



Advanced Industries Packaging A/S

Stigsborgvej 36
9400 Nørresundby
CVR No. 31536715

Annual report 2023

The Annual General Meeting adopted the annual report on 20.06.2024

Jan Degn

Chairman of the General Meeting

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Entity details

Entity

Advanced Industries Packaging A/S
Stigsborgvej 36
9400 Nørresundby

Business Registration No.: 31536715
Registered office: Aalborg
Financial year: 01.01.2023 - 31.12.2023

Board of Directors

Rinat Stark
Andrey Volokhov
Dmitry Vardashkin
Annette Vecht

Executive Board

Jan Degn

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Østre Havnepromenade 26, 4th floor
9000 Aalborg

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Advanced Industries Packaging A/S for the financial year 01.01.2023 - 31.12.2023.

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 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023.

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.

Nørresundby, 20.06.2024

Executive Board

Jan Degn

Board of Directors

Rinat Stark

Andrey Volokhov

Dmitry Vardashkin

Annette Vecht

Independent auditor's report

To the shareholders of Advanced Industries Packaging A/S

Opinion

We have audited the financial statements of Advanced Industries Packaging A/S for the financial year 01.01.2023 - 31.12.2023, 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 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Statement on the management commentary

Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required by relevant law and regulations.

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 in the relevant law and regulations. We did not identify any material misstatement of the management commentary.

Aalborg, 20.06.2024

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR No. 33963556

Jakob Olesen

State Authorised Public Accountant

Identification No (MNE) mne34492

Kamilla Bang Penderup Kristensen

State Authorised Public Accountant

Identification No (MNE) mne50599

Management commentary

Financial highlights

	2023	2022	2021	2020	2019
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Revenue	255,431	292,792	250,733	224,448	231,530
Gross profit/loss	13,588	20,984	21,465	18,847	21,565
Operating profit/loss	3,570	3,893	3,262	2,928	4,111
Net financials	(1,124)	(1,306)	(506)	(627)	(425)
Profit/loss for the year	1,926	2,022	2,159	1,810	2,862
Total assets	174,407	192,336	177,385	158,278	166,278
Investments in property, plant and equipment	619	9,159	5,736	566	604
Equity	116,469	114,542	112,521	110,362	108,551
Cash flows from (used in) operating activities	(19,237)	16,581	(2,552)	13,509	3,011
Cash flows from (used in) investing activities	(729)	(13,108)	(6,622)	(2,644)	(529)
Cash flows from (used in) financing activities	19,676	(3,659)	8,291	(9,923)	(2,522)
Average number of employees	102	111	113	114	122
Ratios					
Gross margin (%)	5.32	7.17	8.56	8.40	9.31
EBIT margin (%)	1.40	1.33	1.30	1.30	1.78
Net margin (%)	0.75	0.69	0.86	0.81	1.24
Return on equity (%)	1.67	1.78	1.94	1.65	2.67
Equity ratio (%)	66.78	59.55	63.43	69.73	65.28

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

Gross margin (%):

Gross profit/loss * 100

Revenue

EBIT margin (%):

Operating profit/loss * 100

Revenue

Net margin (%):

Profit/loss for the year * 100

Revenue

Return on equity (%):

Profit/loss for the year * 100

Average equity

Equity ratio (%):

Equity * 100

Total assets

Primary activities

The company's principal activities are production, marketing, and sale of:

Paper sacks for packaging of consumer products, industrial products and for collection and sorting of waste and for packaging of consumer.

The activities also include sale and servicing of filling equipment for filling and handling of sacks for packaging of consumer and industrial products.

Development in activities and finances

The company's income statement for 2023 shows a profit of DKK 1,926,403 against a profit in 2022 of DKK 2,021,698.

The company's balance sheet on 31 December 2023 shows equity of DKK 116,468,897

The activity level in 2023 was lower than the level of 2022 measured in volume and revenue. The number of employees decreased from 111 persons in 2022 to 102 in 2023.

The Management of the company characterizes the results for the year as being satisfactory in view of the market and competitive conditions.

The staff have been very stable throughout the year and have shown a high degree of flexibility in relation to the variations in the order volume during the year.

The main segment (food) did not continue its positive development in 2023, where a decline has been the case in this sector. It is expected that the positive development will return in 2024 in this sector. The company therefore continue its focus in this sector in relation to products and equipment, to meet the requirements of the food sector in relation to packing of food. The company intends to pursue this strategy in 2024 and 2025.

The sale of sacks for industrial purposes decreased from 2022 to 2023. This decrease is also seen in many European industrial activity statistics.

The sale of paper sacks for collection of waste continues to drop. The use of sacks in the Nordic countries in this segment is generally declining because of changes in the way of handling of household waste.

Generally, the beginning of 2024 was in terms of orders lower than 2023 level but there are signs of market improvements.

The competition in the company's primary markets continues to be high and the sales prices in the market are constantly under pressure.

Higher customer demands for quality, reliability of delivery, service in general and sustainability questions, became more pronounced during 2023. This is not expected to change in the coming years. The company sees most of all the higher customer demands as an advantage because it will attach the customers even closer to the company. Activities are started currently to ensure this development.

The prices of the main raw material, paper, has increased during the year of 2023, but has started to drop by end of the year. Prices on paper, foil and other secondary materials are expected to fluctuate, but with a tendency to decrease.

The company's total investments in 2023 amount to DKK 728,607 which have been used mainly for improvements in production equipment and IT equipment.

Profit/loss for the year in relation to expected developments

The development in the results for the year does not meet the expectations at beginning of the year. Refer to the section on development in activities and financial position.

Unusual circumstances affecting recognition and measurement

The company's financial reporting for 2022 was affected by data loss in the ERP system caused by the company's software supplier in the autumn of 2022. As a basis for the financial reporting in the comparative figures(2022), management has therefore had to use the company's monthly reports up to the time of data loss, supplemented by manual registrations outside the ERP system for the remaining of the year 2022.

Management has established a new ERP solution, which has been put into operation at the beginning of 2023.

The ERP system has been effective all of 2023.

The data loss related to the company's ERP system did naturally have some affected on the year-end process in 2022 and despite management's effort in relation to the year-end in 2022, there was some uncertainty related to recognition and measurement in the financial statements primarily related to valuation of inventory. Nothing has come to our attention that causes us to believe that the ERP system challenges in 2022 has had significant impact on the 2023 figures.

Outlook

The European market for paper sacks showed a decrease from 2022 to 2023. The market is still affected by the very different economic conditions existing in the different European countries, and relatively huge variations are seen from month to month.

The company expects a positive development in 2024 within the sale of paper sacks for industrial purposes and High care sacks, through both additional sales to existing customers and new customers.

The company's Management takes a positive line on 2024 and the company's results. The result will reflect higher activity and result are expected to increase compared to 2023. An expected increase in revenue and an expected change of the product mix, combined with a continued tight cost management in relation to fluctuations in the demand, contribute to the expectations. The gross profit are expected to be DKK 14 - 16 mio. in 2024.

Environmental performance

The company does not have any particular environmental impacts, except for those common to the industry. Management is aware of its responsibility in relation to the company's environmental impact and takes this into account when making decisions.

Research and development activities

The company's development activities have mainly been aimed at a continuous adjustment and enhancement of the company's products and machines. Development costs in 2023 are recognized as expenses as they do not meet the requirements for capitalization.

Education

The company continuously works with the development of employees and processes with efficiency and quality improvement as the focus.

Management system

The company's integrated management system is updated regularly to match the development of the company. The company is certified according to the international ISO standard ISO 9001: 2015 and for food safety ISO22000: 2018, FSSC 22000 Version 3.1-ISO TS 22002-4:2013 and has a FSC Certificate.

Events after the balance sheet date

No events have occurred after the balance sheet date that change our assessment of the annual report other than those mentioned above.

The company's current bank agreement expires in December 2024 and it is management's expectation that the negotiations will end in a positive outcome.

On 22 April 2024 100% share in Arka Merchants Limited (Ireland), an indirect shareholder of the company, was sold by ADVANCED INDUSTRIES GROUP S.à r.l. (Luxembourg) to ADVANCED PACKAGING GROUP GmbH (Austria). This was done as part of the internal group restructuring with no effect on the ultimate control over the company.

Income statement for 2023

	Notes	2023 DKK	2022 DKK
Revenue		255,431,454	292,792,216
Production costs		(241,843,148)	(271,807,722)
Gross profit/loss		13,588,306	20,984,494
Distribution costs		(6,765,404)	(6,635,468)
Administrative expenses		(5,780,917)	(13,205,585)
Other operating income	4	2,527,642	2,749,610
Operating profit/loss		3,569,627	3,893,051
Other financial income		525,414	476,896
Other financial expenses		(1,649,505)	(1,783,167)
Profit/loss before tax		2,445,536	2,586,780
Tax on profit/loss for the year	5	(519,133)	(565,082)
Profit/loss for the year	6	1,926,403	2,021,698

Balance sheet at 31.12.2023

Assets

	Notes	2023 DKK	2022 DKK
Acquired intangible assets		2,903,420	5,343,286
Intangible assets	7	2,903,420	5,343,286
Land and buildings		32,129,885	32,129,885
Plant and machinery		46,807,252	52,553,136
Other fixtures and fittings, tools and equipment		313,917	802,059
Property, plant and equipment	8	79,251,054	85,485,080
Fixed assets		82,154,474	90,828,366
Raw materials and consumables		22,972,903	30,936,619
Work in progress		864,697	1,129,013
Manufactured goods and goods for resale		20,643,674	23,709,110
Prepayments for goods		0	2,174,374
Inventories		44,481,274	57,949,116
Trade receivables		45,752,521	41,700,686
Receivables from group enterprises		1,698,681	245,110
Deferred tax	9	0	74,386
Other receivables		0	59,490
Prepayments	10	320,298	1,188,975
Receivables		47,771,500	43,268,647
Cash		160	290,366
Current assets		92,252,934	101,508,129
Assets		174,407,408	192,336,495

Equity and liabilities

	Notes	2023 DKK	2022 DKK
Contributed capital	11	50,000,000	50,000,000
Retained earnings		66,468,897	64,542,494
Equity		116,468,897	114,542,494
Deferred tax	9	444,747	0
Provisions		444,747	0
Lease liabilities		23,560	69,032
Other payables		790,000	790,000
Non-current liabilities other than provisions	12	813,560	859,032
Current portion of non-current liabilities other than provisions	12	45,217	436,568
Bank loans		32,648,004	12,972,398
Trade payables		15,557,927	13,801,302
Payables to group enterprises		0	39,680,932
Other payables		8,429,056	10,043,769
Current liabilities other than provisions		56,680,204	76,934,969
Liabilities other than provisions		57,493,764	77,794,001
Equity and liabilities		174,407,408	192,336,495
Unusual circumstances	1		
Staff costs	2		
Amortisation, depreciation and impairment losses	3		
Contingent liabilities	15		
Assets charged and collateral	16		
Related parties with controlling interest	17		
Transactions with related parties	18		
Group relations	19		

Statement of changes in equity for 2023

	Contributed capital DKK	Retained earnings DKK	Total DKK
Equity beginning of year	50,000,000	64,542,494	114,542,494
Profit/loss for the year	0	1,926,403	1,926,403
Equity end of year	50,000,000	66,468,897	116,468,897

Cash flow statement for 2023

	Notes	2023 DKK	2022 DKK
Operating profit/loss		3,569,627	3,893,051
Amortisation, depreciation and impairment losses		9,402,503	7,769,179
Working capital changes	13	(30,648,421)	6,225,301
Other adjustments		(436,823)	(2,749,610)
Cash flow from ordinary operating activities		(18,113,114)	15,137,921
Financial income received		525,414	476,896
Financial expenses paid		(1,649,505)	(1,783,167)
Other cash flows from operating activities		0	2,749,610
Cash flows from operating activities		(19,237,205)	16,581,260
Acquisition etc of intangible assets		(109,342)	(3,949,235)
Acquisition etc of property, plant and equipment		(619,264)	(9,158,805)
Cash flows from investing activities		(728,606)	(13,108,040)
Free cash flows generated from operations and investments before financing		(19,965,811)	3,473,220
Repayments of loans etc		0	(2,901,223)
Change in bank facility		19,675,605	(757,329)
Cash flows from financing activities		19,675,605	(3,658,552)
Increase/decrease in cash and cash equivalents		(290,206)	(185,332)
Cash and cash equivalents beginning of year		290,366	475,698
Cash and cash equivalents end of year		160	290,366
Cash and cash equivalents at year-end are composed of:			
Cash		160	290,366
Cash and cash equivalents end of year		160	290,366

Notes

1 Unusual circumstances

The company's financial reporting for 2022 was affected by data loss in the ERP system caused by the company's software supplier in the autumn of 2022. As a basis for the financial reporting in the comparative figures (2022), management has therefore had to use the company's monthly reports up to the time of the data loss, supplemented by manual registrations outside the ERP system for the remainder of the year for 2022.

Management has established a new ERP solution, which has been put into operation at the beginning of 2023.

The ERP system has been effective all of 2023.

The data loss related to the company's ERP system did naturally have some affected on the year-end process in 2022 and despite management's effort in relation to the year-end in 2022, there was some uncertainty related to recognition and measurement in the financial statements primarily related to valuation of inventory. Nothing has come to our attention that causes us to believe that the ERP system challenges in 2022 has had significant impact on the 2023 figures.

2 Staff costs

	2023	2022
	DKK	DKK
Wages and salaries	42,439,447	46,923,401
Pension costs	4,203,365	4,316,322
Other social security costs	1,031,699	1,289,407
	47,674,511	52,529,130
Number of employees at balance sheet date	102	111

Special incentive programmes

According to section 98b, subsection 3 of the Danish Financial Statements Act information on management's remuneration is not disclosed in the year figures.

3 Depreciation, amortisation and impairment losses

	2023	2022
	DKK	DKK
Amortisation of intangible assets	2,549,209	1,357,568
Depreciation of property, plant and equipment	6,853,290	6,411,611
	9,402,499	7,769,179

4 Other operating income

Other operating income contains income from rental of premises and sale of discontinued production equipment.

5 Tax on profit/loss for the year

	2023	2022
	DKK	DKK
Change in deferred tax	519,133	565,082
	519,133	565,082

6 Proposed distribution of profit and loss

	2023	2022
	DKK	DKK
Retained earnings	1,926,403	2,021,698
	1,926,403	2,021,698

7 Intangible assets

	Acquired intangible assets DKK
Cost beginning of year	7,793,930
Additions	109,343
Cost end of year	7,903,273
Amortisation and impairment losses beginning of year	(2,450,644)
Amortisation for the year	(2,549,209)
Amortisation and impairment losses end of year	(4,999,853)
Carrying amount end of year	2,903,420

8 Property, plant and equipment

	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK
Cost beginning of year	117,002,444	216,593,901	14,094,865
Additions	0	534,189	85,075
Disposals	0	(11,270,190)	(4,759,065)
Cost end of year	117,002,444	205,857,900	9,420,875
Depreciation and impairment losses beginning of year	(84,872,559)	(164,040,765)	(13,292,806)
Depreciation for the year	0	(6,280,073)	(573,217)
Reversal regarding disposals	0	11,270,190	4,759,065
Depreciation and impairment losses end of year	(84,872,559)	(159,050,648)	(9,106,958)
Carrying amount end of year	32,129,885	46,807,252	313,917
Recognised assets not owned by entity	0	0	150,799

9 Deferred tax

	2023	2022
	DKK	DKK
Changes during the year		
Beginning of year	74,386	639,468
Recognised in the income statement	(519,133)	(565,082)
End of year	(444,747)	74,386

10 Prepayments

Prepayments and accrued income comprise prepaid costs, primarily insurances and mebership fees, relating to the next financial year.

11 Share capital

	Nominal value DKK
A-shares, 50.000 unit in the denomination of 1.000 DKK	50,000,000
	50,000,000

12 Non-current liabilities other than provisions

	Due within 12 months	Due within 12 months	Due after more than 12 months
	2023	2022	2023
	DKK	DKK	DKK
Lease liabilities	45,217	436,568	23,560
Other payables	0	0	790,000
	45,217	436,568	813,560

Other payables relate to rent deposits for the tenancies, which have not been terminated by the tenant. There are no debt outstanding after 5 years.

13 Changes in working capital

	2023	2022
	DKK	DKK
Increase/decrease in inventories	13,467,842	(10,213,895)
Increase/decrease in receivables	(4,577,239)	(149,466)
Increase/decrease in trade payables etc	(39,539,024)	16,588,662
	(30,648,421)	6,225,301

14 Other cash flows from financing activities

Advanced Industries Packaging A/S has changed its bank connection during the financial year. The changed is included in "Change in bank facility".

15 Contingent liabilities

The company has entered into operating lease agreements for production machinery and operating equipment. The total residual lease liability amounts to DKK ('000) 2,756. The residual term of the lease contracts is 83 months at the most.

16 Assets charged and collateral

Of the company's assets at 31 December 2023, an amount of DKK ('000) 138.903 is assessed to be subject to a floating charge of a nominal amount of DKK ('000) 40.000.

The company has issued a mortgage deed to bank of a total amount of DKK ('000) 25,000, which provides security on land and buildings of a carrying amount of DKK ('000) 32,130 at 31 December 2023.

The company has bank debt of DKK ('000) 32.648 at 31 December 2023.

The carrying amount of charged assets has been disclosed only on the basis of the distribution used in the annual report. The carrying amount of any operating equipment, which will be subject to the charge according to section 37 of the Danish Land Registration Act, should be added to this amount.

17 Related parties with controlling interest

The company's related parties include:

Controlling interest

Advanced Industries Packaging Sweden AB (Sweden) is the sole shareholder of the company. Advanced Industries Packaging Sweden AB (Sweden) is 100% owned by Arka Merchants Limited (Ireland) which in its turn is 100% owned by ADVANCED INDUSTRIES GROUP S.à r.l. (Luxembourg)

On 22 April 2024 100% share in Arka Merchants Limited (Ireland), an indirect shareholder of the company, was sold by ADVANCED INDUSTRIES GROUP S.à r.l. (Luxembourg) to ADVANCED PACKAGING GROUP GmbH (Austria). This was done as part of the internal group restructuring with no effect on the ultimate control over the company.

18 Transactions with related parties

The company did not carry out any transactions with related parties that were not concluded on market conditions. According to section 98c, subsection 7 of the Danish Financial Statements Act information is given only on transactions that were not performed on common market conditions.

19 Group relations

The company's ultimate parent undertaking is Advanced Industries Group S.à.r.l., 15, Rue Bende rL - 1229 Luxembourg. The parent of the largest group in which the results are consolidated is ArKa Merchants Limited, Unit 1, Block 4, Ashbourne Business Park, Ashbourne, Co. Meath, Ireland. ArKa Merchants Limited is a company registered in the Republic of Ireland

Accounting policies

Reporting class

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

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

Recognition and measurement

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

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

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

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

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

Income statement

Revenue

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

Production costs

Production costs comprise costs, including wages and salaries and depreciation, incurred to achieve the net revenue for the year. Cost of sales include direct and indirect costs of raw materials and consumables, wages and salaries, rent and leasing and depreciation of production plant.

Research costs and the development costs that do not fulfil the criteria for capitalization are also recognized in production costs.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc, and amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment involved in the distribution process.

Administrative expenses

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

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities, including profit from the sale of intangible assets and 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 or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets, and tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

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

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet**Intellectual property rights etc**

Intellectual property rights etc comprise intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. The depreciation base is cost less estimated residual value after end of useful life. Software are depreciated over 3 years.

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

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For assets 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:

	Useful life	Residual value
Buildings	25 years	27-30 %
Plant and machinery	8-20 years	0 %
Other fixtures and fittings, tools and equipment	3-10 years	0 %

Estimated useful lives and residual values are reassessed annually.

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

Inventories

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

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

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of machinery, factory buildings and equipment used in the manufacturing process, and costs of factory administration and management. Finance costs are not included in cost.

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

Receivables

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

Deferred tax

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

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

Prepayments

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

Cash

Cash comprises bank deposits.

Lease liabilities

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

Operating leases

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

Other financial liabilities

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

Cash flow statement

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

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

Cash flows from investing activities comprise payments in connection with purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment.

Cash flows from financing activities include changes in the size or composition of share capital and related costs, and borrowings and repayment of interest-bearing debt, payment of dividend to shareholders and bank overdraft.