

Syntese A/S

Industriholmen 13
2650 Hvidovre
CVR No. 13456402

Annual report 2021

The Annual General Meeting adopted the
annual report on 25.04.2022

Jens-Eric Regelin

Chairman of the General Meeting

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Entity details

Entity

Syntese A/S

Industriholmen 13

2650 Hvidovre

Business Registration No.: 13456402

Date of foundation: 31.08.1989

Registered office: Hvidovre

Financial year: 01.01.2021 - 31.12.2021

Phone number: +45 36 34 00 30

URL: www.syntese.dk

Board of Directors

Jens-Eric Regelin, formand

Kim Fonager Jensen

Tamara Vukmirovic

Claus Johnsen Jepsen

Susie Gybel Bergman

Executive Board

Nikolaj Frederik Jæger Bastiansen, CEO

Bank

Danske Bank, Corporate Banking Denmark

Holmens Kanal 2

1092 Copenhagen K

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

2300 Copenhagen S

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Syntese A/S for the financial year 01.01.2021 - 31.12.2021.

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 31.12.2021 and of the results of its operations and cash flows for the financial year 01.01.2021 - 31.12.2021.

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.

Hvidovre, 25.04.2022

Executive Board

Nikolaj Frederik Jæger Bastiansen
CEO

Board of Directors

Jens-Eric Regelin
formand

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 01.01.2021 - 31.12.2021, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement 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 Entity's financial position at 31.12.2021 and of the results of its operations and cash flows for the financial year 01.01.2021 - 31.12.2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity 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 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 financial statements unless Management either intends to liquidate the Entity 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 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 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 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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 the management commentary

Management is responsible for the management commentary.

Our opinion on the 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 financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the 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 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, 25.04.2022

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Flemming Larsen

State Authorised Public Accountant
Identification No (MNE) mne27790

Management commentary

Financial highlights

	2021	2020	2019	2018	2017
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	226,760	234,689	232,919	210,488	224,258
Gross profit/loss	44,949	56,916	48,210	59,969	66,494
Operating profit/loss	32,350	44,736	37,963	41,727	50,139
Net financials	(186)	(119)	(298)	(376)	(364)
Profit/loss for the year	25,073	34,733	29,378	32,342	38,837
Total assets	217,411	213,602	163,431	156,743	165,235
Investments in property, plant and equipment	51,495	21,135	18,463	13,472	16,222
Equity	156,205	131,132	102,189	101,943	109,601
Average number of employees	99	94	93	93	93
Ratios					
Gross margin (%)	19.82	24.25	20.70	28.49	29.65
EBIT margin (%)	14.27	19.06	16.30	19.82	22.36
Net margin (%)	11.06	14.80	12.61	15.37	17.32
Return on equity (%)	17.45	29.77	28.78	30.58	43.06
Equity ratio (%)	71.85	61.39	62.53	65.04	66.33
Revenue per employee	2,478	2,478	2,478	2,263	2,411
Return on assets	13.44	20.94	23.23	26.62	30.34

Syntese A/S has merged with the sister company Stamholmen ApS as of 1 January 2020. The comparative figures from 2017 to 2018 has not been changed. The financial highlights for 2019 and onwards, includes the combined figures of both Syntese A/S and Stamholmen ApS.

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin (%):

$\frac{\text{Gross profit/loss} * 100}{\text{Revenue}}$

EBIT margin (%):

$\frac{\text{Operating profit/loss} * 100}{\text{Revenue}}$

Net margin (%):

$\frac{\text{Profit/loss for the year} * 100}{\text{Revenue}}$

Return on equity (%):

$\frac{\text{Profit/loss for the year} * 100}{\text{Average equity}}$

Equity ratio (%):

$\frac{\text{Equity} * 100}{\text{Total assets}}$

Revenue per employee:

$\frac{\text{Revenue}}{\text{Average number of employees}}$

Return on assets (%):

$\frac{\text{Profit before financials} * 100}{\text{Total assets}}$

Primary 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 activities and finances

In December 2020 the board approved to merge Syntese A/S with the sister company Stamholmen ApS. Syntese A/S being the continuing company. The merge had retroactive effect from 1. January 2020. The level of activity remained high in 2021. The Company employed an average staff of 99 in 2021. The COVID-19 crisis has not had a significant influence on the company's result for 2021.

For 2021, the operating profit before net financials and tax is DKK 32,350 thousand (2020: DKK 44,736 thousand). High production volumes and higher raw material prices influenced the operating profit in 2021. The operating profit decreased by DKK 12,386 thousand, or 27.7%, from 2020 to 2021.

The profit after interest and tax is DKK 25,073 thousand (2020: 34,733 thousand) and the Company's balance sheet shows equity of DKK 156,205 thousand at 31.12.2021, equaling an equity ratio of 71,9%.

Profit/loss for the year in relation to expected developments

For 2021 the operating profit was negatively impacted by higher prices in raw materials and energy. Sales and operating expenses excluding raw material and energy have developed as expected.

Outlook

The Company's level of activity is also expected to be high in 2022. The program of process optimization will continue. The Company's success with this program has resulted in considerable efficiency measures, and there is still room for additional efficiency measures. The COVID-19 crisis is currently not expected to have a significant influence on the outlook for 2022.

Knowledge resources

The Company's development department is staffed with highly educated candidates from various universities. The Company is working intensely with process development to minimise the environmental impact and optimise the return from all steps of the process.

Environmental performance

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 licence for both production and inventories. Also, a separate environmental licence 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.

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.

Research and development activities

During the year, the Company continued to develop its processes and technologies to optimise profits and reduce production costs. The programme implemented has had a positive effect in 2019. The programme will continue in the years ahead. Operations have borne costs incurred for the process and development activities.

Events after the balance sheet date

No significant events of significance to the annual report have occurred after the balance date.

Income statement for 2021

	Notes	2021 DKK'000	2020 DKK '000
Revenue		226,760	234,689
Production costs		(181,811)	(177,773)
Gross profit/loss		44,949	56,916
Administrative expenses		(12,599)	(12,180)
Operating profit/loss		32,350	44,736
Other financial income		61	64
Other financial expenses		(247)	(183)
Profit/loss before tax		32,164	44,617
Tax on profit/loss for the year	3	(7,091)	(9,884)
Profit/loss for the year	4	25,073	34,733

Balance sheet at 31.12.2021

Assets

	Notes	2021 DKK'000	2020 DKK'000
Acquired licences		2,650	2,023
Intangible assets	5	2,650	2,023
Land and buildings		66,774	65,982
Plant and machinery		43,762	31,118
Other fixtures and fittings, tools and equipment		3,058	3,742
Property, plant and equipment in progress		36,703	9,568
Property, plant and equipment	6	150,297	110,410
Fixed assets		152,947	112,433
Raw materials and consumables		5,937	5,124
Work in progress		3,446	3,488
Manufactured goods and goods for resale		35,275	33,370
Inventories		44,658	41,982
Trade receivables		2,967	2,120
Receivables from group enterprises		10,052	47,819
Other receivables		5,753	7,779
Prepayments	7	1,034	1,469
Receivables		19,806	59,187
Current assets		64,464	101,169
Assets		217,411	213,602

Equity and liabilities

	Notes	2021 DKK'000	2020 DKK'000
Contributed capital	8	2,350	2,350
Retained earnings		153,855	128,782
Equity		156,205	131,132
Deferred tax	9	10,144	9,486
Provisions		10,144	9,486
Mortgage debt		2,056	4,130
Lease liabilities		78	223
Other payables		0	8,974
Non-current liabilities other than provisions	10	2,134	13,327
Current portion of non-current liabilities other than provisions	10	2,262	2,379
Trade payables		23,855	23,109
Payables to group enterprises		6,532	17,748
Tax payable	11	6,187	8,241
Other payables		10,092	8,180
Current liabilities other than provisions		48,928	59,657
Liabilities other than provisions		51,062	72,984
Equity and liabilities		217,411	213,602
Staff costs	1		
Amortisation, depreciation and impairment losses	2		
Contingent liabilities	13		
Related parties with controlling interest	14		
Group relations	15		

Statement of changes in equity for 2021

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	2,350	128,782	131,132
Profit/loss for the year	0	25,073	25,073
Equity end of year	2,350	153,855	156,205

Cash flow statement for 2021

	Notes	2021 DKK'000	2020 DKK'000
Operating profit/loss		32,350	44,736
Amortisation, depreciation and impairment losses		12,033	13,152
Working capital changes	12	19,173	(17,523)
Cash flow from ordinary operating activities		63,556	40,365
Financial income received		61	64
Financial expenses paid		(247)	(183)
Taxes refunded/(paid)		(8,304)	(10,134)
Cash flows from operating activities		55,066	30,112
Acquisition etc of intangible assets		(1,497)	(822)
Acquisition etc of property, plant and equipment		(51,495)	(21,135)
Cash flows from investing activities		(52,992)	(21,957)
Free cash flows generated from operations and investments before financing		2,074	8,155
Repayments of loans etc		(2,074)	(2,355)
Dividend paid		0	(5,800)
Cash flows from financing activities		(2,074)	(8,155)
Increase/decrease in cash and cash equivalents		0	0

Cash and cash equivalents at year-end are composed of:

Notes

1 Staff costs

	2021	2020
	DKK'000	DKK'000
Wages and salaries	62,643	59,779
Pension costs	7,257	6,741
Other social security costs	668	824
	70,568	67,344
Average number of full-time employees	99	94

Pursuant til section 98b(3) of the Danish Financial Statement Act, the Company has omitted to disclose Management's remuneration.

	2021	2020
	DKK'000	DKK'000
Wages and salaries, pension costs and other social security costs are recognised in the following items:		
Production costs	62,067	58,942
Administrative costs	8,501	8,402
	70,568	67,344

2 Depreciation, amortisation and impairment losses

	2021 DKK'000	2020 DKK'000
Amortisation of intangible assets	870	897
Depreciation of property, plant and equipment	11,608	12,256
Profit/loss from sale of intangible assets and property, plant and equipment	(445)	0
	12,033	13,153

	2021 DKK'000	2020 DKK'000
Depreciation, amortisation and impairment losses are recognised in the following items:		
Production costs	11,155	12,294
Administrative costs	878	859
	12,033	13,153

3 Tax on profit/loss for the year

	2021 DKK'000	2020 DKK'000
Current tax	6,434	8,241
Change in deferred tax	657	1,643
	7,091	9,884

4 Proposed distribution of profit and loss

	2021 DKK'000	2020 DKK'000
Retained earnings	25,073	34,733
	25,073	34,733

5 Intangible assets

	Acquired licences DKK'000
Cost beginning of year	12,586
Additions	1,497
Cost end of year	14,083
Amortisation and impairment losses beginning of year	(10,563)
Amortisation for the year	(870)
Amortisation and impairment losses end of year	(11,433)
Carrying amount end of year	2,650

6 Property, plant and equipment

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
Cost beginning of year	136,808	166,590	6,791	9,568
Additions	4,489	19,316	555	27,135
Disposals	0	(494)	0	0
Cost end of year	141,297	185,412	7,346	36,703
Depreciation and impairment losses beginning of year	(70,826)	(135,472)	(3,049)	0
Depreciation for the year	(3,697)	(6,672)	(1,239)	0
Reversal regarding disposals	0	494	0	0
Depreciation and impairment losses end of year	(74,523)	(141,650)	(4,288)	0
Carrying amount end of year	66,774	43,762	3,058	36,703

Other fixtures and fittings, tools and equipment include lease contracts at a book value of DKK 237 thousand.

7 Prepayments

Prepayments include prepaid expenses such as insurance.

8 Share capital

	Number	Nominal value DKK'000
Ordinary shares	2,350	2,350
	2,350	2,350

9 Deferred tax

	2021 DKK'000	2020 DKK'000
Changes during the year		
Beginning of year	9,486	7,843
Recognised in the income statement	658	1,643
End of year	10,144	9,486

10 Non-current liabilities other than provisions

	Due within 12 months 2021 DKK'000	Due within 12 months 2020 DKK'000	Due after more than 12 months 2021 DKK'000
Mortgage debt	2,082	2,083	2,056
Lease liabilities	180	296	78
	2,262	2,379	2,134

Residual debt after 5 years: DKK 0.

11 Tax payable

Income tax payable consists of joint taxation contribution.

12 Changes in working capital

	2021 DKK'000	2020 DKK'000
Increase/decrease in inventories	(2,676)	(4,467)
Increase/decrease in receivables	39,381	(36,899)
Increase/decrease in trade payables etc	(17,532)	23,843
	19,173	(17,523)

13 Contingent liabilities

The Entity participates in a Danish joint taxation arrangement in which Ferring Pharmaceuticals A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc for the jointly taxed companies and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

The total known net liability of the jointly taxed companies under the joint taxation arrangement is evident from the administration company's financial statements.

The Company has contractual obligations regarding fixed assets of DKK 1,4 million.

14 Related parties with controlling interest

Below-listed companies, performing a management function and/or, have a controlling interest:

Parent Foundation:

Dr. Frederik Paulsen Foundation
Thistle House, 4 Burnaby Street
Hamilton HM11
Bermuda

Intermediate Parent:

Insula Corporation S.à r.l.
7 Rue Robert Stümper, L-2557
Luxembourg

Insula (Holding) S.à r.l.
7 Rue Robert Stümper, L-2557
Luxembourg

Isles (Holding) B.V.
Siriusdreef 41
2132 WT Hoofddorp
The Netherlands

Isles B.V.
Siriusdreef 41
2132 WT Hoofddorp
The Netherlands

Ferring Holding S.A.
Chemin De La Vergognausaz 50
1162 Saint-Prex, Vaud
Switzerland

Immediate Parent:

Ferring B.V.
Polarisavenue 144
2132 JX Hoofddorp
The Netherlands

15 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:

Insula Corporation S.á.r.l.*

7 Rue Robert Stümper, L-2557

Luxembourg

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:

Ferring Holding S.A.

Chemin De La Vergognausaz 50

1162 Saint-Prex, Vaud

Switzerland

*The consolidated Financial Statement is available on Ferring.com.

Accounting policies

Reporting class

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

The accounting policies applied to these 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.

Business combinations

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 the uniting-of-interests method, the acquiree's assets and liabilities are recognised at their carrying amounts, adjusted for any differences in accounting policies. The difference between the consideration agreed and the carrying amount of the acquiree is recognised in equity. The comparative figures are restated.

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.

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.

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.

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 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.

Production costs related to work in progress are recognised when incurred.

Production costs also include recognised insurance costs, costs related to development projects that do not meet the criteria for recognition in the balance sheet as well as amortisation of recognised development projects. In addition, provisions for loss on contract work in progress are recognised under production costs.

Administrative expenses

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

Other financial income

Other financial income comprises interest, realised and unrealised exchange gains on transactions in foreign currencies as well as tax relief under the Danish Tax Prepayment Scheme.

Other financial expenses

Other financial expenses comprises interest expenses, realised and unrealised exchange losses on transactions in foreign currencies as well as tax surcharge under the Danish Tax Prepayment Scheme.

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 all Danish group enterprises. 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

Intellectual property rights etc

Intellectual property rights etc consist of software and licences. Intellectual property rights acquired are measured at cost less accumulated amortisation. Software is amortised on a straight line basis over its useful

life not exceeding four years, and licenses are amortised over the term of the agreement.

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

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

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. For self-constructed assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labour costs.

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:

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

For assets subject to lease agreements, 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.

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.

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, and costs of factory administration and management. Finance 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.

Receivables

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

Prepayments

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

Deferred tax

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

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Lease liabilities

Lease liabilities relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease liabilities are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

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.

Tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities, and 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.

Cash flows from investing activities comprise payments in connection with activities and fixed asset investments, and 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, repayments of 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 debt.