

HKScan Denmark A/S

CVR No 25 17 75 09

Annual Report for 1.1 – 31.12.2022

*Tværmosevej 10
DK-7830 Vinderup*

The Annual Report was presented and
adopted at the Annual General Meeting
of the Company on 24/5 2023


Chairman

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	1
Management's Statement	1
Independent Auditor's Report	2
Independent Auditor's Report	3
Independent Auditor's Report	4
Management's Review	5
Company Information	5
Group Chart	6
Financial Highlights of HKScan Denmark A/S	7
Management's review	8
Financial Statements	13
Income statement 1 January – 31 December	13
Balance Sheet on 31 December	14
Statement of Changes in Equity	16
Notes to the Annual Report	17

Management's Statement and Auditor's Report

Management's Statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of HKScan Denmark A/S for the financial year 1 January – 31 December 2022.

The annual report has been 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 2022 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2022.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, the results for the year and the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Vinderup, 24/5 2023

Executive Board



Jukka Nikkinen
EVP, CEO Market Denmark



Michael Jørgensen
VP, Operations & Supply Chain
Market Denmark

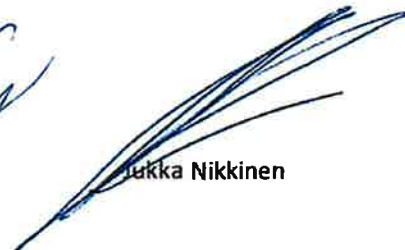
Board of Directors



Markku Suvanto
Chairman



Jyrki Paappa



Jukka Nikkinen



Birthe Juul



Ditlev Baunsgaard
Ditlev Baunsgaard
Employee representative



Ellen Moeskjær
Ellen Marie Moeskjær
Employee representative

Independent Auditor's Report

To the shareholders of HKScan Denmark A/S

Opinion

We have audited the financial statements of HKScan Denmark A/S for the financial year 1 January – 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including 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 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 rules and requirements and the IESBA Code.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements where management has described the significant uncertainty which may result in the breach of loan covenants for the group. These conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. We have not modified our opinion in respect of this matter.

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.

Independent Auditor's Report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 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 the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note 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 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.

Independent Auditor's Report

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the 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 the 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 Statement Act. We did not identify any material misstatement of the Management's review.

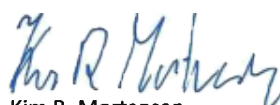
Aarhus, 24/5 2023

EY Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Morten Friis
State Authorised
Public Accountant
mne32732



Kim R. Mortensen
State Authorised
Public Accountant
mne18513

Management's Review

Company Information

The Company

HKScan Denmark A/S
Tværmosevej 10
DK-7830 Vinderup
Denmark

Telephone: + 45 99 95 95 95

Facsimile: + 45 99 95 95 40

Website: www.rosekylling.dk

CVR No 25 17 75 09

Financial period: 1st January – 31st December

Financial year: 23rd financial year

Municipality of reg. office: Holstebro

Board of Directors

Markku Suvanto (*Chairman*)

Jyrki Paappa

Jukka Nikkinen

Birthe Juul

Ditlev Baunsgaard (*employee elected representative*)

Ellen Marie Moeskjær (*employee elected representative*)

Executive Board

Jukka Nikkinen

Michael Juhl Jørgensen

Auditors

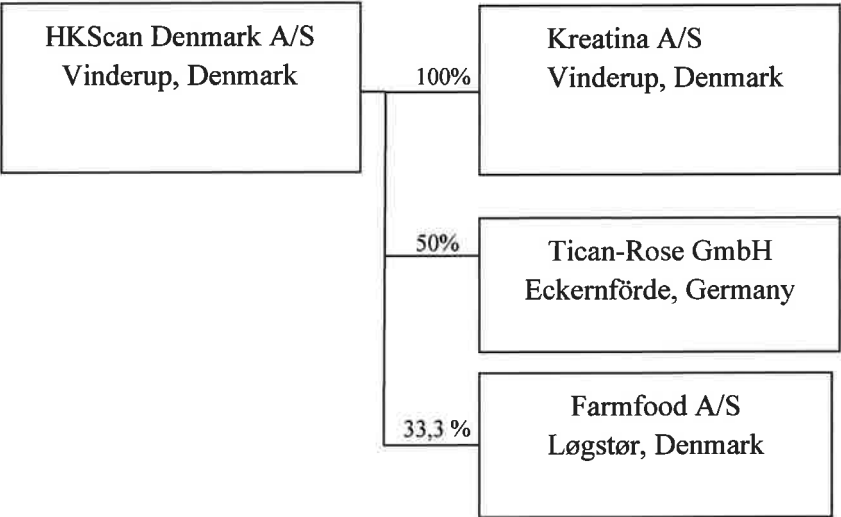
EY Godkendt Revisionspartnerselskab

Værkmestergade 25

DK-8000 Aarhus C

Denmark

Group Chart



Financial Highlights of HKScan Denmark A/S

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

	2022	2021	2020	2019	2018
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Key figures					
Profit/loss					
Revenue	1.642.768	1.285.070	1.278.676	1.242.224	1.287.559
Gross profit/loss	125.066	96.638	102.427	49.941	-9.728
EBITDA	33.365	13.268	26.165	614	2.953
Profit/loss before financial income and expenses	413	-11.625	-7.805	-59.237	-74.178
Net profit/loss for the year	-17.876	-30.565	-25.974	-74.165	-84.115
Balance sheet					
Investment in property, plant and equipment	27.752	31.688	54.716	11.236	17.476
Balance sheet total	569.907	481.527	492.600	435.227	479.495
Equity	78.015	81.075	7.876	33.850	108.015
 Average number of employees	 616	 617	 620	 579	 601
Ratios					
Gross margin	7,3%	7,5%	8,0%	4,0%	-0,8%
Profit margin	0,0%	-0,9%	-0,6%	-4,8%	-5,8%
Return on net assets	0,1%	-2,3%	-1,6%	-13,6%	-15,5%
Solvency ratio	13,7%	19,4%	1,6%	7,8%	22,5%
Return on equity	-22,5%	-53,3%	-124,5%	-104,6%	-56,0%

For definition of ratios, see under accounting policies.

IFRS 15 and 16 has been implemented by using the modified retrospective method, with date of initial application as of January 1st 2022. The figures for 2018 - 2021 in the financial highlights are therefore not adjusted for the effect of implementation of IFRS 15 and 16 and are not comparable to 2022.

The accounting policy for investments in subsidiaries and associated companies has been changed from the equity method to cost price. The figures for 2018-2020 have not been restated.

The changes in accounting policies have no significant effect on the profit for the year.

Management's review

Market overview

As in previous years, the Company's main activity has comprised slaughtering, processing, and sale of poultry products both in Denmark and in the export markets.

Development in the year

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

The result for the year shows a loss before tax of DKK -17,9 million (2021: DKK -27,9 million), following a year with a challenging business environment. In the first quarter, restrictions related to the Covid-19 pandemic were removed, allowing consumers to move more freely and normalise their purchasing behaviour. Russia's invasion of Ukraine caused geopolitical tensions in Europe, pushed up energy prices and created instability in financial markets. Cost inflation and rising interest rates weakened consumer purchasing power, as prices were stepwise lifted during the year to cover for cost increase on feed, energy, and packaging material as well as for other production inputs, both on farm level and in HKScan's own operations.

Our strategy has progressed as planned, with continued focus on strengthening our market position in Denmark and Sweden with fresh and ready-to-eat poultry products. Overall Gross Profit increased with DKK 24 million, following a significant increase in Net sales with DKK 358 million to DKK 1.643million predominantly driven by sales prices, but also mix with more sales of fresh than frozen as well as fried products and new customers, primarily with retail in Denmark and Sweden, but also across EU. The higher cost on raw material, packaging material and especially energy prices has been offset with efficiency improvements as well as sales price increases.

EBIT improved with DKK 12,0 million to DKK 0,4 million, stemming from the higher gross margin and the Net Result of DKK -17,9 million is DKK 10 million better than 2021 and is considered satisfactory given a challenging year with high turbulence and cost increases above and beyond normal, however the overall negative result is unsatisfactory.

The implementation of IFRS 15 *Revenue Contracts with Customers*, IFRS 16 *Leases* and changes in valuation of subsidiaries and associated companies to cost price have no significant effect on profit for the year.

The revenue and result are at a better level than announced last year.

Capital resources

Current loans and credit facilities are considered adequate to cover the Company's operations and planned investments. The Financial Statements show that a significant part of the Company's financing has been raised as intercompany loans from the Parent Company. The Parent Company will support the Company's activities and has issued a Letter of Financial Support to

enable HKScan Denmark A/S to meet its ongoing financial obligations as and when they fall due for the foreseeable future and in any event in the period of 1 January to 31 December 2023. As HKScan Denmark A/S is dependent on ongoing financial support from the parent company HKScan Finland Oy and there is a material uncertainty that the parent company will not be able to fulfil the above-mentioned support letter. These matters indicate a material uncertainty that may cast doubt on HKScan Denmark A/S' ability to continue as a going concern and therefore, the company may be unable to realize its assets and discharge its liabilities in the normal course of business. We draw the attention to note 1 to the financial statements where the uncertainty which may result in the breach of loan covenants for the group is describe.

Subsequent events

In January 2023 new outbreaks of Avian flu was detected in Denmark, restricting export outside EU. During 2022 regionalisation agreements have been made with both Korea and Hong Kong, hence the recent outbreaks are not expected to have impact on Net sales or Net result in 2023.

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

Review

Special risks

Operating and market risks

The Company's most material operating risks relate to the development in market prices on the global market, including fluctuations in exchange rates, and incidents of poultry disease both in Denmark and abroad, which also constitutes a general business risk.

The supply of raw materials, which is in all material respects based on multiannual contracts with producers is sensitive to the market-oriented settlement price.

Energy prices, especially electricity and gas, have increased significantly during 2022 and have continues to fluctuate into 2023. Our production uses primarily electricity, hence continuous increase in prices constitutes a general business risk.

Foreign exchange risks

A material export share implies that results, cash flows and equity are affected by the development of the exchange rate of especially SEK, USD, and GBP. It is the Company's policy to hedge against commercial foreign exchange exposure. The Company does not enter foreign exchange positions for speculative purposes. Hedging mainly takes place by means of forward exchange contracts.

Interest rate risks

The Company's interest-bearing debt are generally raised with a floating interest rate.

Credit risks

The Company's credit risks relate primarily to financial assets recognised in the balance sheet. The Company does not have any material risks relating to a single customer or business partner. According to the Company's policy for assuming credit risks, all customers are credit rated regularly.

Statutory statement of corporate social responsibility and environmental responsibility

For reporting on corporate responsibility, including human rights, environmental issues, climate issues, social and employee conditions and anticorruption, HKScan Denmark A/S refers to its parent company, HKScan Oyj's, statement on corporate responsibility, please see "*Annual and Responsibility report*" (page 16-49), which can be accessed at

<https://www.hkscan.com/en/investors-information/annual-and-responsibility-report-2022/>

A summary of the policies stated in HKScan Oyj CSR from the annual report of 2022 is outlined below.

Policies for corporate social responsibility

Corporate responsibility is an integral part of HKScan's From Farm to Fork strategy. HKScan's corporate responsibility work focuses on four main areas: Economic responsibility, Social responsibility, Animal health and welfare and Environment.

Policies for environmental responsibility

HKScan assumes responsibility for the environment throughout the value chain and continuously decreases the environmental impacts of its processes. HKScan manages its operations so that guidelines, regulations, and requirements for environmental permits are fulfilled. HKScan's aim is for its environmental work to align also with the goals of society. This is ensured, e.g., through collaboration with authorities. The company sets environment-related requirements also for its suppliers as part of HKScan's Supplier Guidelines.

More information about corporate social responsibility and environmental responsibility may be obtained at Parent Company homepage www.hkscan.com.

Data ethics

The use of data across HKScan Denmark for fact-based decisions is a prerequisite to deliver an attractive product to customers and running an efficient operation. Data is considered an asset

in running HKScan Denmark, and consequently we work with data in a data-ethically sound way in terms of confidentiality and accessibility, described on our Group Data Privacy Policy, which reaches beyond the laws and regulation in this area. The policy is available at the parent company homepage www.hkscan.com.

HKScan Denmark policy for Data privacy and governance centres around 7 principles

- Lawfulness, fairness, and transparency – all data are processed in a lawful, fair, and transparent manner.
- Purpose limitation - clearly specified and documented purposes
- Data minimization - Process Personal Data in accordance with the principle of data minimization
- Accuracy of Personal data – ensure that Personal Data Processed by HKScan is accurate complete.
- Storage limitation - Personal Data shall not be stored for a longer period than is necessary.
- Integrity and confidentiality (i.e., security of Personal Data)
- Accountability - when acting as a Data Controller, HKScan shall always be able to demonstrate its compliance with the principles for Processing Personal Data

The Board of Directors conduct minimum once a year a follow up and make necessary adjustments to the policy.

Suppliers and other business partners who, in the performance of their services, come into contact or hold our internal data, have all entered a Data Processing Agreement, complying with above.

Composition of the Board of Directors

The members elected at the general meeting are mainly recruited among the Company's Executive Board and the Executive Board of the Parent Company. The gender representation thus depends on the gender representation in the relevant positions from time to time. The Board of Directors consists of 6 members, whereof 2 are employee elected representatives.

Employee representatives in the Board of Directors are elected among all employees. The representation of female members in the Board of Directors is presently 25% (2021: 25%), as there were no changes in the Board of Directors during 2022.

In the long run, HKScan Denmark A/S intends to achieve a more equal gender representation on the Board of Directors. HKScan Denmark A/S' goal is that the underrepresented gender in the Board of Directors is at least 33% latest in 2025.

Currently the ratio of female executives in management team is 33% (2021: 42%). HKScan Denmark A/S will continue to strive for an equal gender representation among management. HKScan Denmark A/S will through recruitment internally and externally attempt to balance the representation of both genders in the management.

Expectations for the year ahead

During 2021 a renewal of the strategy plan has taken place, outlining direction and ambition for the coming years. The significant lift in the financial performance since 2020 is planned to continue, although the business environment continues to be turbulent with rapid changing prices to balance supply and demand on several items such as wheat, soy, energy, and packaging material as well as disruption in supply of materials, and sales prices are expected to follow development in relevant costs.

Investments into cooking and frying capacity and ability in Skovsgaard during 2020 and 2021, have already contributed positively to the financial performance, and next step on that journey will be taken in 2023 with further investments in cooking and frying capabilities.

In 2023 Net sales are expected at same level as 2022 (~1,7bnDKK), whereas Net result are expected to develop positively to a level just above zero.

Financial Statements

Income statement 1 January – 31 December

	Note	2022 DKK '000	2021 DKK '000
Revenue	2	1.642.768	1.285.070
Production costs	3, 8	-1.517.799	-1.188.432
Other operating income		97	0
Gross profit/loss		125.066	96.638
Distribution costs	3	-75.860	-63.689
Administrative expenses	3,7,8	-48.793	-44.574
Profit/loss before financial income and expenses		413	-11.625
Financial income	4	4.929	2.067
Financial expenses	5	-23.218	-21.007
Profit/loss before tax		-17.876	-30.565
Corporation tax	6	0	0
Net profit/loss for the year	18	-17.876	-30.565

Balance Sheet on 31 December

Assets

	<u>Note</u>	<u>2022</u> DKK '000	<u>2021</u> DKK '000
Software and licenses		90	145
Completed development projects		2.358	2.361
Intangible assets	7	2.448	2.506
Land and buildings		78.205	85.863
Plant and machinery		86.480	94.946
Other fixtures and fittings, tools, and equipment		147	284
Property, plant, and equipment in progress		36.845	14.533
Right of use assets		17.754	0
Property, plant, and equipment	8	219.431	195.626
Investment in subsidiaries		0	0
Investments in equity interest		19.540	19.540
Other securities		769	769
Fixed asset investments	9	20.309	20.309
Fixed assets total		242.188	218.441
Inventories	10	115.860	138.287
Trade receivables		163.259	105.220
Receivables from affiliates		483	173
Receivables from associates		5.901	4.280
Receivables from group enterprises		9.972	0
Other receivables		32.068	14.037
Prepayments		0	979
Receivables		211.683	124.689
Cash at bank and in hand		176	110
Current assets total		327.719	263.086
Total assets		569.907	481.527

Balance Sheet on 31 December

Liabilities and equity

	Note	2022 DKK '000	2021 DKK '000
Share capital	11	10.250	10.250
Reserve for fair value adjustment re. financial contracts		20.296	5.038
Reserve for development costs		2.358	2.361
Retained earnings		45.111	63.426
Total equity		78.015	81.075
Payables to group enterprises		313.086	236.070
Other payables		25.791	25.498
Lease obligations		11.005	0
Non-current liabilities other than provisions	13	349.882	261.568
Short term part of non-current liabilities	13	7.154	0
Trade payables		88.354	81.460
Payables to group enterprises		3.400	13.582
Other payables		43.102	43.842
Current liabilities		142.010	138.884
Total liabilities		491.892	400.452
Total liabilities and equity		569.907	481.527
Material uncertainty related to Going concern	1		
Staff	3		
Provision for deferred tax	12		
Contingent assets, liabilities, and other financial obligations	14		
Fee to auditors appointed at the general meeting	15		
Derivative instruments	16		
Related parties	17		
Distribution of Profit/loss	18		
Subsequent events	19		
Accounting Policies	20		

Statement of Changes in Equity

	Share capital	Reserve for fair value ad- justment re. finan- cial con- tracts	Re- serve for devel- op- ment cost	Re- tained earn- ings	Total
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Equity on 1 January 2021	10.250	0	2.431	-4.805	7.876
Change in accounting policies: Investment in subsidiaries and associated companies at cost price	0	0	0	-12.858	-12.858
Adjusted equity on 1 January 2021	10.250	0	2.431	-17.663	-4.982
Grant from parent company (tax free)	0	0	0	111.584	111.584
Net profit/loss for the year	0	0	-70	-30.495	-30.565
Value adjustment for the year	0	5.038	0	0	5.038
Equity on 31 December 2021	10.250	5.038	2.361	63.426	81.075
Equity on 1 January 2022	10.250	5.038	2.361	63.426	81.075
Change in accounting policies: Implementing of IFRS 16	0	0	0	-442	-442
Adjusted equity on 1 January 2022	10.250	5.038	2.361	62.984	80.633
Net profit/loss for the year	0	0	-3	-17.873	-17.876
Value adjustment for the year	0	15.258	0	0	15.258
Equity on 31 December 2022	10.250	20.296	2.358	45.111	78.015

Notes to the Annual Report

1 Material uncertainty related to going concern

The company is dependent on ongoing financial support from the parent company HKScan Finland Oy. The parent company has provided a support letter covering the period 1 January to 31 December 2023 to enable HKScan Denmark A/S to meet its ongoing financial obligations as and when they fall due.

HKScan Finland Oy has prepared the financial statements for the financial year 2022 in which it is stated that there is material uncertainty due to the risk that loan covenants may be breached if the divestment of the Baltic business is not closed by the end of September 2023. Even though the divestment is closed, the loan covenants will remain close to the limit for the full year.

In case of unforeseen changes in the business environment or a delay in the approval by the competition authorities, a breach of the loan covenants would seem to be apparent, and management will enter into negotiations with the banks on a temporary modification of the loan covenants and their terms. If management cannot negotiate new terms, banks have the right to mature the loans. These circumstances indicate a material uncertainty that may cast significant doubt on the group and the parent company's ability to continue as a going concern.

For further details, refer to the parent company financial statements at

<https://www.hkscan.com/en/investors-information/annual-and-responsibility-report-2022/>

As HKScan Denmark A/S is dependent on ongoing financial support from the parent company HKScan Finland Oy and there is a material uncertainty that the parent company will not be able to fulfill the above-mentioned support letter. These matters indicate a material uncertainty that may cast significant doubt on HKScan Denmark A/S' ability to continue as a going concern and therefore, the company may be unable to realize its assets and discharge its liabilities in the normal course of business.

2 Revenue

	2022	2021
Geographical segments	DKK '000	DKK '000
Domestic market	978.725	799.637
EU	595.894	444.177
Other countries	68.149	41.256
	1.642.768	1.285.070

Notes to the Annual Report

	2022 DKK '000	2021 DKK '000
3 Staff		
Wages and salaries	273.120	251.962
Pensions	20.006	18.771
Other social security expenses	7.204	6.449
	300.330	277.182
Which have been expensed as follows:		
Production costs	266.201	245.421
Distribution costs	18.440	14.849
Administrative costs	15.689	16.912
	300.330	277.182
Including remuneration to the Executive Board and the Board of Directors:		
Executive Board	4.335	5.305
Board of Directors	0	0
Average number of employees	616	617
4 Financial income		
Exchange adjustments	4.915	2.053
Other financial income	14	14
	4.929	2.067
5 Financial expenses		
Interest paid to group enterprises	15.823	17.155
Exchange adjustments	5.314	1.961
Other financial expenses	2.081	1.891
	23.218	21.007
6 Corporation tax		
Deferred tax for the year	0	0
Corporation tax	0	0
Total tax for the year	0	0

Notes to the Annual Report

	2022 DKK '000	2022 DKK '000
	Software and li- censes	Com- pleted de- velop- ment pro- jects
7		
Intangible assets		
Cost on 1 January 2022	375	4.561
Additions of the year	0	850
Cost on 31 December 2022	375	5.411
Depreciation and impairment losses on 1 January 2022	230	2.200
Depreciation and impairment losses for the year	55	853
Depreciation and impairment losses on 31 January 2022	285	3.053
Carrying amount on 31 December 2022	90	2.358
Depreciated over	5-6 years	5-6 years

The R&D costs amounted to DKK 2.358K and represent the Danish part of IT group projects.

Notes to the Annual Report

	Land and buildings	Plant and machinery	Other fix- tures and fittings, tools and equip- ment	Property, plant and equip- ment in progress
	DKK '000	DKK '000	DKK '000	DKK '000
8 Property, plant, and equipment				
Cost on 1 January 2022	341.186	894.646	19.135	14.533
Reclassification	40.144	25.506	93	224
Additions for the year	0	3.500	0	24.252
Transfers for the year	0	2.164	0	-2.164
Cost on 31 December 2022	<u>381.330</u>	<u>925.816</u>	<u>19.228</u>	<u>36.845</u>
Depreciation and impair- ment losses on 1 January 2022	255.323	799.700	18.851	0
Reclassification	39.508	26.249	93	0
Depreciation and impair- ment losses for the year	<u>8.294</u>	<u>13.387</u>	<u>137</u>	<u>0</u>
Depreciation and impair- ment losses on 31 Decem- ber 2022	<u>303.125</u>	<u>839.336</u>	<u>19.081</u>	<u>0</u>
Carrying amount on 31 December 2022	<u>78.205</u>	<u>86.480</u>	<u>147</u>	<u>36.845</u>
Depreciated over	<u>20-30 years</u>	<u>3-18 years</u>	<u>3-10 years</u>	

Notes to the Annual Report

	Land and buildings	Plant and machin- ery	Total
Finance leases			
Cost on 1 January 2022	808	33.775	34.583
Additions for the year	1.210	12.697	13.907
Disposals for the year	-1.698	-9.921	-11.619
Cost on 31 December 2022	320	36.551	36.871
Depreciation on 1 January 2022	6	19.596	19.602
Depreciation for the year	1.841	9.293	11.134
Depreciation on disposal	-1.698	-9.921	-11.619
Depreciation on 31 December 2022	149	18.968	19.116
Carrying amount on 31 December 2022	171	17.583	17.754
	<u>1-2 years</u>	<u>3-8 years</u>	

Notes to the Annual Report

8 Property, plant, and equipment (continued)

The calculation of the carrying amount of some assets and liabilities requires estimation of the way in which future events will affect the value of such assets and liabilities at the balance sheet date. Such an estimate which is material to the financial reporting is made by i.e., performing an impairment test of the Company's assets.

The impairment test is based on the future current operating income from the business. The calculation of the current operating income includes income and expenses recognised in the Company's budgets and forecasts. It is also based on a required return determined based on i.e., the interest rate level of the risk-free interest rate.

The estimates made are based on assumptions that Management considers reasonable, but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and contingencies or unexpected circumstances may arise. The Company is moreover exposed to risks and uncertainties that may result in the actual performance deviating from these estimates.

Impairment test

In the financial year 2022 an impairment test has been carried out on fixed assets to assess possible reversal of previous write-downs.

The recoverable value is based on the capital value as determined using expected net cash flows based on budgets/plan for the years 2023-2025 and terminal value approved by management and with a WACC 7,70%. EBITDA for 2023 expected at DKK 39,0 million.

The same gross margin has been applied for the following 3 years. The weighted average growth rate used to project future net cash flows after 2025 is 1%, as well as the development of fixed costs. The impairment test is based on continued operation - value in use method.

In terminal calculation we have 1 % residual growth rate.

Recoverable amount exceeds the carrying amount by DKK 0.

Sensitivity analysis

In the context of the impairment test, expected cash flows must be estimated for many years into the future, which naturally leads to some uncertainty. The uncertainty is reflected in the selected discount rate. A downward adjustment of expected cash flows has led the Group to consider that a reasonable likely change in key assumptions in the calculation of the recoverable value could lead to a write-down of fixed assets.

Notes to the Annual Report

	2022 DKK '000	2021 DKK '000
9 Fixed asset investments		
Investments in subsidiaries		
Cost on 1 January	0	0
Disposals of the year	0	0
Cost on 31 December	0	0
Carrying amount on 31 December	0	0

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share Capital	Votes and ownership	Equity	Result of 2022
Kreatina A/S	Holstebro, Denmark	DKK 3,000k	100%	-47,294k	-1,420k

	2022 DKK '000	2021 DKK '000
Investments in equity interest (associates)		
Cost on 1 January	19.540	19.540
Cost on 31 December	19.540	19.540
Carrying amount on 31 December 2022	19.540	19.540

Investments in associates are specified as follows:

Name	Place of registered office	Share Capital	Votes and ownership	Equity	Result of 2022
Tican-Rose GmbH	Eckernförde, Germany	EUR 51k	50%	EUR 3.942k	EUR 498k
Farmfood A/S	Løgstør, Denmark	DKK 30.000k	33%	DKK 134.944k	DKK 1.248k

Notes to the Annual Report

	2022 DKK '000	2021 DKK '000
9 Other securities and investments		
Cost on 1 January	769	769
Cost on 31 December	769	769
Carrying amount on 31 December	769	769
10 Inventories		
Raw materials and consumables	19.126	17.257
Work in progress	8.773	5.995
Finished goods and goods for resale	87.961	115.035
	115.860	138.287
11 Equity		
The share capital consists of 10,000 shares of a nominal value of DKK 1,000 each, 2,500 shares of a nominal value of DKK 100 each and one share of DKK 200. No shares carry any special rights.		
Development in share capital:		
2012: The share capital was increased by a nominal amount of DKK 50.000		
2011: The share capital was increased by a nominal amount of DKK 100.000		
	2022 DKK '000	2021 DKK '000
12 Provision for deferred tax		
Property, plant, and equipment	-83.052	-84.047
Other	-5.650	-5.650
Tax loss	-18.672	-19.873
Write-down	107.374	109.570
	0	0
Tax asset	0	0

Notes to the Annual Report

13 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:

	2022 DKK '000	2021 DKK '000
Payables to group enterprises		
Total 1 and 5 years	313.086	236.070
Long-term part	313.086	236.070
Within 1 year	0	16.323
	313.086	252.393
Other payables		
Total 1 and 5 years	25.791	25.498
Long-term part	25.791	25.498
Within 1 year	0	0
	25.791	25.498
Lease obligations		
Total 1 and 5 years	11.005	0
Long-term part	11.005	0
Within 1 year	7.154	0
	18.159	0

Notes to the Annual Report

14 Contingent assets, liabilities, and other financial obligations

Rental agreements and leases

Lease commitments under operating leases. Total future lease payments:

Within 1 year	335	7.211
Between 1 and 5 years	670	8.662
After 5 years	0	231
	<u>1.005</u>	<u>16.104</u>

The total cash outflow for leases in 2022 was DKK 342k, which includes redemption of principal and interest payments.

In 2022 the company applied IFRS 16 and therefore all significant lease assets have been recognized in the balance sheet as per 31st December 2022.

Securities with a carrying amount of DKK 200k have been provided as security for restoration obligations towards the Danish Coastal Authority.

Contingent liabilities

The Company has provided a bank guarantee of DKK 30,000k as a producer guarantee, running until 31.12.2023.

The Company is under a contractual obligation to supply waste and by-products from the poultry production to the associate Farmfood A/S for the next two years.

The Company is jointly taxed with the subsidiary Kreatina A/S. The companies in the joint taxation are jointly and separately liable for Danish corporation taxes arising in the jointly taxed group.

The Danish tax authorities have conducted an audit of energy taxes covering the period 2011-2020. The Danish tax authorities have on 23rd December 2020 issued their decision, according to which the company should repay past refunds of energy taxes in the pending matter (amounts to DKK 24,7 million). It cannot be excluded that in addition to the currently pending matter, the company could separately be imposed penal sanctions because of the tax audit. HKScan Denmark A/S has appealed the decision issued and paid the amount in question to the Danish tax authorities.

In connection with the company's supply chain financing agreement with SEB, the company has committed to not pledge its receivables from sales of goods and services pursuant to Tinglysningslovens §§ 47c, stk. 3, nr. 1 and 47d without consent from SEB.

Notes to the Annual Report

15 Fee to auditors appointed at the general meeting

HKScan Denmark A/S is included in the consolidated FS of the parent company, where the fee to auditor elected at the AGM is stated.

16 Derivative instruments

The Company uses hedging instruments to hedge recognized and non-recognized transactions.

2022

As of 31 December 2022, the Company entered the following forward contracts to hedge sales and electricity:

Currency	Contract Value (DKK 1.000)	Market Value (DKK 1.000)
USD/DKK	230	91
Electricity	21.038	20.205
	21.268	20.296

2021

As of 31 December 2021, the Company entered the following forward contracts to hedge sales and electricity:

Currency	Contract Value (DKK 1.000)	Market Value (DKK 1.000)
SEK/DKK	46.000	302
EUR/DKK	2.973	-1
Electricity	5.020	4.737
	53.993	5.038

SEK/DKK currency relates to Revenue stemming from Swedish retail, where exchange rate has been fixed for Q1 and Q2 2022. EUR/DKK is related to downpayment on cooked & fried investment in Skovsgaard

The market value of forward contracts is included under other receivables.

Notes to the Annual Report

17 Related parties

Members of the Executive Board and the Board of Directors of HK Scan Denmark A/S are considered related parties.

The Group's subsidiaries and associates are considered related parties.

We have had the following transactions with related parties: (DKK 1.000)

Sale to Group Company	2.024
Purchase from Group Company	32.898
Management fee to Parent Company	19.260
Interest to Parent Company	15.823
Purchase of immaterial assets (software)	850
Purchase of machinery from Parent Company	1.369
Loans from Parent Company	313.086
Receivables from group enterprises	9.972
Receivables from associates	5.901
Receivables from affiliates	483
Payables to Parent company	3.407

Consolidated Financial Statements

	2022	2021
	DKK	DKK
	'000	'000
18 Distribution of Profit/loss		
Reserve for development cost	-3	-70
Retained earnings	-17.873	-30.495
	17.876	-30.565

19 Subsequent events

In January 2023 new outbreaks of Avian flu was detected in Denmark, restricting export outside EU. During 2022 regionalisation agreements have been made with both Korea and Hong Kong, hence the recent outbreaks are not expected to have impact on Net sales or Net result in 2023.

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

Notes to the Annual Report

20 Accounting Policies

Basis of Preparation

The Annual Report of HKScan Denmark A/S ("Company") for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

Except for the below mentioned changes in accounting policies the financial statements have been prepared under the same accounting policies as last year.

In accordance with section 112 of the Danish Financial Statements Act, consolidated financial statements have not been prepared as the Company is included in the HKScan Corporation ("Parent Company"). The Consolidated Financial Statements may be obtained at the Parent Company. <https://www.hkscan.com/en/investors-information/annual-and-responsibility-report-2022/>

According to section 86.4 of the Danish Financial Statements Act, no cash flow statement is prepared for HKScan Denmark A/S as HKScan Denmark A/S is included in the Financial Statements of HKScan Corporation which include a consolidated cash flow statement.

The Annual Report for 2022 is presented in DKK thousands.

Changes in accounting policies

In 2022 the Company has adopted IFRS 15 *Revenue from contracts with customers* and IFRS 16 *Leases* and changed its accounting policies for investments in subsidiaries and associates.

IFRS 15 – Revenue from contracts with customers

With effect from 1 January 2022, the Company has chosen to implement IFRS 15 *Revenue from Contracts with Customers*, as the basis for interpretation of the provisions of the Danish Financial Statements Act on revenue accounting, as the Company believes that this provides a better true and fair view of the accounting for revenue and aligns the Company's policy with Group policy. The Company has implemented IFRS 15 applying the modified retrospective approach (the cumulative effect method). The cumulative impact of IFRS 15 implementation is recognized directly on equity as of 1 January 2022. The comparison figures for 2021 are not adjusted and continue to be presented in accordance with the accounting policy based on IAS 11/18. In addition, under the modified retrospective approach, completed customer contracts are not restated. IFRS 15 will be applied retrospectively only to customer contracts that are not completed contracts at the date of initial application (1 January 2022).

The change in accounting policy has not impacted profit before tax, tax for the year, profit after tax, total assets, or equity.

Notes to the Annual Report

IFRS 16 - Leases

With effect from 1 January 2022, the Company has implemented IFRS 16, Leases, for the interpretation of the provisions of the Danish Financial Statements Act for lease agreements, as the Company believes that this provides a better true and fair view of the accounting for leases and align the Company's policy with Group policy. The Company has implemented IFRS 16 with the modified retrospective approach (the cumulative effect method). Lease assets and liabilities have been recognized in the balance sheet as of 1 January 2022, and no adjustment has been made to comparative information that continues to be presented in accordance with the accounting policy based on IAS 17. In the future, the Company, with a few exceptions, recognizes all leases in the balance sheet. This means that a lease liability measured at the present value of the future lease payments, and a corresponding right-of-use asset adjusted for payments made to the lessor prior to the start of the lease agreement, and incentive payments received from the lessor, must be recognized. The Company chooses to measure the right-of-use asset on a lease-by-lease basis, at an amount equal to the lease liability, adjusted for previously recognised prepaid or accrued lease payments.

In accordance with the transitional relief measures in IFRS 16, when implementing IFRS 16 as interpretation, the Company has chosen:

- Not to reassess whether a contract is or contains a lease agreement.
- Not to recognize short-term leases (less than 12 months) or leases with low value.
- Not to recognize direct costs related to recognized lease assets.
- To set a discount rate on a portfolio of leases with similar characteristics

Upon implementation of IFRS 16 as interpretation as of 1 January 2022, the Company has recognized a right-of-use asset of DKK 15.0 million and a lease liability of DKK 15,4 million. The equity effect is thus DKK 0.4 million as of 1 January 2022. At the end of 2022, amortization and interest expenses amount to DKK 11.2 million and DKK 0.5 million, respectively. The decision to adopt IFRS 16 has resulted in a decrease in expenses of DKK 0 million.

Investments in subsidiaries and associated companies

The Company has changed its accounting policies for investments in subsidiaries and associated companies.

Investments in subsidiaries and associated companies have previously been recognized and measured using the equity method in accordance with the Danish Financial Statement Act § 43a. Going forward investments subsidiaries and associated companies are measured at cost in accordance with the Danish Financial Statement Act § 40. It's management's assessment that the changed accounting policy better gives a true and fair view of investments in subsidiaries and associated companies and align the Company's policy with Group policy.

The accumulated effect of the change in accounting policy has been recognized in equity on 1 January 2021. The change in accounting policy has impacted profit before tax negatively with DKK 0.8 million (2021: negatively with DKK 2.6 million). Tax for the year and deferred tax has not been impacted (2021: no impact). Total assets and equity have been negatively impacted by DKK 33.0 million at December 2022 (31 December 2021: negatively with DKK 15.6 million and DKK 12.9 million at 1 January 2021).

Notes to the Annual Report

Comparative figures have been restated to reflect the change in accounting policy.

Translation policies

Transactions in foreign currencies are translated during the year at the exchange rates at the dates of transaction. Gains and losses 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.

Exchange adjustments arising on the translation of the opening equity of separate foreign legal entities and exchange adjustments arising from the translation at average exchange rates of the income statements of separate foreign legal entities are recognised directly in equity. Exchange adjustments arising on the translation of income statements and balance sheets of integrated foreign entities are recognised in financial income and expenses in the income statement.

Exchange adjustments of loans in foreign currencies contracted for the hedging of investments in foreign subsidiaries or loans considered to be derived from the investment are recognised directly in equity. If the hedge is not effective, the ineffective portion is reported immediately in net profit or loss.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are included as prepayments and deferred income, respectively.

Changes in the fair values of derivative financial instruments that are designated and qualify as fair value hedges of a recognised asset, or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions relating to purchases and sales in foreign currencies are recognised in prepayments/deferred income or in retained earnings under equity, respectively. If the expected future transaction results in the recognition of assets or liabilities, amounts deferred in equity are transferred from equity and recognised in the cost of the asset or the liability, respectively. Amounts deferred in equity are transferred to the income statement in the period in which the hedged item affects the income statement.

Notes to the Annual Report

Changes in the fair values of derivative financial instruments applied for the purpose of hedging net investments in separate foreign legal subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is reported immediately in net profit or loss.

Segment reporting

Segment information is presented in respect of the breakdown of revenue on geographical segments.

The Company's main activity comprises slaughtering, processing, and sale of poultry, which is considered as one segment.

Income Statement

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition with implementation as per January 1st, 2022.

Revenue from contracts with customers comprises sales of products:

- Revenue from the sale of products is recognized at the point in time when the control of products is transferred to the customer, which is generally upon delivery.

Revenue from contracts with customers is measured at an amount that reflects the consideration to which the company expects to be entitled in exchange for those products. Amounts disclosed as net revenue exclude discounts, VAT, and other duties.

Before January 1st, 2022, IAS 11 / IAS 18 was chosen as interpretation for revenue recognition. Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that the general criteria have been met, including that delivery and transfer of risk have been made to the buyer by year end and the amount can be reliably measured and is expected to be received. Revenue is recognised exclusive of VAT and duties and net of discounts relating to sales.

Production costs

Production costs comprise costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration, and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising, and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Notes to the Annual Report

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and expenses comprise items of a secondary nature to the core activities of the Company.

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.

Result from investment in subsidiaries and equity interest

Dividend from investment in subsidiaries and equity interest (associates) is recognised in the financial year in which the dividend is declared.

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 the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

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

The Company is jointly taxed with certain wholly owned Danish and foreign subsidiaries and with Danish fellow subsidiaries. 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). The jointly taxed enterprises have adopted the on-account taxation scheme.

Balance Sheet

Intangible assets

Intangible assets comprise acquired intellectual property rights and completed development projects.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development

Notes to the Annual Report

opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of intangible assets and depreciation of property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. The amortisation periods used are 3 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement. The amortisation periods used are 3-7 years.

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

Property, plant, and equipment

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

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

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:

Buildings	20 - 30 years
Plant and machinery	3 - 18 years
Other fixtures and fittings, tools, and equipment	3 - 10 years

Gains and losses on sale of fixed assets are recognised in the income statement in production costs, distribution expenses and administrative expenses, respectively.

Notes to the Annual Report

Leases

Before January 1st, 2022, the company had chosen IAS 17 as interpretation for classification and recognition of leases.

Leases from January 1st, 2022.

Lease assets are "right-of-use-assets" arising from lease agreements. Lease assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs.

The lease assets are depreciated on a straight-line basis over the shorter period of the asset's useful life and the lease term in the contract. The lease assets can be adjusted due to modifications to the lease agreement or reassessment of the lease term.

The depreciation periods are as follows:

- Property 1-2 years
- Cars and trucks 3-8 years

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a term of 12 month or less, while low value assets comprise assets with a value below TEUR 30.

On initial recognition, lease commitments are measured at the present value of the future lease payments discounted by an incremental borrowing rate.

The lease commitment is measured at amortised cost according to the effective interest method. The lease commitment is recalculated when the underlying contractual cash flows change due to changes in an index or an interest rate if the company's estimate of a residual value guarantee changes or if the company changes its assessment of whether call options, extension options or termination options can reasonably be expected to be exercised.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Notes to the Annual Report

Impairment of fixed assets

The carrying amounts of both intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by ordinary amortisation and depreciation. If so, the asset is written down to its lower recoverable amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a recoverable amount can be determined.

Head office buildings and other assets for which a value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

Investments in subsidiaries and equity interest (associates)

Investments in subsidiaries and associates are recognised and measured at cost. If the recoverable amount is lower than the cost price, it shall be written down for impairment to the lower value.

Asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Listed securities are measured at market value. Unlisted securities are measured at the selling price based on calculated value in use.

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 as the total of future sales revenues expected, at the balance sheet date, to be generated by inventories in the process of normal operations and determined allowing for marketability, obsolescence, and development in expected sales sum less the estimated expenses necessary to make the sale.

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 with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Any borrowing expenses in the period of production are not recognised.

Notes to the Annual Report

Receivables

Receivables are recognised in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined based on an individual assessment of each receivable. Receivables include fair value adjustments of derivative financial instruments with a positive fair value.

Prepayments

Prepayments include expenses incurred in respect of subsequent financial years. Such expenses are typically prepaid expenses concerning rent, insurance premiums, subscriptions, and interest.

Equity

Dividend

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Dividend expected to be distributed for the year is disclosed as a separate equity item.

Reserves

Reserve for development projects

The reserve for development projects comprises recognized development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognized development projects are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

If the recognized development projects are written down, part of the reserve for development projects must be reversed. The reversed portion corresponds to the write-down of the development projects. If a write-down of the development projects is subsequently reversed, the reserve for development projects must be re-established. The reserve for development projects is also reduced by amortization charges. In doing so, the equity reserve will not exceed the amount recognized in the statement of financial position as development projects.

Reserve for fair value adjustment of derivative financial instruments

The reserve for fair value adjustment of derivative financial instruments comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not yet been realised. The reserve is dissolved when the hedged transaction is realised if the hedged cash flows are no longer expected to be realised or if the hedging relationship is no longer effective. The hedging reserve does not represent a limitation under company law and may therefore be negative.

Notes to the Annual Report

Provisions

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

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.

Deferred tax is measured based on 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 based on 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.

Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated based on 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.

Liabilities

Fixed-interest loans, such as mortgage loans and loans from credit institutions, intended held to maturity are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost equal to the capitalised value using the effective interest method; the difference between the proceeds and the nominal value (the capital loss) is recognised in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to net realisable value. Regarding lease liabilities, refer to page 35.

Notes to the Annual Report

Financial ratios

Explanation of ratios

Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	=	$\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$
Return on net assets	=	$\frac{\text{Profit/loss before financials} \times 100}{\text{Total assets}}$
Solvency ratio	=	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	=	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$