
Intel Mobile Communications Denmark ApS

Hørkær 12 A, DK-2730 Herlev

Annual Report for 1 January - 31 December 2019

CVR No 33 16 31 50

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/8 2020

Ole Nørgaard
Chairman of the General
Meeting



pwc

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Management's Statement

Today, the Executive Board has discussed and approved the annual report of Intel Mobile Communications Denmark ApS for the financial year 1 January - 31 December 2019.

The Annual Report is 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 2019 and of the results of the Company operations for the financial year 1 January - 31 December 2019.

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

We recommend that the Annual Report be adopted at the Annual General Meeting.

Herlev, 31 August 2020

Executive Board

Gary Kershaw

Sharon Lynn Heck

Tiffany Doon Silva

Independent Auditor's Report

To the Shareholder of Intel Mobile Communications Denmark ApS

Opinion

We have audited the Financial Statements of Intel Mobile Communications Denmark ApS for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity 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 financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for 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 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.

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 influ-

Independent Auditor's Report

ence 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 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 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 Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, 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 Management's

Independent Auditor's Report

Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review 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 in Management's Review.

Aarhus, 31 August 2020

Ernst & Young

Godkendt Revisionspartnerselskab

CVR No 30 70 02 28

Lone Nørgaard Eskildsen
State Authorised Public Accountant
mne32085

Jan Mortensen
State Authorised Public Accountant
mne40030

Company Information

The Company

Intel Mobile Communications Denmark ApS
Hørkær 12 A
DK-2730 Herlev

CVR No: 33 16 31 50

Financial period: 1 January - 31 December

Incorporated: 24 September 2010

Financial year: 9th financial year

Municipality of reg. office: Herlev

Executive Board

Gary Kershaw
Sharon Lynn Heck
Tiffany Doon Silva

Auditors

Ernst & Young
Godkendt Revisionspartnerselskab
Værkmestergade 25 P.O. Box 330
DK-8100 Aarhus C

Financial Highlights

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

	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK
Key figures					
Profit/loss					
Revenue	100,647	414,986	337,870	335,760	328,351
Operating profit/loss	20,067	38,679	34,879	37,790	39,471
Net financials	11,209	6,917	-10,563	7,261	6,267
Net profit/loss for the year	27,469	47,165	19,906	39,453	40,159
Balance sheet					
Balance sheet total	277,647	276,735	233,844	267,775	276,573
Equity	254,822	228,050	130,612	199,725	159,007
Investment in property, plant and equipment	1,984	57,295	23,641	35,678	51,739
Number of employees	31	168	216	229	224
Ratios					
Gross margin	81.5%	90.0%	79.8%	82.3%	82.0%
Profit margin	22.9%	12.7%	10.3%	11.3%	12.0%
Return on assets	8.3%	19.0%	14.9%	14.1%	14.3%
Solvency ratio	91.8%	82.4%	55.9%	74.6%	57.5%
Return on equity	11.4%	26.3%	12.1%	22.0%	29.0%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Business review

The object of the company is to perform research and development of electronic components, electronic systems and software.

Recognition and measurement uncertainties

Recognition and measurement in the annual report have not been subject to any material uncertainty.

Financial review

The income statement of the Company for 2019 shows a profit of TDKK 27,469, and at 31 December 2019 the balance sheet of the Company shows equity of TDKK 254,822.

Knowledge resources

Focusing on products and productivity Intel Mobile Communications Denmark ApS is a company employing numerous engineers and technicians.

Special risks

The company calculates transfer pricing in DKK and then converts to functional currency USD utilizing Intel month end rate on the quarter the revenue is booked.

Research and development activities

The company performs research and development of electronic components, electronic systems and software.

Statement of corporate social responsibility

The ultimate parent has prepared a CSR report for 2019 covering the entire group. The report can be found at following URL-address <http://csrreportbuilder.intel.com/pdfbuilder/pdfs/CSR-2019-20-Full-Report.pdf>

Statement on gender composition

The elected board of Intel Mobile Communications Denmark ApS has 3 members of which 2 are female and 1 male; the board therefore meets equitable gender distribution as defined by Danish legislation. Due to the nature of the company's management structure Intel Mobile Communications Denmark ApS has focused on equitable gender distribution of management of key business functions (site, operations, finance, HR) of which 1 is male and 2 are female. As such the company meets equal gender composition as defined by Danish legislation.

Management's Review

Outlook

For the 2020 outlook, the revenue is expected to be TDKK 60,000 - TDKK 100,000 and profit is expected to be TDKK 10,000 - TDKK 30,000.

Subsequent events

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The COVID-19 pandemic is considered a non-adjusting event that is indicative of conditions that arose after the reporting period.

The Company derives its revenue from research and development services rendered and billed to the ultimate holding company, Intel Corporation ("Intel"). Consequently, any adverse impact to Intel arising from the COVID-19 pandemic may also impact the operations, results and financial position of the Company subsequent to the end of the financial year. The extent of the impact of the COVID-19 pandemic will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, other actions taken by governments, businesses, and individuals in response to the virus and resulting economic disruption, and how quickly and to what extent normal economic and operating conditions can resume. The Company is similarly unable to predict the degree to which the pandemic impacts Intel's customers, suppliers, vendors, and other partners, and their financial conditions, but a material effect on these parties could also adversely affect the Company. The Company is continuously monitoring the developments related to COVID-19 in order to respond to risks which may arise.

Income Statement 1 January - 31 December

	Note	2019 TDKK	2018 TDKK
Revenue	2	100,647	414,986
Other operating income		2,947	14,039
Other external expenses		-21,607	-55,335
Gross profit/loss		81,987	373,690
Staff expenses	3	-53,796	-292,034
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-5,177	-28,938
Profit/loss before financial income and expenses		23,014	52,718
Financial income	4	11,296	10,597
Financial expenses	5	-87	-3,680
Profit/loss before tax		34,223	59,635
Tax on profit/loss for the year	6	-6,754	-12,470
Net profit/loss for the year		27,469	47,165

Balance Sheet 31 December

Assets

	Note	2019 TDKK	2018 TDKK
Plant and machinery		12,351	28,358
Property, plant and equipment	7	12,351	28,358
Deposits		707	3,260
Fixed asset investments	8	707	3,260
Fixed assets		13,058	31,618
Receivables from group enterprises		260,620	233,433
Other receivables		435	6,988
Deferred tax asset	9	3,534	4,696
Receivables		264,589	245,117
Currents assets		264,589	245,117
Assets		277,647	276,735

Balance Sheet 31 December

Liabilities and equity

	Note	2019 TDKK	2018 TDKK
Share capital		85	85
Share premium account		-44,308	-43,611
Retained earnings		299,045	271,576
Equity	10	254,822	228,050
Other payables		1,357	0
Long-term debt	11	1,357	0
Trade payables		876	10,075
Payables to group enterprises		280	2,357
Corporation tax		4,229	6,047
Other payables	11	16,083	30,206
Short-term debt		21,468	48,685
Debt		22,825	48,685
Liabilities and equity		277,647	276,735
Subsequent events	1		
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Distribution of profit	15		
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Statement of Changes in Equity

	Share capital TDKK	Share premium account TDKK	Retained earnings TDKK	Total TDKK
2019				
Equity at 1 January	85	-43,611	271,576	228,050
Cash capital increase	0	-697	0	-697
Net profit/loss for the year	0	0	27,469	27,469
Equity at 31 December	85	-44,308	299,045	254,822
2018				
Equity 1. januar	85	-43,884	174,411	130,612
Share issue	0	273	0	273
Contribution from group	0	0	50,000	50,000
Net profit/loss for the year	0	0	47,165	47,165
Equity at 31 December	85	-43,611	271,576	228,050

Notes to the Financial Statements

1 Subsequent events

Subsequent to end of the financial year, the COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The COVID-19 pandemic is considered a non-adjusting event that is indicative of conditions that arose after the reporting period.

The Company derives its revenue from research and development services rendered and billed to the ultimate holding company, Intel Corporation ("Intel"). Consequently, any adverse impact to Intel arising from the COVID-19 pandemic may also impact the operations, results and financial position of the Company subsequent to the end of the financial year. The extent of the impact of the COVID-19 pandemic will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, other actions taken by governments, businesses, and individuals in response to the virus and resulting economic disruption, and how quickly and to what extent normal economic and operating conditions can resume. The Company is similarly unable to predict the degree to which the pandemic impacts Intel's customers, suppliers, vendors, and other partners, and their financial conditions, but a material effect on these parties could also adversely affect the Company. The Company is continuously monitoring the developments related to COVID-19 in order to respond to risks which may arise.

	2019 TDKK	2018 TDKK
2 Revenue		
Geographical segments		
Intercompany Service and Royalty	100,647	414,986
	100,647	414,986
3 Staff expenses		
Wages and salaries	50,503	282,025
Other social security expenses	384	3,128
Other staff expenses	2,909	6,881
	53,796	292,034
Average number of employees	31	168

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

Notes to the Financial Statements

4 Financial income

Interest received from group enterprises	4,429	1,965
Other financial income	214	0
Exchange adjustments	51	0
Exchange gains	6,602	8,632
	11,296	10,597

5 Financial expenses

	2019	2018
	TDKK	TDKK
Exchange losses	87	3,639
Other interest expenses	0	32
Other financial expenses	0	9
	87	3,680

6 Tax on profit/loss for the year

Current tax for the year	5,591	12,927
Deferred tax for the year	1,522	0
Adjustment of tax concerning previous years	1	-464
Adjustment of deferred tax concerning previous years	-360	7
	6,754	12,470

7 Property, plant and equipment

	Plant and machinery
	TDKK
Cost at 1 January	100,471
Adjustment to cost at 1 January	-1,983
Additions for the year	5,082
Disposals for the year	-29,063
Transfers for the year	-39,894
Cost at 31 December	34,613

Notes to the Financial Statements

7 Property, plant and equipment (continued)

	Plant and machinery
	<u>TDKK</u>
Impairment losses and depreciation at 1 January	72,114
Adjustment to impairment losses and depreciation at 1 January	-1,701
Adjustment depreciation previous year	1,701
Depreciation for the year	5,177
Impairment and depreciation of sold assets for the year	-28,713
Transfers for the year	-26,316
	<u>22,262</u>
Carrying amount at 31 December	<u>12,351</u>

8 Fixed asset investments

	Deposits
	<u>TDKK</u>
Cost at 1 January	3,260
Additions for the year	0
Disposals for the year	-2,553
	<u>707</u>
Carrying amount at 31 December	<u>707</u>

9 Deferred tax asset

	<u>2019</u>	<u>2018</u>
	TDKK	TDKK
Deferred tax asset at 1 January	4,696	4,232
Amounts recognised in the income statement for the year	-1,522	0
Adjustment of deferred tax	360	464
	<u>3,534</u>	<u>4,696</u>
Deferred tax asset at 31 December	<u>3,534</u>	<u>4,696</u>

Deferred tax asset consist of significant time differences of intangible assets, property, plant and equipment and prepayment which are realisable within a foreseeable future.

Notes to the Financial Statements

10 Equity

The share capital consists of 85,001 shares of a nominal value of TDKK 1. No shares carry any special rights.

The share capital has increased with 1 share of DKK 1,00 in relation with merger in 2016. The share capital is therefore DKK 85,001. In 2015 the share capital was DKK 85,000.

11 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:

	2019 TDKK	2018 TDKK
Other payables		
Between 1 and 5 years	1,357	0
Long-term part	1,357	0
Other short-term payables	16,083	30,206
	17,440	30,206

12 Contingent assets, liabilities and other financial obligations

Contingent liabilities

Rent and lease liabilities	7,572	8,752
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Rent and lease liabilities include a rent obligation totalling DKK 7,367 thousand in interminable rent agreements with remaining contract terms from 1 year to 5 years. Furthermore, the Company has liabilities under operating leases for cars and IT equipment, totalling DKK 205 thousand, with remaining contract terms of 18 months.

The Company has a bank guarantee totalling TDKK 531 regarding rent obligations.

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally with other jointly taxed group entities for payment of income tax as well as withholding taxes on interest, royalties and dividends falling due for payment.

Notes to the Financial Statements

13 Related parties

Intel Mobile Communications Denmark ApS' related parties comprise the following:

Basis

Controlling interest

Intel Deutschland GmbH, Germany	Participating interest
Intel Corporation Inc., USA	Ultimate parent company

Transactions

During the year, the Company had the following transactions with the below related party transactions:

Sale of services to parent entity TDKK 40,016. (2018: TDKK 365,587)

Purchase of services from parent entity TDKK 70. (2018: TDKK 6,581)

Sales to group entities TDKK 60,152. (2018: TDKK 48,419)

Purchase from group entities TDKK 6,556. (2018: TDKK 4,247)

Receivables from group entities TDKK 260,620. (2018: TDKK 233,434)

Payables to group entities TDKK 280. (2018: TDKK 2,357)

Consolidated Financial Statements

Information about consolidated financial statements

<u>Name</u>	<u>Place of registered office</u>
Intel Corporation Inc.	USA

The Group Annual Report of Intel Corporation Inc. may be obtained at www.intc.com.

Notes to the Financial Statements

	<u>2019</u>	<u>2018</u>
	TDKK	TDKK
14 Fee to auditors appointed at the general meeting		
Ernst & Young		
Audit fee	130,000	126,000
Other assistance	<u>0</u>	<u>5,000</u>
	<u>130,000</u>	<u>131,000</u>
15 Distribution of profit		
Retained earnings	<u>27,469</u>	<u>47,165</u>
	<u>27,469</u>	<u>47,165</u>

Notes to the Financial Statements

16 Accounting Policies

The Annual Report of Intel Mobile Communications Denmark ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 are presented in TDKK.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Intel Corporation Inc., the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Notes to the Financial Statements

16 Accounting Policies (continued)

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences 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. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Revenue

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organization of sales of goods and services.

Income Statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

The compensation model used by Intel Deutschland GmbH for all its affiliated group companies, including Intel Mobile Communication Denmark ApS, is a cost plus method.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Notes to the Financial Statements

16 Accounting Policies (continued)

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in 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.

The Company is jointly taxed with Danish group enterprises. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated 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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the

Notes to the Financial Statements

16 Accounting Policies (continued)

expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment 2-5 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,800 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of 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 amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Fixed asset investments

Fixed asset investments consist of Deposits. Deposits are measured at cost.

Receivables

Receivables are measured at amortized cost, which usually corresponds to the nominal value. Provisions are made for bad debts on the basis of objective evidence that a receivable or a group of receivables are impaired. Provisions are made to the lower of the net realizable value and the carrying amount.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Treasury shares

Purchase and sales prices for treasury shares are recognised directly in retained earnings under equity. A reduction of capital by cancellation of treasury shares reduces the share capital by an amount equal to the nominal value of the shares and increases retained earnings. Dividend on treasury shares is recognised directly in equity under retained earnings.

Notes to the Financial Statements

16 Accounting Policies (continued)

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets 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 within the same legal tax entity.

Deferred tax is measured on the basis of 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. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Financial Highlights

Explanation of financial ratios

Notes to the Financial Statements

16 Accounting Policies (continued)

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