidiaries. Louis Poulsen A/S has entered into forward exchange contracts for the following 12 months to secure sales in the following currencies JPY 826 million, NOK 29 million and SEK 48 million. All contracts are subscribed with the company's bank.

	2018 DKK'm	2017 DKK'm
15. Unrecognised rental and lease commitments		
Liabilities under rental or lease agreements until maturity in total	**81**	**42**

	2018 DKK'm	2017 DKK'm
16. Contingent liabilities		
Recourse and non-recourse guarantee commitments	1	3
Contingent liabilities in total	**1**	**3**

Louis Poulsen Holding A/S is in a Danish joint taxation arrangement in which Luminous Designs Investments ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The total known net liability of the jointly taxed entities under the joint taxation arrangement is evident from the administration company's financial statements.

Louis Poulsen UK Limited (company no. 01895479) is exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A of the Companies Act 2006.

17. Assets charged and collateral

None.

18. Related parties with controlling interest

Related parties with controlling interest:

- International Design Group S.p.A., Via Montenapoleone No29, Milan, Italy, parent
- Luminous Designs Investments ApS, Sundkrogsgade 21, Copenhagen Ø, parent
- Luminous Designs Denmark ApS, Copenhagen Ø, parent

19. Transactions with related parties

All transactions with related parties during the year have been made on markets terms.

Accounting policies

Reporting class
This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements
The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Business combinations
Newly acquired or newly established enterprises are recognised in the consolidated financial statements from

Accounting policies

the time of acquiring or establishing such enterprises. Divested or wound-up enterprises are recognised in the consolidated income statement up to the time of their divestment or winding-up.

The purchase method is applied at the acquisition of new enterprises, under which identifiable assets and liabilities of these enterprises are measured at fair value at the acquisition date. Provisions for costs of restructuring of the enterprise acquired are only made in so far as such restructuring was decided by the enterprise acquired prior to acquisition. Allowance is made for the tax effect of restatements.

Positive differences in amount (goodwill) between cost of the acquired share and fair value of the assets and liabilities taken over are recognised under intangible assets, and they are amortised systematically over the income statement based on an individual assessment of their useful life. If the useful life cannot be estimated reliably, it is fixed at 10 years. Useful life is reassessed annually. Negative balances (negative goodwill) are recognised as income in the income statement.

The uniting-of-interests method is applied on acquisition of enterprises, mergers, demergers, contributions of assets and exchanges of shares, etc where the enterprises concerned are controlled by the Parent, under which method the combination is considered completed at the date of acquisition without restatement of comparative figures. Under the uniting-of-interests method, the acquiree's assets and liabilities are recognised at their carrying amounts, adjusted for any differences in accounting policies and accounting estimates. The difference between the consideration agreed and the carrying amount of the acquiree is recognised in equity.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered belonging to the independent foreign entity and is translated using the exchange rate at the balance sheet date. Exchange differences arising out of the translation of foreign subsidiaries' equity at the beginning of the year at the balance sheet date exchange rates as well as out of the translation of income statements from average rates to the exchange rates at the balance sheet date are recognised directly in equity.

Exchange adjustments of outstanding accounts with independent foreign subsidiaries which are considered part of the total investment in the subsidiary in question are classified directly as equity.

Accounting policies

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate of the time of acquisition or the time of any subsequent revaluation or write-down. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognised asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign subsidiaries or associates are classified directly as equity.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs
Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Distribution costs
Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment

Accounting policies

attached to the distribution process.

Administrative expenses

Administrative expenses comprise costs incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with its ultimate owner and all Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Goodwill

Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed on an annual basis. The amortisation periods used are 20 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Accounting policies

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects, protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights. The amortisation periods used are 5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 20 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	5 years
Other fixtures and fittings, tools and equipment	2-5 years
Leasehold improvements	5-14 years

Accounting policies

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus or minus unamortised goodwill and plus or minus unrealised intra-group profits or losses.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Goodwill is calculated as the difference between cost of the investments and fair value of the pro rata share of assets and liabilities acquired. Goodwill is amortised straigth-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. If the useful life cannot be estimated reliably, it is fixed at 10 years. Useful lives are reassessed annually. The amortisation periods used are 20 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Accounting policies

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other provisions
Other provisions comprise anticipated costs of non-recourse guarantee commitments, returns, loss on contract work in progress, decided and published restructuring, etc.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Accounting policies

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.