
Syntese A/S

Industriholmen 13, DK-2650 Hvidovre

Annual Report for 2023

CVR No. 13 45 64 02

The Annual Report was
presented and adopted
at the Annual General
Meeting of the
company
on 27/5 2024

Nikolaj Frederik Jæger
Bastiansen
Chairman of the
general meeting



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company information	4
Financial Highlights	5
Management's Review	6
Financial Statements	
Income Statement 1 January - 31 December	8
Balance sheet 31 December	9
Statement of changes in equity	11
Notes to the Financial Statements	12

Management's statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Syntese A/S for the financial year 1 January - 31 December 2023.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2023 of the Company and of the results of the Company operations for 2023.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hvidovre, 27 May 2024

Executive Board

Nikolaj Frederik Jæger Bastiansen
CEO

Board of Directors

Jens-Eric Regelin
Chairman

Kim Fonager Jensen

Tamara Vukmirovic

Claus Johnsen Jepsen

Susie Gybel Bergman

Independent Auditor's report

To the shareholder of Syntese A/S

Opinion

We have audited the Financial Statements of Syntese A/S for the financial year 1 January - 31 December 2023, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of 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 financial position of the Company at 31 December 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023 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.

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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent Auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

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

Copenhagen, 27 May 2024

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR No 33963556

Flemming Larsen

State Authorised Public Accountant

mne27790

Company information

The Company	Syntese A/S Industriholmen 13 DK-2650 Hvidovre Telephone: +45 36 34 00 30 Website: www.syntese.dk CVR No: 13 45 64 02 Financial period: 1 January - 31 December Incorporated: 31 August 1989 Municipality of reg. office: Hvidovre
Board of Directors	Jens-Eric Regelin, chairman Kim Fonager Jensen Tamara Vukmirovic Claus Johnsen Jepsen Susie Gybel Bergman
Executive Board	Nikolaj Frederik Jæger Bastiansen
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 3 2300 Copenhagen S

Financial Highlights

Seen over a 5-year period, the development of the Company is described by the following financial highlights:

	2023	2022	2021	2020	2019
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	297,923	239,841	226,760	234,689	232,919
Gross profit	133,549	126,390	129,495	128,750	115,437
Profit/loss of primary operations	18,323	13,950	32,350	44,736	38,330
Profit/loss of financial income and expenses	-5,463	-485	-186	-119	-242
Net profit/loss for the year	7,771	9,978	25,073	34,733	29,707
Balance sheet					
Balance sheet total	338,697	289,114	217,411	213,602	145,282
Investment in property, plant and equipment	46,163	24,646	51,495	21,135	29,179
Equity	68,954	166,183	156,205	131,132	92,954
Number of employees	120	99	94	93	93
Ratios					
Gross margin	44.8%	52.7%	57.1%	54.9%	49.6%
Profit margin	6.2%	5.8%	14.3%	19.1%	16.5%
Return on assets	5.4%	4.8%	14.9%	20.9%	26.4%
Solvency ratio	20.4%	57.5%	71.8%	61.4%	64.0%
Return on equity	6.6%	6.2%	17.5%	31.0%	63.9%

Management's review

Key activities

The Company's primary activity is to produce the Active Pharmaceutical Ingredient Mesalazine for human use. In early 2007, the US Food and Drug Administration (FDA) approved the Company, and since then, the Company has been selling its products to the US market. Most company products are sold on the European market, though.

Development in the year

The income statement of the Company for 2023 shows a profit of TDKK 7,771, and at 31 December 2023 the balance sheet of the Company shows a positive equity of TDKK 68,954.

Focus areas in 2023 have been investments in increasing safety, quality, and production capacity to meet increasing demand. Syntese has increased the number of employees to drive these focus areas and investments as well as invested significantly in the production facilities to increase the capacity. Investments are thus both in terms of machinery and people to execute the capacity expansion project.

For 2023, the operating profit before net financials and tax is DKK 18.323 thousand (2022: DKK 13,961 thousand). Due to macro-economic factors including the war in Ukraine higher raw material and energy prices significantly impacted the operating profit in 2023.

The profit after interest and tax is DKK 7.771 thousand (2022: DKK 9,978 thousand) and the Company's balance sheet shows equity of DKK 68.954 thousand at 31.12.2023 (2022: DKK 166,183 thousand, equaling an equity ratio of 20,4 % (2022: 57,5%). Paid dividend in 2023 amounts to DKK 105,000 thousand.

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

For 2023 the operating profit was negatively impacted by the higher prices in raw materials and energy. Sales and operating expenses excluding raw material and energy have developed as expected.

Targets and expectations for the year ahead

The Company's activity level is expected to increase in 2024, due to the capacity expansion of the production facility. The current focus on quality and safety will remain a focal point of 2024 while ensuring a reliable delivery to meet our patients' demand. The capacity expansion of the production facility is expected to be finalized by early 2025.

Looking ahead at 2024, Syntese is expecting to support the growth on top-line with further production output, translating into an approximate revenue of 335 MDKK, compared to 298 MDKK in FY 2023. This increase in revenue is driven primarily by the additional Mesalazine deliveries to FICSA and the revenue expected to reach to a sustainable level with the capacity expansion 900 T project finalizing. Net Profit value between 9-10 MDKK with the latest estimates after the end of Q1 2024.

External environment

Syntese A/S is a so-called listed undertaking, meaning an undertaking producing pharmaceuticals through a chemical or biological process. Syntese A/S holds an environmental license for both production and inventories. Also, a separate environmental license covers the pilot activities, and the Capital Region of Denmark has granted permission to the underground storage tanks.

The main environmental impact of Syntese A/S is its consumption of resources and raw materials, the accrual of waste and process wastewater, and the emission from the two combustion plants. Consumption of resources includes water, electricity and heating for the entire Company and the use of raw materials for production and development purposes. Process wastewater and waste are key emissions; the environmental impact of which takes the form of accrual of waste and process wastewater, which is transported or discharged for external treatment.

Management's review

Syntese A/S was certified under DS/EN ISO 14001 (environmental management) first time in 2011 and re-certified in 2014 and 2017 (including energy management in 2017). Syntese A/S has been certified under OHSAS 18001 (working environment) since 2013 and was re-certified in 2016. This certification was replaced by DS/EN ISO 45001 (management systems of occupational health and safety) in 2019 and re-certified in 2022.

Intellectual capital resources

The Company's development department is staffed with highly educated and competent employees. The Company is working continuously with process development to minimize environmental impact and optimize productivity.

Subsequent events

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

Income statement 1 January - 31 December

	Note	2023	2022
		TDKK	TDKK
Revenue		297,923	239,841
Cost of goods sold		-114,885	-78,632
Other external expenses		-49,489	-34,819
Gross profit		133,549	126,390
Staff expenses	1	-100,934	-99,283
Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment	2	-14,292	-13,157
Profit/loss before financial income and expenses		18,323	13,950
Financial income		170	164
Financial expenses	3	-5,633	-649
Profit/loss before tax		12,860	13,465
Tax on profit/loss for the year	4	-5,089	-3,487
Net profit/loss for the year	5	7,771	9,978

Balance sheet 31 December

Assets

	Note	2023	2022
		TDKK	TDKK
Acquired licenses		12,524	5,475
Intangible assets	6	12,524	5,475
Land and buildings		98,427	100,203
Plant and machinery		36,891	42,137
Other fixtures and fittings, tools and equipment		7,088	7,186
Property, plant and equipment in progress		52,023	13,479
Property, plant and equipment	7	194,429	163,005
Fixed assets		206,953	168,480
Raw materials and consumables		8,808	6,093
Work in progress		6,673	6,685
Finished goods and goods for resale		57,084	50,023
Inventories		72,565	62,801
Trade receivables		2,532	257
Receivables from group enterprises		50,964	47,774
Other receivables		5,347	7,609
Corporation tax		0	1,740
Prepayments	8	265	453
Receivables		59,108	57,833
Cash at bank and in hand		71	0
Current assets		131,744	120,634
Assets		338,697	289,114

Balance sheet 31 December

Liabilities and equity

	Note	2023	2022
		TDKK	TDKK
Share capital		2,350	2,350
Retained earnings		66,604	58,833
Proposed dividend for the year		0	105,000
Equity		68,954	166,183
Provision for deferred tax	9	14,221	15,131
Provisions		14,221	15,131
Lease obligations		469	153
Long-term debt	10	469	153
Mortgage loans		0	2,583
Lease obligations	10	121	80
Trade payables		35,809	29,882
Payables to group enterprises		204,546	67,231
Corporation tax		5,925	0
Other payables	11	8,652	7,871
Short-term debt		255,053	107,647
Debt		255,522	107,800
Liabilities and equity		338,697	289,114
Contingent assets, liabilities and other financial obligations	12		
Related parties	13		
Accounting Policies	14		

Statement of changes in equity

	Share capital	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	2,350	58,833	105,000	166,183
Ordinary dividend paid	0	0	-105,000	-105,000
Net profit/loss for the year	0	7,771	0	7,771
Equity at 31 December	2,350	66,604	0	68,954

Notes to the Financial Statements

	2023	2022
	TDKK	TDKK
1. Staff Expenses		
Wages and salaries	80,424	69,674
Pensions	9,014	7,807
Other social security expenses	1,257	859
Other staff expenses	10,239	20,943
	100,934	99,283

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

Average number of employees	120	103
-----------------------------	-----	-----

	2023	2022
	TDKK	TDKK
2. Amortisation, depreciation and impairment losses of intangible assets and property, plant and equipment		
Amortisation of intangible assets	1,913	1,219
Depreciation of property, plant and equipment	12,379	11,938
	14,292	13,157

	2023	2022
	TDKK	TDKK
3. Financial expenses		
Interest paid to group enterprises	5,305	100
Other financial expenses	125	345
Exchange loss	203	204
	5,633	649

Notes to the Financial Statements

	2023	2022
	TDKK	TDKK
4. Income tax expense		
Current tax for the year	3,745	-1,500
Deferred tax for the year	-910	4,987
Adjustment of tax concerning previous years	74	0
Adjustment of deferred tax concerning previous years	2,180	0
	<u>5,089</u>	<u>3,487</u>

	2023	2022
	TDKK	TDKK
5. Profit allocation		
Proposed dividend for the year	0	105,000
Retained earnings	7,771	-95,022
	<u>7,771</u>	<u>9,978</u>

6. Intangible fixed assets

	Acquired licenses
	TDKK
Cost at 1 January	18,127
Additions for the year	8,962
Cost at 31 December	<u>27,089</u>
Impairment losses and amortisation at 1 January	12,652
Amortisation for the year	1,913
Impairment losses and amortisation at 31 December	<u>14,565</u>
Carrying amount at 31 December	<u>12,524</u>

Notes to the Financial Statements

7. Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	179,133	189,881	12,911	13,479
Additions for the year	3,347	3,430	1,551	37,834
Transfers for the year	753	-3,530	-292	710
Cost at 31 December	183,233	189,781	14,170	52,023
Impairment losses and depreciation at 1 January	78,930	147,744	5,725	0
Depreciation for the year	5,876	5,146	1,357	0
Impairment losses and depreciation at 31 December	84,806	152,890	7,082	0
Carrying amount at 31 December	98,427	36,891	7,088	52,023

Other fixtures and fittings, tools and equipment include lease contracts at a book value of DKK 590 thousand.

8. Prepayments

Prepayments include prepaid expenses such as insurance.

	2023	2022
	TDKK	TDKK
9. Provision for deferred tax		
Deferred tax liabilities at 1 January	15,131	10,144
Amounts recognised in the income statement for the year	-910	4,987
Deferred tax liabilities at 31 December	14,221	15,131

Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
	TDKK	TDKK
10. Long-term debt		
Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.		
The debt falls due for payment as specified below:		
Lease obligations		
After 5 years	0	0
Between 1 and 5 years	469	153
Long-term part	469	153
Within 1 year	121	80
	<u>590</u>	<u>233</u>

	<u>2023</u>	<u>2022</u>
	TDKK	TDKK
11. Other payables		
Wages and salaries, personal income taxes, social security costs, etc payable	7,405	6,089
Holiday pay obligation	1,245	934
Other debt	2	848
	<u>8,652</u>	<u>7,871</u>

12. Contingent assets, liabilities and other financial obligations

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Ferring Pharmaceuticals A/S, which is the management company of the joint taxation purposes. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

13. Related parties and disclosure of consolidated financial statements

	<u>Basis</u>
Controlling interest	
Dr. Frederik Paulsen Foundation Seefeldstrasse 279a 8008 Zurich Switzerland	Parent Foundation
Isula Corporation S.á.r.l. 7 Rue Robert Stümper, L-2557 Luxembourg	Intermediate Parents
Insula (Holding) S.á.r.l. 7 Rue Robert Stümper, L-2557 Luxembourg	Intermediate Parents
Ferring International BV Siriusdreef 31 2132 WT Hoofddorp The Netherlands	Intermediate Parents
Ferring Foundation BV Siriusdreef 31 2132 WT Hoofddorp The Netherlands	Intermediate Parents
Ferring Holding S.A. Chemin Da La Vergognausaz 50 1162 Saint-Prex, Vaud Switzerland	Intermediate Parents
Ferring B.V. Polarisavenue 144 2132JX Hoffddorp The Netherlands	Immediate Parent

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

<u>Name</u>	<u>Place of registered office</u>
Insula Corporation S.á.r.l.	7 rue Robert Stümper, L-2557 Luxemborg
Ferring Holding S.A.	Chemin De La Vergognausaz 50 1162 Sant-Prex, Vaud Switzerland

The Group Annual Report of Ferring Holding S.A. may be obtained at the following address:
Ferring.com

Notes to the Financial Statements

14. Accounting policies

The Annual Report of Syntese A/S for 2023 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2023 are presented in TDKK.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Ferring Holding S.A., the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

Notes to the Financial Statements

Income statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

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

Cost of goods sold

Cost of goods sold comprise the purchase price etc. for goods sold in the year.

Other external expenses

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

Staff expenses

Staff costs include wages and salaries including compensated absence and pensions as well as other social security contributions etc. made to the entity's employees.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the on-account taxation scheme.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

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

The Company is jointly taxed with all Danish group enterprises. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

Balance sheet

Intangible fixed assets

Software and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding year.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses. Land is not depreciated.

Notes to the Financial Statements

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

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

Production buildings	20-40 years
Plant and machinery	5-15 years
Other fixtures and fittings, tools and equipment	3-5 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

For assets subject to lease agreements, the depreciation period cannot exceed the contract period.

Impairment of fixed assets

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

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

Inventories

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

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

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

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

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

Equity

Dividend

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

Deferred tax assets and liabilities

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Notes to the Financial Statements

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities.

Deferred tax assets and liabilities are offset within the same legal tax entity.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

Financial liabilities

Loans are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Financial Highlights

Explanation of financial ratios

Gross margin	$\text{Gross profit} \times 100 / \text{Revenue}$
Profit margin	$\text{Profit/loss of ordinary primary operations} \times 100 / \text{Revenue}$
Return on assets	$\text{Profit/loss of ordinary primary operations} \times 100 / \text{Total assets at year end}$
Solvency ratio	$\text{Equity at year end} \times 100 / \text{Total assets at year end}$
Return on equity	$\text{Net profit for the year} \times 100 / \text{Average equity}$