

HKScan Denmark A/S

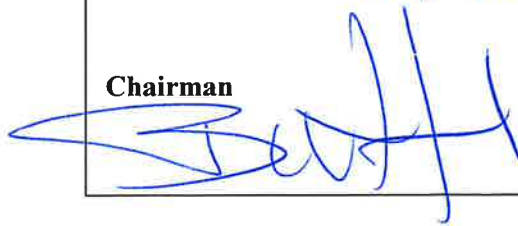
CVR No 25 17 75 09

Annual Report for 1.1 – 31.12.2023

*Tværmosevej 10
DK-7830 Vinderup*

The Annual Report was presented and
adopted at the Annual General Meeting
of the Company on : 10/5 2024

Chairman

A handwritten signature in blue ink, appearing to be 'S. H.', is written over the 'Chairman' label. The signature is stylized and extends across the width of the label.

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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 2023.

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 2023 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2023.

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, 29 / 4, 2024

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
Employee representative



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 2023, 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 2023 and of the results of the Company's operations for the financial year 1 January – 31 December 2023 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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.

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, 29 / 4 2024

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: 24th 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

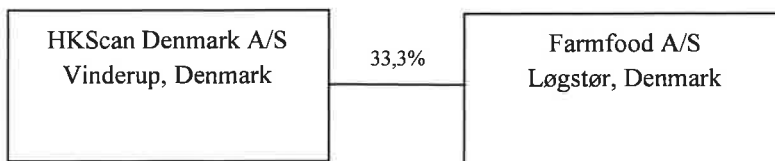
EY Godkendt Revisionspartnerselskab

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:

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|--|-----------|-----------|-----------|-----------|-----------|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| Key figures | | | | | |
| Profit/loss | | | | | |
| Revenue | 1.717.497 | 1.642.768 | 1.285.070 | 1.278.676 | 1.242.224 |
| Gross profit/loss | 84.692 | 125.066 | 96.638 | 102.427 | 49.941 |
| EBITDA | 50.864 | 33.346 | 13.236 | 26.150 | 614 |
| Profit/loss before financial income and expenses | -46.863 | 394 | -11.625 | -7.805 | -59.237 |
| Net profit/loss for the year | -83.831 | -19.296 | -32.048 | -27.693 | -75.643 |
| Balance sheet | | | | | |
| Investment in property, plant and equipment | 42.063 | 27.752 | 31.688 | 54.716 | 11.236 |
| Balance sheet total | 455.700 | 569.907 | 481.527 | 492.600 | 435.227 |
| Equity | -69.146 | 30.721 | 35.201 | -36.514 | -8.822 |
| | | | | | |
| Average number of employees | 602 | 616 | 617 | 620 | 579 |
| Ratios | | | | | |
| Gross margin | 4,9% | 7,6% | 7,5% | 8,0% | 4,0% |
| Profit margin | -2,7% | 0,0% | -0,9% | -0,6% | -4,8% |
| Return on net assets | -10,3% | 0,0% | -2,4% | -1,6% | -13,6% |
| Solvency ratio | -15,2% | 5,4% | 7,3% | -7,4% | -2,0% |
| Return on equity | -436,3% | -58,5% | 4.881,6% | 122,2% | -152,5% |

For definition of ratios, see under accounting policies.

Kreatina A/S has been merged into HKScan Denmark A/S in 2023. The figures in this report have been adjusted so they include Kreatina A/S.

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 2019 - 2021 in the financial highlights are therefore not adjusted for the effect of implementation of IFRS 15 and 16 and hence not comparable to 2022 and 2023.

The accounting policy for investments in subsidiaries and associated companies has been changed from the equity method to cost price. The figures for 2019-2020 have not been restated.

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

Management's review

Business review

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 -83,8 million (2022: DKK -19,3 million), following a year with increased interest rates and a negative impairment result of DKK -64,2 million. In December 2023 it was decided to merge the fully owned subsidiary Kreatina into HKScan, impacting the financial costs with DKK -2,5 million for 2023 (2022: DKK -1,4 million). Further, Tican Rose have been divested during the year, driving an extra income of DKK 3,6 million.

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 before impairment increased with DKK 23,8 million, following full-year effect on sales price changes, entry to Danish retail market with slower growing birds and a more favourable mix with higher sales of fried products (following the installation of contact frying line), all in line with the strategy plan. However, the negative impact of the impairment result of DKK -64,2 million, leave a decline in the Gross margin with DKK -40,4 million. With the new contact frying line, we can prepare cooked & fried chicken in strips, cubes, and slices, each time perfectly roasted to preserve the flavour and juiciness of the chicken without the use of additives, and since August there have been visits from a wide range of foreign customers, both for product testing and audits.

Sales prices has been changed throughout the year, hand in hand with changes in feed prices, energy, and packaging material as well as for other production inputs, both on farm level and in HKScan's own operations.

EBIT stemming from the running business improved with DKK 17 million, however the negative impairment result of DKK -64,2 million, leaves the EBIT development to DKK -46,9 million. The underlying improved gross margin is considered satisfactory given the market development with

consumers trading towards cheaper products, however the overall negative development is unsatisfactory. Net Result of DKK -83,8 million is DKK -64,5 million worse than 2022, following significantly increased financial expenses and the negative impairment result is unsatisfactory.

The revenue are in line with last year's announcement, whereas EBIT and Net result is at a lower level following the increase in financial expenses and the impairment write-down. Following the merger with Kreatina and the impairment write-down, HKScan Denmark A/S is reporting a negative equity for 2023, however capital injection of DKK 37,3 million (EUR 5 million) from the parent company has been received on March 20th, 2024 and additionally 7m€ will be added end of April 2024.

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 2024.

Subsequent events

Following the merger of Kreatina into HKScan Denmark A/S the parent company HKScan Oyj has provided an equity injection of DKK 37,3 million (EUR 5 million) on March 20th, 2024, and additionally 7m€ will be added by end of April 2024 to secure the company with a positive equity.

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

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 continued to fluctuate during 2023. Our production uses primarily electricity, hence continuous changes 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

Responsibility work is the basis of our strategy. It focuses on the business needs and the expectations and requirements of our stakeholders. We promote responsibility throughout our long value chain in collaboration with our contract farmers and partners.



The themes of our responsibility work are based on our stakeholder analysis and materiality assessment. Our responsibility program sets targets and indicators for the promotion of the well-being of nature and people. Other key responsibility themes include animal welfare, safe food, a competitive farmer community and good governance. We manage these in accordance with local legislation and requirements.



Human Rights and Anti-Corruption

We believe upholding human rights is fundamental. We draw our understanding of these rights from the Universal Declaration of Human Rights, its related treaties and declarations, and the broader ethical reasoning behind their development. Our Code of Conduct includes a focus on Human Rights as well as anti-bribery.

HKScan Denmark maintain zero tolerance against any form of corruption including bribery, extortion, kickbacks, and facilitation payments, and prohibit engagement in such activities by employees or associates. During the year, no instances or allegations of corruption, bribery, or unethical behaviour were reported or identified within our organization, indicating the effectiveness of our anti-corruption measures.

The most material risk is connected to our suppliers, with whom we actively engage to ensure compliance with both our Code of Conduct as well as national legislation and international recognized conventions. During 2023 we have continued our follow-up activities with suppliers as well as promoted the ethical standards of our Code of conduct among both suppliers and employees. No breaches to the Code of Conduct have been reported in 2023.

We will continue to have this as a focus point for the coming years and aim to strengthen our compliance measures.

Policies for environmental and climate 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.

HKScan most material risks related to negative impacts on environmental and climate issues are within water & energy consumption and waste. Part of our Strategy is based on a commitment to become carbon neutral in own production (scope 1 and 2) by the end of 2025 and Net zero for all greenhouse gas emissions by 2050.

The main environmental and climate focus for HKScan Denmark during 2023 has been implementing numerous improvements in our Supply Chain to minimize waste, water and energy consumption, i.e. changing pack material, installing LED-lights in office areas, reducing use of prints, etc. Further, new company cars are e-cars.

We will continue to have this as our focus and we have set both short- and long-term targets, which is reviewed minimum at a yearly basis.

Social and Employee matters

The Safety and well-being of our employees are paramount. We maintain strict health and safety standards to provide a secure working environment, free from hazards, and promote a culture of proactive safety practices. We are driving actions to ensure a diverse workforce and an inclusive culture, where all employees can thrive. During 2023 we launched “Poultry Academy” for all white collars – a programme to enhance full supply chain knowledge and build relations with colleagues across sites. By end 2023 45% of all white collars had finalised the programme, and the rest will finalise in 2024.

The main risk to our employees is potential accidents when dealing with heavy machinery. To mitigate this risk, we actively work on safeguarding our employees by promoting “Safety first” and wellbeing, as well as rolling out initiatives aimed at ensuring fewer accidents. All employees are continuously reminded and debriefed regarding our Safety first policy and all new employees must undertake basic safety trainings. In the fiscal year, we have run several “better together initiatives” to increase safety and well-being and lower sickness absence (2022: 7,03% 2023: 5,68%). We will continue to have this as our focus for the coming years.

HKScan Denmark A/S are proud to be part of several collaborations that support good causes. Through our brand, ROSE Chicken, we donate money every year to the Danish Cancer Society's fight against breast cancer. Together with the organization Plant a Tree, we plant trees for the benefit of the environment and climate, and in addition, we deliver surplus goods to JunkFood, which produces and delivers warm, nutritious evening meals every day to the homeless in Copenhagen.

In September HKScan Denmark A/S won the CSR People Prize 2023 for companies with more than 250 employees. We received this prestigious award for our significant efforts to ensure diversity and inclusion in the workplace. Cabi annually awards the CSR People Prize. The CSR People Prize honours companies that employ or retain people who are in a vulnerable position, achieving both human and business benefit.

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.

Report on gender composition of Management

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 excl. the employee elected representatives is presently 25% (2022: 25%), as there has been no changes during 2023. In accordance with the Danish Financial Statements Act §99b, there is equal gender distribution in the Board of Directors.

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.

| | | 2023 |
|--|--------------------------------|-----------|
| Top managerial position (Board of Directors*) | Total number of members | 4 |
| | Underrepresented gender in %. | 25 |
| | Target figure in pct. | 33 |
| | Year for fulfilment of target | 2025 |
| Other Managerial posi- tions (level 1 and 2) | Total number of members | 32 |
| | Underrepresented gender in %. | 28 |
| | Target figure in pct. | 50 |
| | Year for fulfilment of target | 2027 |

*) Excluding employee elected representatives

Currently the ratio of female executives in the management team (level one) is 33% (2022: 33%).

Level two management is defined as positions reporting to a level one manager. In total there is 26 level two managerial positions, whereof 7 or 26,9% is filled with a female manager. Our target figure is 50% in 2027.

Other levels of management consist of 32 members, where the underrepresented gender is 28%. Our target figure is 50% in 2027.

HKScan Denmark A/S will continue to strive for an equal gender representation among management through recruitment internally and externally attempting to balance the representation of both genders in the management.

To increase the representation of the underrepresented gender, we have implemented targeted recruitment strategies in the financial year, ensuring diverse candidate pools for managerial positions through proactive sourcing and partnerships with gender-focused professional networks.

Efforts has been made to source diverse candidates, including those of the underrepresented gender, for managerial roles. Despite these initiatives, there were limited applications or suitable candidates from the underrepresented gender for the available management positions.

Expectations for the year ahead

During 2023 a renewal of the strategy plan has taken place, outlining direction and ambition for the coming years. A continuous lift in the financial performance is planned, despite a turbulent business environment with rapid changing prices to balance supply and demand on several items such as wheat, soy, energy, and packaging material, as sales prices are expected to follow development in relevant costs and product mix with improve.

Investments into cooking and frying capacity and ability in Skovsgaard during 2020 and 2021, have already contributed positively to the financial performance, and together with the investment in the contact frying line in 2023 this development is expected to continue.

In 2024 Net sales are expected at same level as 2023 (~1,7bnDKK), whereas Net result is expected to develop positively to a level around DKK -20million.

Financial Statements

Income statement 1 January – 31 December

| | Note | 2023 DKK '000 | 2022 DKK '000 |
|---|-------|------------------|------------------|
| Revenue | 3 | 1.717.497 | 1.642.768 |
| Production costs | 4, 9 | -1.568.828 | -1.517.799 |
| Impairment | 2 | -64.205 | 0 |
| Other operating income | | 228 | 97 |
| Gross profit/loss | | 84.692 | 125.066 |
| Distribution costs | 4 | -83.318 | -75.860 |
| Administrative expenses | 4,8,9 | -48.237 | -48.812 |
| Profit/loss before financial income and expenses | | -46.863 | 394 |
| Financial income | 5 | 6.196 | 4.929 |
| Financial expenses | 6 | -43.164 | -24.619 |
| Profit/loss before tax | | -83.831 | -19.296 |
| Corporation tax | 7 | 0 | 0 |
| Net profit/loss for the year | 19 | -83.831 | -19.296 |

Balance Sheet on 31 December

Assets

| | Note | 2023 DKK '000 | 2022 DKK '000 |
|---|-----------|------------------|------------------|
| Software and licenses | | 1.064 | 90 |
| Completed development projects | | 1.936 | 2.358 |
| Intangible assets | 8 | 3.000 | 2.448 |
| Land and buildings | | 49.789 | 78.205 |
| Plant and machinery | | 84.373 | 86.480 |
| Other fixtures and fittings, tools, and equipment | | 340 | 147 |
| Property, plant, and equipment in progress | | 23.724 | 36.845 |
| Right of use assets | | 24.714 | 17.754 |
| Property, plant, and equipment | 9 | 182.940 | 219.431 |
| Investments in equity interest | | 16.805 | 19.540 |
| Other securities | | 769 | 769 |
| Fixed asset investments | 10 | 17.574 | 20.309 |
| Fixed assets total | | 203.514 | 242.188 |
| Inventories | 11 | 108.583 | 115.860 |
| Trade receivables | | 120.024 | 163.259 |
| Receivables from affiliates | | 13 | 483 |
| Receivables from associates | | 8.624 | 5.901 |
| Receivables from group enterprises | | 0 | 9.972 |
| Other receivables | | 14.647 | 32.068 |
| Receivables | | 143.308 | 211.683 |
| Cash at bank and in hand | | 295 | 176 |
| Current assets total | | 252.186 | 327.719 |
| Total assets | | 455.700 | 569.907 |

Balance Sheet on 31 December

Liabilities and equity

| | Note | 2023 DKK '000 | 2022 DKK '000 |
|---|------|------------------|------------------|
| Share capital | 12 | 10.250 | 10.250 |
| Reserve for fair value adjustment re. financial contracts | | 4.260 | 20.296 |
| Reserve for development costs | | 1.936 | 2.358 |
| Retained earnings | | -85.592 | -2.183 |
| Total equity | | -69.146 | 30.721 |
| Payables to group enterprises | | 313.086 | 313.086 |
| Other payables | | 26.579 | 25.791 |
| Lease obligations | | 16.886 | 11.005 |
| Non-current liabilities other than provisions | 14 | 356.551 | 349.882 |
| Short term part of non-current liabilities | 14 | 8.585 | 7.154 |
| Trade payables | | 105.502 | 88.354 |
| Payables to group enterprises | | 11.694 | 50.679 |
| Other payables | | 42.514 | 43.117 |
| Current liabilities | | 168.295 | 189.304 |
| Total liabilities | | 524.846 | 539.186 |
| Total liabilities and equity | | 455.700 | 569.907 |
| Financial resources | 1 | | |
| Special items | 2 | | |
| Staff | 4 | | |
| Provision for deferred tax | 13 | | |
| Contingent assets, liabilities, and other financial obligations | 15 | | |
| Fee to auditors appointed at the general meeting | 16 | | |
| Derivative instruments | 17 | | |
| Related parties | 18 | | |
| Distribution of Profit/loss | 19 | | |
| Subsequent events | 20 | | |
| Accounting Policies | 21 | | |

Statement of Changes in Equity

| | Share capital | Reserve for fair value adjust- ment re. fi- nancial 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 2022 | 10.250 | 5.038 | 2.361 | 63.426 | 81.075 |
| Merger with subsidiary | | | | -45.874 | -45.874 |
| Change in accounting poli- cy: Implementation of IFRS 16 | 0 | 0 | 0 | -442 | -442 |
| Adjusted equity on 1 Janu- ary 2022 | 10.250 | 5.038 | 2.361 | 17.110 | 34.759 |
| Net profit/loss for the year | 0 | 0 | -3 | -19.293 | -19.296 |
| Value adjustment for the year | 0 | 15.258 | 0 | 0 | 15.258 |
| Equity on 31 December 2022 | 10.250 | 20.296 | 2.358 | -2.183 | 30.721 |
| Equity on 1 January 2023 | 10.250 | 20.296 | 2.358 | -2.183 | 30.721 |
| Net profit/loss for the year | 0 | 0 | -422 | -83.409 | -83.831 |
| Value adjustment for the year | 0 | -16.036 | 0 | 0 | -16.036 |
| Equity on 31 December 2023 | 10.250 | 4.260 | 1.936 | -85.592 | -69.146 |

Notes to the Annual Report

Notes to the Annual Report

1 Financial resources

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 2024 to enable HKScan Denmark A/S to meet its ongoing financial obligations as and when they fall due.

2 Special items

Share of Tican Rose has been sold and the profit is reported with DKK 3,6 million as part of financial income.

Impairment loss of DKK -64,2 million is reported as part of Gross margin.

3 Revenue

| | 2023 | 2022 |
|-----------------------|------------------|------------------|
| | DKK '000 | DKK '000 |
| Geographical segments | | |
| Domestic market | 1.020.446 | 978.725 |
| EU | 636.351 | 595.894 |
| Other countries | 60.700 | 68.149 |
| | <u>1.717.497</u> | <u>1.642.768</u> |

4 Staff

| | | |
|--------------------------------|----------------|----------------|
| Wages and salaries | 288.922 | 273.120 |
| Pensions | 24.433 | 20.006 |
| Other social security expenses | 8.443 | 7.204 |
| | <u>321.798</u> | <u>300.330</u> |

Which have been expensed as follows:

| | | |
|----------------------|----------------|----------------|
| Production costs | 284.853 | 266.201 |
| Distribution costs | 19.989 | 18.440 |
| Administrative costs | 16.956 | 15.689 |
| | <u>321.798</u> | <u>300.330</u> |

Including remuneration to the Executive Board and the Board of Directors:

| | | |
|--------------------|-------|-------|
| Executive Board | 4.740 | 4.335 |
| Board of Directors | 0 | 0 |

| | | |
|-----------------------------|-----|-----|
| Average number of employees | 602 | 616 |
|-----------------------------|-----|-----|

Notes to the Annual Report

| | | |
|--|-------------------------------|--|
| 5 Financial income | <u>2023</u> | <u>2022</u> |
| | DKK '000 | DKK '000 |
| Exchange adjustments | 2.586 | 4.915 |
| Other financial income | 3.610 | 14 |
| | <u>6.196</u> | <u>4.929</u> |
| 6 Financial expenses | | |
| Interest paid to group enterprises | 33.776 | 17.224 |
| Exchange adjustments | 3.710 | 5.314 |
| Other financial expenses | 5.678 | 2.081 |
| | <u>43.164</u> | <u>24.619</u> |
| 7 Corporation tax | | |
| Deferred tax for the year | 0 | 0 |
| Corporation tax | 0 | 0 |
| Total tax for the year | <u>0</u> | <u>0</u> |
| 8 Intangible assets | | |
| | Software and li- censes | Com- pleted de- velop- ment pro- jects |
| Cost on 1 January 2023 | 375 | 5.411 |
| Additions of the year | 0 | 552 |
| Transfers for the year | 1.134 | 0 |
| Cost on 31 December 2023 | <u>1.509</u> | <u>5.963</u> |
| Depreciation and impairment losses on 1 January 2023 | 285 | 3.053 |
| Reclassification | -23 | 23 |
| Depreciation and impairment losses for the year | <u>183</u> | <u>952</u> |
| Depreciation and impairment losses on 31 January 2023 | <u>445</u> | <u>4.028</u> |
| Carrying amount on 31 December 2023 | <u>1.064</u> | <u>1.936</u> |
| Depreciated over | <u>5-6 years</u> | <u>5-6 years</u> |

The R&D costs amounted to DKK 552K 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 |
| 9 Property, plant, and equipment | | | | |
| Cost on 1 January 2023 | 381.330 | 925.816 | 19.228 | 36.845 |
| Reclassification | -30.371 | -157.687 | -927 | 666 |
| Additions for the year | 0 | 100 | 309 | 41.654 |
| Decreases for the year | 0 | 0 | -12 | 0 |
| Transfers for the year | 1.877 | 52.430 | 0 | -55.441 |
| Cost on 31 December 2023 | <u>352.836</u> | <u>820.659</u> | <u>18.598</u> | <u>23.724</u> |
| Depreciation and impairment losses on 1 January 2023 | 303.125 | 839.336 | 19.081 | 0 |
| Reclassification | -31.598 | -155.796 | -927 | 0 |
| Impairment losses for the year | 24.205 | 40.000 | 0 | 0 |
| Depreciation for the year | <u>7.315</u> | <u>12.746</u> | <u>104</u> | <u>0</u> |
| Depreciation and impairment losses on 31 December 2023 | <u>303.047</u> | <u>736.286</u> | <u>18.258</u> | <u>0</u> |
| Carrying amount on 31 December 2023 | <u>49.789</u> | <u>84.373</u> | <u>340</u> | <u>23.724</u> |
| Depreciated over | <u>20-30 years</u> | <u>3-18 years</u> | <u>3-10 years</u> | |

Notes to the Annual Report

9 Property, plant, and equipment (continued)

| | Land and buildings | Plant and machin- ery | Total |
|--|-----------------------|-----------------------------|---------------|
| Finance leases | | | |
| Cost on 1 January 2023 | 320 | 36.551 | 36.871 |
| Additions for the year | 5.213 | 13.303 | 18.516 |
| Disposals for the year | -254 | -9.063 | -9.317 |
| Cost on 31 December 2023 | 5.279 | 40.791 | 46.070 |
| | | | |
| Depreciation on 1 January 2023 | 149 | 18.968 | 19.117 |
| Depreciation for the year | 1.751 | 9.805 | 11.556 |
| Depreciation on disposal | -254 | -9.063 | -9.317 |
| Depreciation on 31 December 2023 | 1.646 | 19.710 | 21.356 |
| | | | |
| Carrying amount on 31 December 2023 | 3.633 | 21.081 | 24.714 |
| | <u>1-2 years</u> | <u>3-8 years</u> | |

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.

Fixed assets are measured at acquisition cost deducted with depreciations and additional impairment to fair value has been made based on a quote from external party.

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 2023 an impairment test has been carried out on fixed assets to assess possible reversal of previous write-downs.

Fixed assets are measured at acquisition cost deducted with depreciations and additional impairment to fair value has been made based on a quote from external party.

Notes to the Annual Report

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 further write-down of fixed assets.

10 Fixed asset investments

| | 2023 | 2022 |
|--|----------------------|----------------------|
| | DKK '000 | DKK '000 |
| Investments in equity interest (associates) | | |
| Cost on 1 January | 19.540 | 19.540 |
| Disposals for the year | -2.735 | 0 |
| Cost on 31 December | <u>16.805</u> | <u>19.540</u> |
| | | |
| Carrying amount on 31 December 2023 | <u>16.805</u> | <u>19.540</u> |

Investments in associates are specified as follows:

| Name | Place of registered office | Share Capital | Votes and ownership | Equity | Result of 2023 |
|--------------|----------------------------|----------------|---------------------|----------------|----------------|
| Farmfood A/S | Løgstør, Denmark | DKK 30.000k | 33% | DKK 79.370k | DKK 0k |

| | 2023 | 2022 |
|--|-------------------|-------------------|
| | DKK '000 | DKK '000 |
| 10 Other securities and investments | | |
| Cost on 1 January | <u>769</u> | <u>769</u> |
| Cost on 31 December | <u>769</u> | <u>769</u> |
| | | |
| Carrying amount on 31 December | <u>769</u> | <u>769</u> |

Notes to the Annual Report

11 Inventories

| | | |
|-------------------------------------|----------------|----------------|
| Raw materials and consumables | 22.729 | 19.126 |
| Work in progress | 12.504 | 8.773 |
| Finished goods and goods for resale | 73.350 | 87.961 |
| | <u>108.583</u> | <u>115.860</u> |

12 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

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|-------------|-------------|
| | DKK '000 | DKK '000 |
| 13 Provision for deferred tax | | |
| Property, plant, and equipment | -102.545 | -83.052 |
| Other | -10.597 | -5.650 |
| Tax loss | -27.209 | -18.672 |
| Write-down | 140.351 | 107.374 |
| | <u>0</u> | <u>0</u> |
| Tax asset | <u>0</u> | <u>0</u> |

Notes to the Annual Report

14 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:

| | <u>2023</u> | <u>2022</u> |
|--------------------------------------|-----------------------|-----------------------|
| | DKK '000 | DKK '000 |
| Payables to group enterprises | | |
| Total 1 and 5 years | <u>313.086</u> | <u>313.086</u> |
| Long-term part | 313.086 | 313.086 |
| Within 1 year | <u>0</u> | <u>0</u> |
| | <u>313.086</u> | <u>313.086</u> |
| Other payables | | |
| Total 1 and 5 years | <u>26.579</u> | <u>25.791</u> |
| Long-term part | 26.579 | 25.791 |
| Within 1 year | <u>0</u> | <u>0</u> |
| | <u>26.579</u> | <u>25.791</u> |
| Lease obligations | | |
| Total 1 and 5 years | <u>16.886</u> | <u>11.005</u> |
| Long-term part | 16.886 | 11.005 |
| Within 1 year | <u>8.585</u> | <u>7.154</u> |
| | <u>25.471</u> | <u>18.159</u> |

Notes to the Annual Report

15 Contingent assets, liabilities, and other financial obligations

Rental agreements and leases

Lease commitments under operating leases. Total future lease payments:

| | | |
|-----------------------|--------------|--------------|
| Within 1 year | 530 | 335 |
| Between 1 and 5 years | 1.659 | 670 |
| After 5 years | 1.305 | 0 |
| | <u>3.494</u> | <u>1.005</u> |

The total cash outflow for leases in 2023 was DKK 426k, which includes redemption of principal and interest payments.

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 30.06.2024.

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 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 in March 2021 and paid the amount in question to the Danish tax authorities. The case is still pending. HKScan Denmark A/S are not expecting penal sanctions.

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.

16 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.

Notes to the Annual Report

17 Derivative instruments

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

2023

As of 31 December 2023, the Company entered the following forward contracts to hedge sales invoiced in SEK and electricity:

| Currency | Contract Value (DKK 1.000) | Market Value (DKK 1.000) |
|-------------|----------------------------|--------------------------|
| USD/DKK | 0 | 0 |
| SEK/DKK | 44.000 | 797 |
| Electricity | 4.391 | 4.260 |
| | 48.391 | 5.057 |

2022

As of 31 December 2022, the Company entered the following forward contracts to hedge sales invoiced in USD 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 |

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

Notes to the Annual Report

18 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 | 2.451 |
| Sales to associates | 28.044 |
| Purchase from Group Company | 62.369 |
| Management fee to Parent Company | 19.237 |
| Interest to Parent Company | 33.776 |
| Purchase of immaterial assets (software) | 552 |
| Purchase of machinery from Parent Company | 0 |
| Loans from Parent Company | 313.086 |
| Payables to Group companies | 11.694 |
| Receivables from associates | 8.624 |
| Receivables from affiliates | 13 |
| Payables to Parent company | 4.009 |
| Parent Company – merger with Kreatina A/S | -47.293 |

| <u>2023</u> | <u>2022</u> |
|-------------|-------------|
| DKK | DKK |
| '000 | '000 |

19 Distribution of Profit/loss

| | | |
|------------------------------|----------------|----------------|
| Reserve for development cost | -422 | -3 |
| Retained earnings | -83.409 | -19.293 |
| | <u>-83.831</u> | <u>-19.296</u> |

20 Subsequent events

Following the merger of Kreatina into HKScan Denmark A/S the parent company HKScan Oyj has provided an equity injection of DKK 37,3 million (EUR 5 million) on March 20th, 2024, and additionally 7m€ will be added end of April 2024 to secure the company with a positive equity.

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

Notes to the Annual Report

21 Accounting Policies

Basis of Preparation

The Annual Report of HKScan Denmark A/S ("Company") for 2023 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

Kreatina A/S has been merged into HKScan Denmark A/S in 2023. The figures in this report have been adjusted so they include Kreatina A/S. The equity effect January 1st 2023 was DKK -47,3 million and the Profit and Loss effect for 2023 has been DKK -2,9 million.

The financial statements have been prepared under the same accounting policies as last year.

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 Consolidated Financial Statements may be obtained at the Parent Company.

https://www.hkscan.com/globalassets/hkscan.com/3-investors---sijoittajat/vuosi--ja-vastuul-lisuuskertomus/01_hkscan-annual-and-responsibility-report-2023.pdf

The Annual Report for 2023 is presented in DKK thousands.

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.

Notes to the Annual Report

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.

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.

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.

Notes to the Annual Report

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.

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.

Balance Sheet

Intangible assets

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

Notes to the Annual Report

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

The cost of 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

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.

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.

Notes to the Annual Report

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.

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 | = | $\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$ |