

Softline A/S

Kidnakken 7, 4930 Maribo
CVR no. 27 26 63 55

Annual report for 2023

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 16.05.24

Andy Nørregaard Andersen
Dirigent

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The company

Softline A/S
Kidnakken 7
4930 Maribo
Tel.: 54 16 06 80
Website: www.softline.dk
E-mail: info@softline.dk
Registered office: Lolland
CVR no.: 27 26 63 55
Financial year: 01.01 - 31.12

Executive Board

Finn Herluf Sørensen

Board of Directors

Andy Nørregaard Andersen, chairman
Finn Herluf Sørensen
Karen Sofie Hansen-Hoeck
Anders Carsted Rosenberg

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.23 - 31.12.23 for Softline A/S.

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 company's assets, liabilities and financial position as at 31.12.23 and of the results of the company's activities and cash flows for the financial year 01.01.23 - 31.12.23.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Maribo, May 16, 2024

Executive Board

Finn Herluf Sørensen

Board of Directors

Andy Nørregaard Andersen
Chairman

Finn Herluf Sørensen

Karen Sofie Hansen-Hoeck

Anders Carsted Rosenberg

To the Shareholders of Softline A/S**Opinion**

We have audited the financial statements of Softline A/S for the financial year 01.01.23 - 31.12.23, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, including significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion the financial statements give a true and fair view of the company's financial position at 31.12.23 and of the results of the company's operations and cash flows for the financial year 01.01.23 - 31.12.23 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the management's review

Management is responsible for the management's review.

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

In connection with our audit of the financial statements, it is our responsibility to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Nykøbing F, May 16, 2024

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Glenn Hartmann

State Authorized Public Accountant
MNE-no. mne32173

FINANCIAL HIGHLIGHTS**Key figures**

Figures in DKK '000	2023	2022	2021	2020	2019
<i>Profit/loss</i>					
Gross profit	40,668	43,512	37,815	34,567	34,324
Index	118	127	110	101	100
Operating profit	11,363	12,764	12,616	8,206	7,963
Index	143	160	158	103	100
Total net financials	226	-200	-186	-377	-143
Profit for the year	9,032	9,793	9,699	6,097	6,088
<i>Balance</i>					
Total assets	68,200	66,106	64,525	57,113	56,031
Investments in property, plant and equipment	168	1,559	675	1,294	403
Equity	55,926	53,894	51,101	45,902	44,805

Ratios

	2023	2022	2021	2020	2019
<i>Profitability</i>					
Return on equity	16%	19%	20%	13%	14%
<i>Equity ratio</i>					
Solvency ratio	82%	82%	79%	80%	80%
<i>Others</i>					
Number of employees (average)	49	51	46	53	53
<i>Ratios definitions</i>					
Return on equity:	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$				
Solvency ratio:	$\frac{\text{Equity, end of year} \times 100}{\text{Total assets}}$				

Primary activities

SOFTLINE A/S continues to develop as an international brand and a leading provider of innovative, functional and high-quality design furniture worldwide. The strong SOFTLINE concept of our unique design furniture keeps evolving. The company is working closely together with leading designers in order to continuously launch new, creative design products. SOFTLINE's desire to innovate, which was the company's starting point at the founding in 1979, is still our driving force.

Today, SOFTLINE design products are sold in 63 countries worldwide through high-end design partners and dealers specialised in the creative development of public spaces and domestic interiors. The export share is 93%.

Since 2003 SOFTLINE A/S has been an independent, privately-owned enterprise with a factory in Denmark, where the upholstery craft is performed by hand, based on Scandinavian traditions – in eco-friendly materials.

Development in activities and financial affairs

The income statement for the period 01.01.23 - 31.12.23 shows a profit/loss of DKK 9,031,757 against DKK 9,792,955 for the period 01.01.22 - 31.12.22. The balance sheet shows equity of DKK 55,926,022.

In 2023, expected earnings were a net result of DKK 12,802k. The realised result in 2023 was a final net result of DKK 11,589k (-9.5% in relation to budget).

The result has been affected by the fact that we have not been able to expand the organization at the pace that was planned and budgeted, as well as by the general market situation with rising interest rates and inflation.

Outlook

The company expects a profit before tax in the region of DKK 10.443k for the coming year. The company's investments in the expansion of the distribution network are expected to be realised in the coming year and contribute to improved results.

Knowledge resources

The company is constantly focused on optimisation of procedures and processes to ensure a high product quality that meet the customer's rightful demand of high-quality design products.

Therefore, considerable resources are allocated to the development and marketing of new products, as well as to the optimisation of procedures and processes.

Furthermore, a significant investment in marketing activities was made in 2023, focusing on digital media to ensure an even stronger positioning of the SOFTLINE brand.

In 2023, the company invested time and resources in preparing ISO certifications, and in March 2024, the audit certified the SOFTLINE quality and environmental management systems according to the international standards ISO 9001 and 14001.

The company's proactive approach to the ISO-standards ensures that we deliver products and services that meet customer requirements, comply with applicable environmental regulations and enable SOFTLINE to compete more effectively in today's global marketplace.

Financial risks

Foreign currency risks

More than 70% of the revenue is invoiced in foreign currency, which means that profit, cash flows and equity are affected by the development of the exchange rate for a number of currencies. It is the company's policy to hedge the most significant commercial currency risks. The coverage primarily takes place via currency accounts in EUR to hedge the currency risk for the currency traded in.

Research and development activities

Significant resources are allocated to the development and marketing of new products, as well as for optimising methods and processes.

Corporate social responsibility

As a production company, SOFTLINE cares about its responsibility for the development and well-being of people as well as we care about the environment and protecting the planet against climate change. In 2023, the company focused strategically on improving practices and actions concerning sustainability and work related, social issues.

CSR Policy

The CSR policy of the company has been evaluated and adjusted so that it reflects how the company acts responsibly socially, environmentally and management-wise on a daily basis. In that connection the UN Global Goals served as the point of orientation.

SOFTLINE has engaged in community activities and support to refugees, displaced people and people in need by providing donations to aid and charity organisations at local, national and global level. Also employment of refugees and marginalised people has a priority for the

company.

Furthermore, the Code of Conduct of the company has been updated in accordance with the current legal requirements including directions targeted to the subcontractors of the company.

Serving as the foundation of future commerce, ethical principles has been defined to help us control the supply chain.

Sustainability / Quality

When innovating, designing and producing products, it is of the utmost importance to the company to use environmentally friendly raw materials in a high quality and thoroughly tested constructions, resulting in durable and safe SOFTLINE products with a long lifespan.

Recycling / Durability

To ensure that we make the most of the resources and they are kept in circulation as long as possible, the company has an increased focus on furniture and materials that can be recycled or reused, becoming part of new products. Covers and other components are changeable, extending the life cycle of the product and minimising the environmental impact over time. When the lifecycle of the furniture has come to an end, the simple disassembly ensures that the various materials can be sorted at source and reused to the widest extend possible. Lastly, it is worth mentioning that an optimisation and upgrade of materials are happening on a regular basis and that the development of sustainable materials is closely monitored.

ESG

In order to strengthen the company's environmental and social responsibility, in 2024 the focus will be on implementing ESG and expects to be able to produce the first ESG report on the company for 2024.

Subsequent events

No other significant events have occurred after the end of the financial year.

Income statement

Note		2023	2022
		DKK	DKK
	Gross profit	40,667,808	43,512,248
1	Staff costs	-28,381,655	-29,863,325
	Profit before depreciation, amortisation, write-downs and impairment losses	12,286,153	13,648,923
	Depreciation and impairments losses of property, plant and equipment	-923,026	-884,712
	Operating profit	11,363,127	12,764,211
	Financial income	451,042	0
2	Financial expenses	-225,298	-200,343
	Profit before tax	11,588,871	12,563,868
	Tax on profit for the year	-2,557,114	-2,770,913
	Profit for the year	9,031,757	9,792,955

3 Proposed appropriation account

Balance sheet

ASSETS		31.12.23	31.12.22
		DKK	DKK
Note			
	Leasehold improvements	174,716	239,474
	Other fixtures and fittings, tools and equipment	1,020,222	1,710,041
4	Total property, plant and equipment	1,194,938	1,949,515
5	Other receivables	731,858	670,438
	Total investments	731,858	670,438
	Total non-current assets	1,926,796	2,619,953
	Raw materials and consumables	17,170,793	19,831,044
	Manufactured goods and goods for resale	6,929,396	6,889,512
	Total inventories	24,100,189	26,720,556
	Work in progress for third parties	5,038	70,272
	Trade receivables	10,887,782	13,674,276
	Receivables from group enterprises	0	19,039
	Deferred tax asset	123,018	70,558
	Income tax receivable	158,426	0
	Other receivables	929,285	1,143,795
6	Prepayments	265,133	339,363
	Total receivables	12,368,682	15,317,303
	Cash	29,804,161	21,448,529
	Total current assets	66,273,032	63,486,388
	Total assets	68,199,828	66,106,341

EQUITY AND LIABILITIES

Note		31.12.23 DKK	31.12.22 DKK
7	Share capital	2,000,000	2,000,000
	Retained earnings	46,926,022	44,894,265
	Proposed dividend for the financial year	7,000,000	7,000,000
	Total equity	55,926,022	53,894,265
	Prepayments received from customers	4,727,619	3,744,476
	Trade payables	5,140,326	6,577,326
	Payables to group enterprises	430,328	0
	Income taxes	0	216,534
	Other payables	1,975,533	1,673,740
	Total short-term payables	12,273,806	12,212,076
	Total payables	12,273,806	12,212,076
	Total equity and liabilities	68,199,828	66,106,341

- 9 Contingent liabilities
- 10 Charges and security
- 11 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Retained earnings	Proposed dividend for the financial year	Total equity
Statement of changes in equity for 01.01.23 - 31.12.23				
Balance as at 01.01.23	2,000,000	44,894,265	7,000,000	53,894,265
Dividend paid	0	0	-7,000,000	-7,000,000
Net profit/loss for the year	0	2,031,757	7,000,000	9,031,757
Balance as at 31.12.23	2,000,000	46,926,022	7,000,000	55,926,022

Cash flow statement

Note	2023 DKK	2022 DKK
Profit for the year	9,031,757	9,792,955
12 Adjustments	3,254,396	3,557,669
Change in working capital:		
Inventories	2,620,367	-4,273,726
Receivables	3,098,087	2,856,680
Trade payables	-1,437,000	-927,059
Other payables relating to operating activities	1,715,264	-450,378
Cash flows from operating activities before net financials	18,282,871	10,556,141
Interest income and similar income received	451,042	0
Interest expenses and similar expenses paid	-225,298	-200,343
Income tax paid	-2,984,534	-2,568,230
Cash flows from operating activities	15,524,081	7,787,568
Purchase of property, plant and equipment	-168,449	-1,558,582
Sale of property, plant and equipment	0	298,299
Cash flows from investing activities	-168,449	-1,260,283
Dividend paid	-7,000,000	-7,000,000
Cash flows from financing activities	-7,000,000	-7,000,000
Total cash flows for the year	8,355,632	-472,715
Cash, beginning of year	21,448,529	21,921,244
Cash, end of year	29,804,161	21,448,529
Cash, end of year, comprises:		
Cash	29,804,161	21,448,529
Total	29,804,161	21,448,529

	2023	2022
	DKK	DKK

1. Staff costs

Wages and salaries	25,612,992	27,202,371
Pensions	1,819,138	1,597,358
Other social security costs	210,074	213,174
Other staff costs	739,451	850,422
Total	28,381,655	29,863,325

Average number of employees during the year	49	51
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Remuneration for the management:

Remuneration for the Executive Board and Board of Directors	1,639,433	1,638,186
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2. Financial expenses

Interest, group enterprises	736	2,799
Other interest expenses	11,261	78,906
Foreign currency translation adjustments	213,301	118,638
Other financial expenses	224,562	197,544
Total	225,298	200,343

3. Proposed appropriation account

Proposed dividend for the financial year	7,000,000	7,000,000
Retained earnings	2,031,757	2,792,955
Total	9,031,757	9,792,955

4. Property, plant and equipment

Figures in DKK	Leasehold improvements	Other fixtures and fittings, tools and equipment
Cost as at 01.01.23	848,951	5,017,109
Additions during the year	0	168,449
Cost as at 31.12.23	848,951	5,185,558
Depreciation and impairment losses as at 01.01.23	-609,477	-3,307,068
Depreciation during the year	-64,758	-858,268
Depreciation and impairment losses as at 31.12.23	-674,235	-4,165,336
Carrying amount as at 31.12.23	174,716	1,020,222

5. Non-current financial assets

Figures in DKK	Other receivables
Cost as at 01.01.23	731,858
Cost as at 31.12.23	731,858
Carrying amount as at 31.12.23	731,858

	31.12.23 DKK	31.12.22 DKK
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6. Prepayments

Prepaid membership fees and subscriptions	94,178	63,911
Prepaid support assistance	125,955	55,161
Prepaid fair costs	45,000	220,291
Total	265,133	339,363

7. Share capital

The share capital consists of:

	Quantity	Total nominal value DKK
Share capital	4,000	2,000,000
Total		2,000,000

	31.12.23 DKK	31.12.22 DKK
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8. Deferred tax

Provisions for deferred tax as at 01.01.23	70,558	106,937
Deferred tax recognised in the income statement	52,460	-36,379

Provisions for deferred tax as at 31.12.23	123,018	70,558
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Deferred tax is distributed as below:

Property, plant and equipment	166,234	95,968
Receivables	-43,216	-25,410

Total	123,018	70,558
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As at 31.12.23, the company has recognised a deferred tax asset of DKK 123k, which can primarily be attributed to tax losses carried forward. The deferred tax asset is recognised on the basis of expectations of positive operating results for the coming years.

9. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 2-25 months and total lease payments of DKK 1.362k.

Other contingent liabilities

The company is taxed jointly with the other Danish companies in the group and is liable for income taxes on a pro rata basis and must comply with any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The maximum liability totals an amount corresponding to the share of the capital in the company which is owned directly or indirectly by the ultimate parent. The total tax liability for the jointly taxed companies at the balance sheet date has not yet been determined. For further information, please see the financial statements of the management company Softline Holding A/S.

Tax has submitted a proposal for the collection of non-withheld dividend tax for the income years 2015-2020 of a total of DKK 1,588k. The company's management does not agree with Skat's proposal. In the event that Tax maintains its proposal, the company has the right of recourse against the relevant shareholder.

10. Charges and security

The company has issued mortgage deeds registered to the mortgagor in the total amount of DKK 4,000k carrying amount of pledged assets 2022.12.31 constitutes:

- Trade receivables, DKK 10,888k..

11. Related parties

Controlling influence	Basis of influence
Andy Nørregaard Andersen	Management
Finn Herluf Sørensen	Management
Karen Sofie Hansen-Hoeck	Management
Anders Carsted Rosenberg	Management
Softline Holding A/S, Lolland	Owner
SH Softair Holding AG, Sarnen, Schweiz	Owner

Related party transactions are not disclosed, as all transactions are entered into in the ordinary course of business at arms' length.

Remuneration for the management is specified in note 1. Staff costs.

The company is included in the consolidated financial statements of the parent Softline Holding A/S, Lolland.

	2023	2022
	DKK	DKK

12. Adjustments for the cash flow statement

Other operating income	0	-298,299
Depreciation and impairments losses of property, plant and equipment	923,026	884,712
Financial income	-451,042	0
Financial expenses	225,298	200,343
Tax on profit or loss for the year	2,557,114	2,770,913
Total	3,254,396	3,557,669

13. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

13. Accounting policies - continued -**LEASES**

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

INCOME STATEMENT**Gross profit**

Gross profit comprises revenue, other operating income and raw materials and consumables and other external expenses.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including compensation, and gains on the sale of intangible assets and property, plant and equipment.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

13. Accounting policies - continued -**Staff costs**

Staff costs comprise wages and salaries as well as other staff-related costs.

Depreciation and impairment losses

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value DKK
Leasehold improvements	5	0
Other plant, fixtures and fittings, tools and equipment	2-5	0

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

13. Accounting policies - continued -**BALANCE SHEET****Property, plant and equipment**

Property, plant and equipment comprise leasehold improvements as well as other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

13. Accounting policies - continued -**Inventories**

Inventories are measured at cost calculated according to the FIFO-method. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The cost of manufactured finished goods and work in progress is determined as the value of direct material and labour costs. Interest on loans arranged to finance production is not included in the cost.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Work in progress for third parties

Work in progress for third parties is determined as the value of direct material and labour costs less prepayments associated with each piece of work in progress. Interest on loans arranged to finance production is not included in the cost.

Work in progress for third parties is determined as the value of direct material and labour costs less prepayments associated with each piece of work in progress. Interest on loans arranged to finance production is not included in the cost.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

13. Accounting policies - continued -**Cash**

Cash includes deposits in bank accounts as well as operating cash.

Equity

The proposed dividend for the financial year is recognised as a separate item in equity.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Short-term financial payables are measured at amortised cost, normally corresponding to the nominal value of such payables. Other short-term payables are measured at net realisable value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to

13. Accounting policies - continued -

the time and date of delivery of the agreed product or completion of the agreed service.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the company's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables.

Cash and cash equivalents at the beginning and end of the year comprise cash.