Urtekram International A/S (Midsona Danmark A/S)

Klostermarken 20
9550 Mariager
Central Business Registration No 31493994

Annual report 2016

The Annual General Meeting adopted the annual report on 28.03.2017

Chairman of the General Meeting

Name: Peter Sven-Eric Åsberg

Entity details

Entity

Urtekram International A/S (Midsona Danmark A/S)
Klostermarken 20
9550 Mariager

Central Business Registration No: 31493994
Registered in: Mariager
Financial year: 01.01.2016 - 31.12.2016

Phone: 98542288
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E-mail: info@urtekram.dk
Website: www.urtekram.com

Board of Directors

Peter Sven-Eric Åsberg, formand
Ove Trygg
Per Olov Lennart Svensson
Susanna Romanini
Rikke Maagaard Esbjerg

Executive Board

Lars Børresen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

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Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Urtekram International A/S (Midsona Danmark A/S) for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Mariager, den 28.03.2017

Executive Board

Lars Børresen

Board of Directors

Peter Sven-Eric Åsberg chairman	Ove Trygg	Per Olov Lennart Svensson
Susanna Romanini	Rikke Maagaard Esbjerg	

Independent auditor's report

To the shareholders of Urtekram International A/S (Midsona Danmark A/S)

Opinion

We have audited the financial statements of Urtekram International A/S (Midsona Danmark A/S) for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report

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

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

Statement on the management commentary
Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial statements Act.

Independent auditor's report

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

Aarhus, den. 28.03.2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Henrik Vedel
State Authorised Public Accountant

Management commentary

	2016 DKK'000	2015 DKK'000	2014 DKK'000	2013 DKK'000	2012 DKK'000
Financial highlights					
Key figures					
Revenue	434.442	437.426	368.469	353.762	347.481
Gross profit/loss	84.827	100.735	80.270	73.970	65.548
EBITDA	26.793	29.103	14.024	18.560	16.629
Operating profit/loss	20.388	21.473	7.533	13.400	10.731
Net financials	(2.345)	(2.435)	(1.559)	(1.835)	(2.882)
Profit/loss for the year	13.999	18.013	4.652	8.745	5.841
Total assets	157.220	156.211	132.528	127.512	142.978
Investments in property, plant and equipment	7.896	4.593	6.789	3.321	1.758
Equity	81.151	67.152	51.715	48.735	43.443
Ratios					
Return on equity (%)	18,9	30,3	9,3	19,0	14,3
Equity ratio (%)	51,6	43,0	39,0	38,2	30,4
Profit ratio (%)	5,0	5,0	2,0	4,0	2,0
Return on investment (%)	13,0	15,0	6,0	11,0	8,0

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios

Return on equity (%)	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Revenue x 100}}{\text{Total assets}}$	The financial strength of the entity.
Profit ratio (%)	$\frac{\text{Operating profit/loss x 100}}{\text{Revenue}}$	The share of revenue turning into profit.
Return on investment (%)	$\frac{\text{Operating profit/loss x 100}}{\text{Average fixed assets}}$	The return generated by the Entity on the investors' funds.

Management commentary

Primary activities

The primary activities of the Company are development, production and sale of organic and vegetable foods as well as environmentally sound body care products with Ecocert certification.

Development in activities and finances

The Company's revenue for the financial year amounts to DKK 434.4m. As most of the sales for 2016 in Scandinavia has been sold by our sister companies, as opposed to 2015 where sales were done directly to customers, only the internal sales value is included in Urtekram International A/S. Revenue comparison to 2015 is therefore not relevant.

Profit for the year amounted to DKK 13,999k. Profit for the year is considered acceptable.

On average, the Company had 119 full-time employees.

Outlook

The Company's expectation for 2017 is growth, primarily on the basis of increasing activities in Scandinavia and other international markets.

Particular risks

Business risks

The Company's most significant operating risk is related to the ability to continue being strongly positioned towards key customers in the food market in Scandinavia as well as in the most important export markets for body care products.

Moreover, the Company is dependent on delivery reliability on certified organic raw materials, which is sought hedged through long-term agreements with selected suppliers.

Financial risks

The Company imports a considerable part of its goods and is therefore exposed to exchange rate fluctuations of a number of currencies. Most of the import purchases are settled in euro, which the Company regards as a stable currency relative to Danish kroner, and there is therefore no risk hedging relating to euro. Other more volatile currencies are subjected to risk hedging based on an individual assessment.

Environmental performance

Environmental considerations and environmentally sound products as well as the aim of sustainability are important driving forces for Urtekram.

Urtekram's buildings are heated by straw-burning from a combined heating and power plant (biofuel), and the power supply comes partly from wind turbines and partly from environmentally sustainable electricity.

Urtekram is environmentally certified according to the ISO 14001 standard and has been so since 2000.

Management commentary

Urtekram gives high priority to the environment, and we continuously work on reducing our impact on the surrounding environment by reducing our consumption of electricity, water, and waste.

Research and development activities

As a natural part of its business activities, the Company has focus on continuous product development and has spent resources thereon in cooperation with national and international cooperative partners over the year.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2016

	Notes	2016 DKK	2015 DKK
Revenue		434.441.571	437.425.837
Other operating income	1	0	16.475.745
Cost of sales		(291.133.129)	(275.873.842)
Other external expenses		(58.481.862)	(77.292.407)
Gross profit/loss		**84.826.580**	**100.735.333**
Staff costs	2	(58.033.140)	(71.632.604)
Depreciation, amortisation and impairment losses		(6.405.068)	(7.629.671)
Operating profit/loss		**20.388.372**	**21.473.058**
Other financial income		319.552	592.019
Impairment of financial assets		0	(674.723)
Other financial expenses		(2.664.607)	(2.351.895)
Profit/loss before tax		**18.043.317**	**19.038.459**
Tax on profit/loss for the year	3	(4.044.337)	(1.025.934)
Profit/loss for the year	4	**13.998.980**	**18.012.525**

Balance sheet at 31.12.2016

	Notes	2016 DKK	2015 DKK
Completed development projects		532.906	1.546.162
Acquired intangible assets		0	41.667
Goodwill		503.143	670.858
Intangible assets	5	**1.036.049**	**2.258.687**
Land and buildings		20.967.315	21.218.510
Plant and machinery		14.671.106	12.118.599
Leasehold improvements		248.841	0
Property, plant and equipment in progress		0	186.649
Property, plant and equipment	6	**35.887.262**	**33.523.758**
Other receivables		1.199.100	1.253.810
Fixed asset investments	7	**1.199.100**	**1.253.810**
Fixed assets		**38.122.411**	**37.036.255**
Manufactured goods and goods for resale		61.812.808	52.496.935
Prepayments for goods		689.340	97.939
Inventories		**62.502.148**	**52.594.874**
Trade receivables		23.961.398	36.921.496
Receivables from group enterprises		7.097.286	18.178.106
Other receivables		582.951	796.143
Income tax receivable		0	572.340
Prepayments	8	2.220.861	1.576.720
Receivables		**33.862.496**	**58.044.805**
Cash		**22.733.357**	**8.535.024**
Current assets		**119.098.001**	**119.174.703**
Assets		**157.220.412**	**156.210.958**

Balance sheet at 31.12.2016

	Notes	2016 DKK	2015 DKK
Contributed capital	9	5.881.225	6.000.000
Retained earnings		35.269.828	61.152.074
Proposed Dividends		40.000.000	0
Equity		**81.151.053**	**67.152.074**
Deferred tax		2.971.105	2.923.392
Provisions		**2.971.105**	**2.923.392**
Mortgage debts		0	8.868.826
Finance lease liabilities		1.328.368	1.193.568
Non-current liabilities other than provisions		**1.328.368**	**10.062.394**
Current portion of long-term liabilities other than provisions		0	1.636.976
Trade payables		48.428.884	44.519.613
Payables to group enterprises		507.433	3.785.249
Income tax payable		3.770.539	176.397
Other payables		19.063.030	25.954.863
Current liabilities other than provisions		**71.769.886**	**76.073.098**
Liabilities other than provisions		**73.098.254**	**86.135.492**
Equity and liabilities		**157.220.412**	**156.210.958**
Contingent liabilities	11		
Group relations	12		

Statement of changes in equity

	Contributed capital DKK	Retained earnings DKK	Proposed dividend DKK	Total DKK
Equity beginning of year	6.000.000	61.152.073	0	67.152.073
Decrease of capital	(118.775)	118.775	0	0
Profit/loss for the year	0	(26.001.020)	40.000.000	13.998.980
Equity end of year	**5.881.225**	**35.269.828**	**40.000.000**	**81.151.053**

Cash flow statement 2016

	Notes	2016 DKK	2015 DKK
Operating profit/loss		20.388.372	21.473.058
Amortisation, depreciation and impairment losses		6.405.068	7.629.671
Working capital changes	10	7.442.317	(8.923.551)
Cash flow from ordinary operating activities		**34.235.757**	**20.179.178**
Financial income received		319.552	592.019
Financial income paid		(2.664.607)	(3.026.618)
Income taxes refunded/(paid)		169.862	(1.183.753)
Cash flows from operating activities		**32.060.564**	**16.560.826**
Acquisition etc of intangible assets		0	(294.743)
Acquisition etc of property, plant and equipment		(7.895.939)	(4.592.580)
Sale of property, plant and equipment		350.000	500.000
Sale of fixed asset investments		54.710	775.533
Cash flows from investing activities		**(7.491.229)**	**(3.611.790)**
Loans raised		134.800	869.070
Instalments on loans etc		(10.505.802)	(2.385.444)
Dividend paid		0	(2.920.612)
Sale of treasury shares		0	344.766
Cash flows from financing activities		**(10.371.002)**	**(4.092.220)**
Increase/decrease in cash and cash equivalents		**14.198.333**	**8.856.816**
Cash and cash equivalents beginning of year		8.535.024	(321.792)
Cash and cash equivalents end of year		**22.733.357**	**8.535.024**

Notes

1. Other operating income

Other operating income for 2015 relates to the sale of branches in Sweden, Finland and Norway to Midsona AB's subsidiaries in the respective countries. The sale affected the financial statements for 2015 with a non-recurring income of DKK 16m.

	2016 DKK	2015 DKK
2. Staff costs		
Wages and salaries	53.100.392	63.353.582
Pension costs	3.750.088	4.107.937
Other social security costs	1.182.660	4.171.085
	58.033.140	**71.632.604**
Average number of employees	119	138

	Remune-ration of manage-ment 2016 DKK	Remune-ration of manage-ment 2015 DKK
Total amount for management categories	2.610.421	1.974.990
	2.610.421	**1.974.990**

	2016 DKK	2015 DKK
3. Tax on profit/loss for the year		
Tax on current year taxable income	3.896.880	1.128.635
Change in deferred tax for the year	47.713	(222.608)
Adjustment concerning previous years	99.744	119.907
	4.044.337	**1.025.934**

	2016 DKK	2015 DKK
4. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	40.000.000	0
Retained earnings	(26.001.020)	18.012.525
	13.998.980	**18.012.525**

Notes

	Completed development projects DKK	Acquired intangible assets DKK	Goodwill DKK
5. Intangible assets			
Cost beginning of year	3.313.574	500.000	1.777.144
Additions	0	0	0
Disposals	0	0	0
Cost end of year	**3.313.574**	**500.000**	**1.777.144**
Amortisation and impairment losses beginning of year	(1.767.411)	(458.333)	(1.106.286)
Amortisation for the year	(1.013.257)	(41.667)	(167.714)
Reversal regarding disposals	0	0	0
Amortisation and impairment losses end of year	**(2.780.668)**	**(500.000)**	**(1.274.001)**
Carrying amount end of year 2016	**532.906**	**0**	**503.143**

Notes

	Land and buildings DKK	Plant and machinery DKK	Leasehold improvements DKK	Property, plant and equipment in progress DKK
6. Property, plant and equipment				
Cost beginning of year	32.241.467	53.610.082	458.334	186.649
Transfer to and from other items	0	186.649	0	-186.649
Additions	801.717	6.830.339	263.882	0
Disposals	0	(1.865.973)	0	0
Cost end of year	**33.043.184**	**58.761.097**	**722.216**	**0**
Depreciation and impairment losses beginning of the year	(11.022.957)	(41.491.483)	(458.334)	0
Depreciation for the year	(1.052.912)	(3.974.286)	(15.041)	0
Reversal regarding disposals	0	1.350.778	0	0
Depreciation and impairment losses end of the year	**(12.075.869)**	**(44.114.991)**	**(473.375)**	**0**
Carrying amount end of year 2016	**20.967.315**	**14.671.106**	**248.841**	**0**
Recognised assets not owned by entity		**859.726**		

	Other receivables DKK
7. Fixed asset investments	
Cost beginning of year	1.253.810
Disposals	(54.710)
Cost end of year	**1.199.100**
Carrying amount end of year 2016	**1.199.100**

8. Prepayments
Prepayments comprise insurance, subscriptions, licences, leasing and rent.

Notes

	Number	Par value DKK	Nominal value DKK
9. Contributed capital			
A-shares	5.881.225	1,00	5.881.225
B-shares	0	0	0
	5.881.225		**5.881.225**

	2016 DKK	2015 DKK
10. Change in working capital		
Increase/decrease in inventories	(9.907.274)	(5.832.407)
Increase/decrease in receivables	23.609.969	(16.292.309)
Increase/decrease in trade payables etc	(6.260.378)	13.201.165
	7.442.317	**(8.923.551)**

	2016 DKK	2015 DKK
11. Unrecognised rental and lease commitments		
Commitments under rental agreements or leases until expiry	**39.851.616**	**10.895.488**

12. Assets charged and collateral

Mortgage debt is secured on properties. The carrying amount of the mortgaged properties amounts to DKK 20,967k.

Payables to credit institutions are secured as follows:

- All monies mortgage of a nominal value of DKK 6,200k secured on properties. The carrying amount of the mortgaged asset amounts to DKK 20,967k.

- Two mortgages on movable property of a nominal value of DKK 5,525k secured on operating equipment and goodwill.

The carrying amount of the mortgaged assets amounts to DKK 15,707k.

Notes

Other payables to credit institutions are secured as follows:

- All monies mortgage of a nominal value of DKK 40,000k secured on inventories and trade receivables.

The carrying amount of the mortgaged assets amounts to DKK 86,493k.

13. Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the voting rights or minimum 5% of the share capital:

Midsona AB, Reg-no. 556241-5322, Dockplatsen 16, Malmø, Sweden

14. Consolidation

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

Midsona AB, Reg-no. 556241-5322, Dockplatsen 16, Malmø, Sweden

Accounting policies

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

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

Income statement
Revenue
Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Accounting policies

Other operating income
Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Cost of sales
Cost of sales comprises costs of sales for the financial year measured at cost, adjusted for ordinary inventory write-downs.

Staff costs
Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses
Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income
Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Impairment of financial assets
Impairment of financial assets comprises impairment of financial assets which are not measured at fair value on a current basis.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax.

Tax on profit/loss for the year
Goodwill
Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. If it is not possible to estimate the

Accounting policies

useful life reliably, it is set at 10 years. Useful lives are reassessed on an annual basis. The amortisation period used is 10 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc
Intellectual property rights etc comprise development projects completed and acquired intellectual property rights.

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 development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation 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. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects, protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation period used is 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, but over no more than 20 years.

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

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-manufactured assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour costs. For assets

Accounting policies

held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	10-40 years
Plant and machinery	2-8 years
Leasehold improvements	3 years

Estimated useful lives and residual values are reassessed annually.

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

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

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on and impairment losses relating to machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

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

Cash
Cash comprises cash in hand and bank deposits.

Accounting policies

Dividend
Dividend is recognised as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

Treasury shares
Acquisition and selling prices and dividends for treasury shares are classified directly as equity under retained earnings. Gains and losses on sale are not recognised in the income statement. Capital reduction by cancellation of treasury shares reduces the contributed capital by an amount corresponding to the nominal value.

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

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

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

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

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

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Accounting policies

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank debt.